



Completion Report

Project Number: 37577
Loan Number: 2377, 2707
September 2014

Viet Nam: Third Financial Sector Program

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit		–	Dong (D)
		At Appraisal	At Program Completion
		1 October 2007	22 September 2014
D1.00	=	\$0.00006344	\$0.00004719
\$1.00	=	D15,763	D21,188

ABBREVIATIONS

ADB	–	Asian Development Bank
AMLIC	–	Anti-Money Laundering Information Center
ASEAN	–	Association of Southeast Asian Nations
DMF	–	Design and Monitoring Framework
FSDP	–	Financial Sector Deepening Program
FSPL I	–	First Financial Sector Program Loan
FSPL II	–	Second Financial Sector Program Loan
FSPL III	–	Third Financial Sector Program Loan
HNX	–	Hanoi Stock Exchange
HOSE	–	Ho Chi Minh Stock Exchange
IAS	–	International Accounting Standards
IOSCO	–	International Organization of Securities Commissions
MMU	–	Multilateral Memorandum of Understanding
MOF	–	Ministry of Finance
MOU	–	Memorandum of Understanding
PCR	–	Program Completion Report
PSC	–	program steering committee
SBV	–	State Bank of Vietnam
SEDP	–	Socio-Economic Development Plan
SRO	–	Self-Regulatory Organization
SSC	–	State Securities Commission
TA	–	technical assistance
VSD	–	Viet Nam Securities Depository

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 31 December 2009.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Viet Nam
2.	Loan Number	2377 (SF)
3.	Program Title	Third Financial Sector Program – Subprogram 1
4.	Borrower	The Socialist Republic of Viet Nam
5.	Executing Agency	State Bank of Viet Nam
6.	Amount of Loan	SDR47.790 million (\$75.0 million)
7.	Program Completion Report Number	1482

B. Loan Data

1.	Fact-Finding	
	– Date Started	14 May 2007
	– Date Completed	31 May 2007
2.	Loan Negotiations	
	– Date Started	02 November 2007
	– Date Completed	02 November 2007
3.	Date of Board Approval	6 Dec 2007
4.	Date of Loan Agreement	10 Jan 2008
5.	Date of Loan Effectiveness	
	– In Loan Agreement	90 days after 10 Jan 2008 or 9 April 2008
	– Actual	11 April 2008
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	30 Jun 2009
	– Actual	31 December 2009 (financial closing)
	– Number of Extensions	2
7.	Terms of Loan	
	– Interest Rate	1% during the grace period and 1.5% thereafter
	– Maturity (number of years)	24 years
	– Grace Period (number of years)	8 years
8.	Terms of Relending (if any)	
	– Interest Rate	n/a
	– Maturity (number of years)	n/a
	– Grace Period (number of years)	n/a
	– Second-Step Borrower	n/a

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
13 Jun 2008	21 Dec 2009	18 months
Effective Date	Original Closing Date	Time Interval
10 Apr 2008	30 Jun 2009	14 months

b.		Amount ¹ \$31,194,062	\$45,376,891			
Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
01	SDR47,790,000	SDR47,790,000	0	SDR47,790,000	SDR47,790,000	0
	USD75,000,000				USD76,570,954.02	
Total	SDR47,790,000	SDR47,790,000	0	SDR47,790,000	SDR47,790,000	0
	USD75,000,000				USD76,570,954.02	

C. Program Data

1. Program Cost (\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	75,000,000	76,570,954.02
Local Currency Cost	0	0
Total		

2. Financing Plan (\$)

Cost	Appraisal Estimate	Actual
Implementation Costs		
ADB Financed	75,000,000.00	76,570,954.02
Total	75,000,000.00	76,570,954.02

ADB = Asian Development Bank

3. Cost Breakdown by Program Component: not applicable

4. Program Schedule

Item	Appraisal Estimate	Actual
Release of first tranche	13 Jun 2008	13 Jun 2008
Release of second tranche	21 Dec 2009	21 Dec 2009

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
1 Jan 2006 to 30 Sep 2007	Satisfactory	Satisfactory
1 Oct 2007 to 28 Feb 2009	Satisfactory	Satisfactory

¹ Exchange rate used: First tranche SDR=US\$1.63183 and Second tranche SDR=US\$1.58251.

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members^a
Fact-Finding	14-31 May 2007	6	90	a, b, c, d
Appraisal Mission	20-24 Aug 2007	4	15	a, b, c,
Review Missions	18-19 Aug 2008	2	4	a, b
	13-16 Jan 2009 ^b	2	4	c
Program completion review	29 March – 2 April 2014	2	6	a, c

Note:

^a a = financial analyst, b = counsel, c = economist, d=securities market, legal & regulatory specialist

^b In conjunction with the review of TA7087 VIE and PPTA 4911 VIE.

BASIC DATA

A. Loan Identification

1.	Country	Viet Nam
2.	Loan Number	2707 (SF)
3.	Project Title	Third Financial Sector Program – Subprogram 2
4.	Borrower	The Socialist Republic of Viet Nam
5.	Executing Agency	State Bank of Viet Nam
6.	Amount of Loan	SDR38.271 million (\$60.0 million)
7.	Project Completion Report Number	1482

B. Loan Data

1.	Fact-Finding	
	– Date Started	11 May 2010
	– Date Completed	21 May 2010
2.	Loan Negotiations	
	– Date Started	14 October 2010
	– Date Completed	14 October 2010
3.	Date of Board Approval	29 Nov 2010
4.	Date of Loan Agreement	24 Dec 2010
5.	Date of Loan Effectiveness	
	– In Loan Agreement	90 days after 24 Dec 2010 or 24 March 2011
	– Actual	24 June 2011
	– Number of Extensions	2
6.	Closing Date	
	– In Loan Agreement	31 May 2011
	– Actual	15 July 2011 (financial closing)
	– Number of Extensions	1
7.	Terms of Loan	
	– Interest Rate	1% during the grace period, and 1.5% thereafter
	– Maturity (number of years)	24 years
	– Grace Period (number of years)	8 years
8.	Terms of Relending (if any)	
	– Interest Rate	n/a
	– Maturity (number of years)	n/a
	– Grace Period (number of years)	n/a
	– Second-Step Borrower	n/a

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
30 Jun 2011	30 Jun 2011	0 month
Effective Date	Original Closing Date	Time Interval
24 Jun 2011	31 May 2011	-1 month

b. Amount² \$60,797,310

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
01	SDR38,271,000	SDR38,271,000	0	SDR38,271,000	SDR38,271,000	0
	USD60,000,000				USD60,797,310.62	
Total	SDR38,271,000	SDR38,271,000	0	SDR38,271,000	SDR38,271,000	0
	USD60,000,000				USD60,797,310.62	

10. Local Costs (Financed)
- Amount (\$)
 - Percent of Local Costs
 - Percent of Total Cost

None
None
None

C. Program Data

1. Program Cost (\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	60,000,000.00	60,797,310.62
Local Currency Cost	0	0
Total		

2. Financing Plan (\$)

Cost	Appraisal Estimate	Actual
Implementation Costs		
ADB Financed	60,000,000.00	60,797,310.62
Total	60,000,000.00	60,797,310.62

ADB = Asian Development Bank

3. Cost Breakdown by Program Component: not applicable

4. Program Schedule

Item	Appraisal Estimate	Actual
Release of tranche	30 Jun 2011	30 Jun 2011

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
1 Mar 2009 to 30 Sep 2010	Satisfactory	Satisfactory

² Exchange rate used: US\$1.5886:SDR.

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members^a
Fact-Finding	11-21 May 2010	5	50	a, b, c, f
Technical Consultative Mission	3 – 4 Aug 2010	6	12	a, b, c, f
Loan Negotiations	11-14 Oct 2010	4	12	a, b, d, e
Program completion review	29 March – 2 April 2014	2	6	a, c

Note:

^a a = financial analyst, b = counsel, c = economist, d = procurement consultant or specialist, e = control officer, f = project assistant

I. PROGRAM DESCRIPTION

1. The Third Financial Sector Program Loan (FSPL III) to Viet Nam consisted of two subprograms between January 2006 and September 2010. FSPL III built on earlier financial sector program loans, namely the Financial Sector Program Loan (FSPL I) approved in 1996¹ and the Second Financial Sector Program Loan (FSPL II) approved in 2002 and 2004.² ADB approved a cluster approach for FSPL III and its first subprogram on 6 December 2007, and the loan for subprogram 1 became effective on 11 April 2008.³ Subprogram 2 was approved on 29 November 2010.⁴ Technical assistance (TA) for Preparing the Third Financial Sector Program, Subprogram 2 was approved on 18 December 2009 to support the design and implementation of some of the reforms and policy conditions under subprogram 2.⁵

2. The context of FSPL III was the importance of financial sector development to the continuation of Viet Nam's growth momentum. The government's strategy for sustaining high growth depended on attaining high investment including public investment. The ability to sustain such growth required increased financial intermediation and improved efficiency of resource allocation, yet Viet Nam's bank-dominated financial sector was unable to adequately finance the economy's investment needs. There was, therefore, a need to foster a diversified financial sector in Viet Nam to support sustainable high investment and growth by developing the nonbank financial sector through improved capital markets.

3. Thus, the objective of FSPL III was to create a more diversified, deeper, and more resilient financial sector. FSPL III sought to increase the share of capital markets in the financing of domestic investment, thus promoting and facilitating sustained high growth in the economy with reduced risks. Capital market development contributes to economic growth through: (i) pooling and mobilizing resources for investment; (ii) ensuring good monitoring standards and corporate governance, which help improve the efficiency with which firms allocate and utilize resources; and (iii) diversifying and managing risk.⁶ Furthermore, the greater scope and efficiency of alternative nonbank financial intermediation channels should also strengthen the banking system through increased competition. FSPL III also supported the government's efforts to promote greater regional cooperation.

4. In line with its objective and focus to develop the capital markets, the expected outcome of FSPL III was that capital markets would play a greater role in domestic financing.⁷ Thus, the financial sector development and reform agenda of FSPL III was structured around the following four components: (i) enhanced market liquidity by lowering transaction costs; (ii) an institutional framework for securities issuance; (iii) strengthened investor and consumer protection; and

¹ 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*. Manila.

² ADB. 2002. *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 Loan*. 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.

³ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan to the Socialist Republic of Viet Nam for the Third Financial Sector Program (Subprogram 1)*. Manila.

⁴ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Third Financial Sector Program (Subprogram 2)*. Manila.

⁵ ADB. 2009. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing for the Third Financial Sector Program, Subprogram 2*. Manila (TA 7464-VIE).

⁶ *Stock Markets, Banks, and Economic Growth* by Ross Levine; Sara Zervos, The American Economic Review, Vol 88, No. 3.

⁷ The outcome was that subprogram 2 retained the same thrust but was slightly modified to read: "increased share of capital markets in financing domestic investment".

(iv) improved regional cooperation in securities market regulation. Each of the four components was divided into subcomponents. These subcomponents formed the basis of the policy matrix that was agreed with the government and as conditions for tranche releases. The assessment of the design and monitoring framework is in Appendix 1.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. FSPL III was relevant in design and formulation for three reasons. First, it was embedded in the government's Socio-Economic Development Plan 2006–2010 (SEDP), approved in 2006. The plan targeted middle-income status by 2010 and envisaged industrial country status for Viet Nam by 2020. To achieve these goals, the SEDP strongly emphasized the objectives of business development, private investment, and a continuing transition to a market-based system with greater integration with the global economy. ADB's experience shows that a key criterion of a program's relevance is government ownership, part of which entails the program being in line with the government's national plan and objectives. FSPL III is also embedded in ADB's country strategy and program for 2007–2010, which focused on supporting business-led pro-poor growth through promoting infrastructure development, a business-enabling environment, and financial intermediation.

6. Second, the use of the program loan modality allowed substantial flexibility to be built into the design, while also acknowledging the importance of predictable program support over the medium term. Based on consultations with the government, the program cluster was designed to include a two-tranche subprogram 1 to be followed by a single-tranche subprogram 2. When the program was designed in 2007, subprogram 1 consisted of 22 policy actions for tranche 1 and 27 policy actions for tranche 2. The two-tranche design of subprogram 1 was also based on the fact that the subcomponents for the first two components were front loaded within the program and so were reflected in the first tranche policy actions that had already been completed. The third component, however, needed more time for implementation and thus was more prominent in the second tranche actions of subprogram 1. At the design stage, subprogram 2 consisted of 14 policy actions. Given that financial sector reforms are complex and iterative by nature, the gestation period is longer; thus, the flexible cluster approach was appropriate both for the sector and the capacity of the executing agency and government staff working on the program. However, having 49 separate policy actions may have diluted some of the reforms and focus of subprogram 1. A more focused program with high impact policy actions in a few selected areas may have been better, as it may have increased government ownership of the program and thus helped to avoid delays in the implementation of reforms.

7. Finally, ADB built on the earlier FSPL I and FSPL II. The first program, FSPL I, sought principally to lay the legal and regulatory underpinnings for commercial banking while promoting the development of more diverse institutions, instruments, and markets. FSPL II sought to strengthen alternative channels for market-based financial intermediation by: (i) establishing and strengthening a regulatory and supervisory framework for the insurance industry; (ii) developing a legal framework for the leasing industry; (iii) promoting interbank and money market development; (iv) fostering capital market development; and (v) improving financial infrastructure such as audit and accounting systems and secured transactions systems. This approach provided continuity in reforms using a building block approach and kept ADB engaged in policy dialogue with the government.

B. Program Outputs

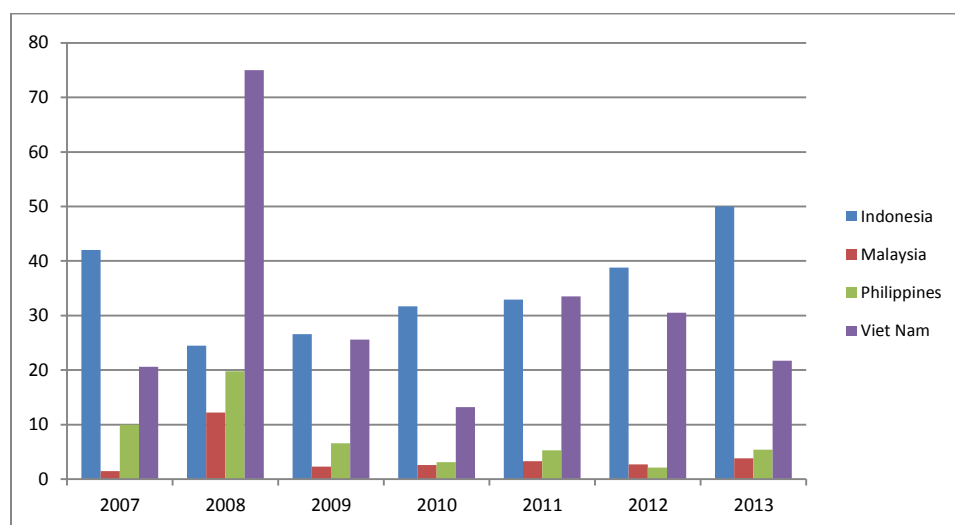
8. During the design stage, FSPL III had four outputs in the Design and Monitoring Framework (DMF): (i) greater liquidity in capital markets is supported by lowering transaction costs through improved provision of market-related information and infrastructure; (ii) institutional framework for securities issuance is strengthened; (iii) consumer protection is enhanced through measures aimed at strengthening regulations concerning market governance and their enforcement; and (iv) international cooperation with relevant authorities in other jurisdictions is improved through strengthening the framework for information exchange.⁸ These outputs were revised during processing of subprogram 2 to: (i) enhanced capital market liquidity through improved information disclosure; (ii) strengthened institutional framework for securities issuance; (iii) enhanced legal and regulatory framework for investor and consumer protection and financial sector stability; and (iv) improved human resource development and regional cooperation.⁹ These revisions made the outputs more concise, added clarity, and were in line with ADB's Guidelines on DMF. The revision to the third output to include aspects of financial stability was appropriate given that the timing of the program coincided with the global financial crisis. With the crisis unfolding, it was only appropriate that reforms and outputs should also be measured based on action taken to preserve financial stability. It is unfortunate, however, that no performance targets and indicators were included to measure this revised output, although it could be argued that there is no international consensus on how to measure financial stability. The addition of "improved human resource development" to the fourth output is also appropriate as it became apparent that there was an urgent need to improve the capacity of regulators in Viet Nam. Two new indicators were therefore included. The revision in the outputs and indicators for subprogram 2 demonstrated that the design was dynamic and changes were made to adapt to changing circumstances.

9. However, it is unfortunate that some performance targets and indicators in the DMF were dropped or revised downwards to a more conservative estimate. The substantial revision of the indicators has diminished the value of the DMF to measure reforms over a period of time and the logic behind a program cluster. It also made it difficult to assess whether the targets in the outputs had been achieved, when drafting this program completion report.

10. **Output 1.** Overall, assessment of output 1 was mixed. The quantitative assessment of the weighted average bid-ask spread for government bonds temporarily declined from 22 basis points in 2007 to 13.2 basis points in 2010 during subprogram 2, which painted a positive picture as the target was a reduction of at least 5 basis points. However, the spread subsequently rose to 33.5 basis points in 2011, falling to 21.7 basis points only in 2013. This was just marginally lower than the original number in 2007. Compared with the other ASEAN (Association of Southeast Asian Nations) member countries with a reasonably active government bond market, the bid-ask spread in Viet Nam is substantially higher than in Malaysia and Philippines, and only better than that of Indonesia, which is an anomaly in the region (see graphs below, formulated from the Asian Bond Online).

⁸ Footnote 3, DMF.

⁹ Footnote 4, DMF.

Graph 1: Comparison of Bid-Ask Spreads for Selected ASEAN Countries (2007–2013)

11. The majority of the other qualitative indicators for output 1 were either partially achieved or achieved, with the exception of the indicator on accounting standards, which was not achieved. As of 2014, the Vietnamese accounting system is still not marked to market. Given how important this is to the overall financial sector, this outstanding issue affects assessment of output 1 and the outcome of the program generally.

12. **Output 2.** The indicators on strengthening the institutional framework for securities issuance were mostly achieved. The total value of equity issuances of public listed companies increased from \$360 million in 2005 to approximately \$1.12 billion in 2012. This exceeded the target of doubling the total value. The proportion of debt with a maturity of 5 years and above in total government debt increased by 5 percent from 23% in 2005 to 28% in 2009, but then dropped to 24% in 2010 and 12% as of June 2013.

13. **Output 3.** Similarly, the majority of the indicators on consumer protection were achieved. For example, the number of retail investors increased from 30,000 in 2005 to over 1.18 million accounts by 2011. In addition, the trading volume on the two stock exchanges increased from 116 million shares with a trading value of \$250 million in 2005 to 16.25 billion shares traded (volume) with a value of \$12.09 billion by 2011. Although the trading value dropped to approximately \$3.38 billion in 2012, both indicators (number of retail investors and trading volume) exceeded expectations.

14. **Output 4.** The indicators for output 4 were also largely achieved, albeit with some delay. In 2011, a memorandum of understanding (MOU) was established with the securities regulator in another jurisdiction, bringing the number of such MOUs to three. In addition, two cooperation agreements were concluded. This indicator was dropped for subprogram 2, as the focus shifted to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU) of cooperation and information sharing, with the target being to get Viet Nam as an annex B signatory. This revision is appropriate, as the IOSCO MMOU is a multilateral platform that is preferable to bilateral agreements between regulators.

C. Program Costs

15. The FSPL III was financed through 2 subprograms. Subprogram 1 was a loan equivalent to Special Drawing Rights (SDR) 47,790,000 from Asian Development Bank (ADB) Special Funds resources and was released in two tranches equivalent to: (i) SDR19,116,000 for the first tranche; and (ii) SDR 28,674,000 for the second tranche. Subprogram 2, a single tranche equivalent to SDR38,271,000 from ADB's Special Funds resources, was approved on 29 November 2010. Technical assistance of \$1 million for Preparing the Third Financial Sector Program, Subprogram 2 was approved on 18 December 2009. According to Ministry of Finance (MOF) budget reports, the government's aggregate financing gap for 2007 was approximately \$3.47 billion. The government would finance \$2.64 billion through domestic borrowings, with the remaining \$830 million coming from external sources.

D. Disbursements

16. Subprogram 1 was released in two tranches. The first tranche was disbursed on 13 June 2008 and the second tranche on 21 December 2009. Completion of the second tranche of subprogram 1 was expected by end of June 2009. However, at the request of the government for additional time to accomplish the required policy actions, the period for the second tranche was extended to 31 October 2009, and subsequently to 31 December 2009. Disbursement of the second tranche was made on 21 December 2009. The single tranche for subprogram 2 was disbursed on 30 June 2011, with no delays.

E. Program Schedule

17. The implementation period for the program cluster was from January 2006 to September 2010. The cluster and first subprogram were approved on 6 December 2007, with the loan for subprogram 1 becoming effective on 11 April 2008. The closing date in the loan agreement was 30 June 2009, which turned out to be the physical completion date. The actual closing date was 31 December 2009 with two extensions. Subprogram 2 was approved on 29 November 2010 and the loan agreement was dated 24 December 2010. The date of loan effectiveness was 24 June 2011 with two extensions. The closing date of the loan in the agreement was 31 May 2011. However, the physical completion date was 30 June 2011 and the actual closing date was 15 July 2011 with one extension. The extensions were made at the government's request owing to their approval process.

F. Implementation Arrangements

18. The State Bank of Viet Nam (SBV) was the executing agency for the entire cluster. The MOF, including the State Securities Commission (SSC), and other agencies such as the Hanoi Stock Exchange (HNX) and Viet Nam Securities Depository (VSD) were the implementing agencies. SBV was responsible for overall program implementation, including the administration and disbursement of loan proceeds, maintenance of accounts, and preparation of semi-annual progress reports on program implementation. To coordinate program implementation among the different government agencies concerned, a program steering committee (PSC) was formed. The PSC, chaired by SBV, comprised senior officers from all the government agencies concerned, including SBV, MOF, and SSC. The PSC was to meet on a semiannual and ad hoc basis to review pending issues and the proposed concrete actions for their resolution to ensure timely program implementation. SBV also formed a program implementation and coordination unit, headed by a senior SBV officer, to assist the PSC and ADB, and had responsibility for day-to-day program implementation.

G. Conditions and Covenants

19. At the design stage, the FSPL III had a total of 63 policy actions, with 22 actions for tranche 1, 27 actions for tranche 2, and 14 actions for subprogram 2. All policy actions for tranche 1 had been completed at the time of Board approval. Out of the 27 actions for tranche 2, all were rated as “achieved,” except for 2 actions, which were rated as “Satisfactory – ongoing and on track”. These 2 actions were: (i) submission of the draft law on independent audit; and (ii) establishment of an information technology system for the Anti-Money Laundering Information Center (AMLIC). During the PCR review mission, SBV confirmed that the system for AMLIC had been belatedly completed and was now operational. This was verified by the Financial Action Task Force report of February 2014.¹⁰ The draft law on independent audit was eventually submitted to the government in June 2010 and approved on 29 March 2011.

20. Several key policy actions were reformulated for subprogram 2. At the design stage during subprogram 1, 14 core actions were included as indicative actions for subprogram 2. Program lending, in particular when using a program cluster approach, recognizes that there are imperfections in the availability and quality of information, and allows for flexibility to address this issue in the design of policy packages. Nevertheless, substantive reformulation of indicative actions needs to be justified and disclosed to the Board. In this case, out of the original 14 policy actions for subprogram 2, 7 were deemed to be core actions while the remaining 7 were considered milestones.¹¹ Out of these 7 core actions—5 of which were reformulated—3 were deemed accomplished, 3 partially accomplished, and 1 was not completed. In addition to these 7 core actions, 10 new core actions were included in the policy matrix for subprogram 2.

21. The action that was not completed related to the issuance of a regulation for step-by-step adoption of IAS 39 (Financial Instruments: Recognition and Measurement) into the Vietnamese accounting system. The justifications provided by MOF, among others, included: (i) the under-developed market for financial instruments does not allow the price of these financial instruments to be priced at market value; and (ii) there are conflicts between IAS 39 and Viet Nam's legal framework. Moving from cost based to market value accounting is clearly challenging and will take time. The reformulation of the core action for MOF to initiate gap assessment so as to align the Vietnamese accounting standards more closely with International Accounting Standards (IAS) is appropriate. However, the government should also recognize two issues. First, the proposed reform has taken many years and been included in several ADB financial sector programs. The substitution of actual implementation in favor of gap assessment studies and strategy should not continue. If the law is not in compliance with international standards, then this law should be amended. Second, not having financial instruments priced at market value undermines many other reforms and overall financial stability. Pending the introduction of price discovery mechanisms for these financial instruments, which can be built into future TA, one alternative would be to implement IAS 39 with the removal of financial instruments for which there are no market prices. For these instruments, the cost price or a theoretically derived price can be used, provided they are disclosed in the financial statements.

22. Urgent action is needed on the policy actions that were deemed ‘partially accomplished.’ In particular, not only should the Law on Independent Audit be implemented, but as it currently stands, it has only one article on Self-Regulatory Organizations (SROs), which is clearly

¹⁰ The full statement can be obtained from, <http://www.fatf-gafi.org/countries/u-z/vietnam/documents/fatf-compliance-feb-2014.html#vietnam>, accessed 4 September 2014.

¹¹ Footnote 4, p. 2, footnote 10. However, how the distinction between core actions and milestones was made as the RRP for subprogram 1 and tranche release document (ibid 3 and 4) did not make this distinction.

insufficient. The status of compliance with the policy measures of subprograms 1 and 2 of FSPL III is included in Appendixes 2, 3, and 4. The assessment of the covenants for administering the two subprograms is in Appendix 5.

H. Related Technical Assistance

23. TA of \$1 million for preparing subprogram 2 of FSPL III was approved on 18 December 2009.¹² The intended outcome of the TA was that subprogram 2 of FSPL III would be successfully designed and agreed. However, the TA had a total of 12 outputs. It is not clear what level of consultation was undertaken with the government in the design of this TA and whether the government agreed with such a broadly designed TA. Feedback from the government may not have been forthcoming, which led ADB to design such a broad TA project. It is also highly questionable how all 12 outputs covering different subsectors could be accomplished with just \$1 million of funding. Although the TA paper included terms of reference for 19 international consultant positions and 11 national consultant positions, the total person months for international consultants was only 23 person months and for national consultants only 32 person months. This meant that the consultants had on average only 1–2 person months each.

24. The TA was meant to support the design and implementation of subprogram 2. However, the delay in approval and implementation meant that it ended up supporting reforms under subprogram 1 of the Financial Sector Deepening Program (FSDP) instead. In fact, the TA closed in March 2014, well after the design and approval of subprogram 2. In addition to the broad design of the TA, as described above, the SBV's lack of ownership for some of the components and the multiple onerous procedures for implementation both contributed to the delay in implementation. The design and implementation of subprogram 2 was instead supported through a previous TA.¹³ This misalignment, where a TA project ends up supporting a future program, should be avoided.

I. Consultant Recruitment and Procurement

25. Overall, despite the number of positions indicated in the TA paper, only 4 international consultants, 2 national consultants, and 1 firm were engaged. This meant that the positions listed in the TA were either unnecessary or significantly over-estimated. The first consultant was recruited on 6 April 2010, while the last consultant was engaged on 18 January 2012. Most consultants were engaged in the second and third quarters of 2010. Since subprogram 2 was approved on 29 November 2010, these consultants were not able to contribute much to its design. The bulk of the TA funding was used to engage the financial sector expert. His commencement date was 13 September 2010 and his contract ended on 30 June 2013.

J. Performance of Consultants, Contractors, and Suppliers

26. Out of the 4 international consultants, 2 were rated as excellent while the other 2 were rated as satisfactory. The two who received excellent ratings were the financial sector and insurance experts. The overall assessments for both consultants, as given in the performance evaluation reports provided by the Operations Services and Financial Management Department,

¹² ADB 2009. *Technical Assistance Third Financial Sector Program – Subprogram II (TA 7464)*. Manila.

¹³ ADB 2013, *Technical Assistance Completion Report, Support for Developing Capital markets and Building Capacity in the Financial Sector (TA 7087)*, Manila.

included comprehensive technical knowledge, a good relationship with the implementing agencies, excellent delivery of reports, and excellent overall performance. The national capital market legal expert was also rated as excellent. The others were rated either as satisfactory or not rated at all. The ADB team missed the window for completing performance evaluation reports.

K. Performance of the Borrower and the Executing Agency

27. The performance of the government as borrower, SBV as executing agency, and the implementing agencies was mixed. Their performance and SBV's coordination were satisfactory for the duration of subprogram 1 (both tranches), which led to most policy actions being completed. However, SBV's performance during processing and implementation of subprogram 2 was less than satisfactory. Although the global financial crisis did justify the reformulation of some core actions, reformulation of 5 out of 7 core actions is significantly high and can be considered an anomaly even within the flexible nature of a program cluster modality. SBV was the focal point for the program and facilitated communication with the implementing agencies. However, the role of the executing agency should go beyond simply coordination. Specifically, the executing agency needs to have ownership of the overall reform program and help make the case for reform in all sectors included in the program. Instead, SBV often made requests for reformulation or outright removal of a policy action that had been agreed at the design stage. Ultimately, FSPL III may have suffered because of the misalignment of incentives between the main beneficiary of the program, which was the MOF, and the responsibilities that needed to be performed by SBV as the executing agency. The TA could have mitigated this misalignment as SBV could have been the main beneficiary of the TA, but underutilization of the TA meant that even the TA was not effectively implemented.¹⁴

L. Performance of the Asian Development Bank

28. ADB's performance is rated as less than satisfactory. There were no significant issues related to approvals and disbursements, and tranche 1 was released on time. Completion of the second tranche of subprogram 1 was expected by the end of June 2009. However, at the request of the government, the completion date was postponed twice, first to 31 October 2009, and then to 31 December 2009. The request for an additional 6 months to complete the reforms is understandable and can be justified on the grounds that (i) financial sector reforms are complex, and (ii) 25 out of the 27 tranche release conditions were eventually completed, with the remaining 2 assessed as satisfactory. This indicated that the additional time did reap the desired outcome. The second tranche was disbursed on 21 December 2009.

29. There were no delays in the disbursement of subprogram 2 and program approvals were on time. However, the policy dialog during implementation of FSPLIII could have been better. This is demonstrated in three ways. First, the continuity between the design phase of the cluster, including the actions to be included in subprogram 2 in 2007, and the implementation and approval phases in 2010 was affected by changes in the mission leadership of the program. Greater focus should have been placed on the TA project as well as the policy dialogue on the two actions that were assessed as satisfactory during the release of the second tranche. Both core actions had to be refined for subprogram 2, which demonstrated that, despite the setback during the release of the second tranche, ADB and the government were not able to find an agreeable solution in time for approval of subprogram 2. Second, although ADB and the government both provided justifications for the reformulation of the 5 core actions, this was still

¹⁴ The overall assessment for the TA rated it as partly successful.

a weakness in implementation and resulted in ADB's Board of Directors expressing their concern on this issue. Finally, in a survey that was distributed to the government to obtain feedback on ADB's performance in April 2014, the government remarked that "communications between ADB and the implementing agencies was not very efficient and sometimes caused misunderstanding between the two parties."¹⁵

III. EVALUATION OF PERFORMANCE

A. Relevance

30. FSPL III is rated as relevant both at the time of approval (ex ante) and at the time of evaluation (ex post), based on the three criteria provided in the OECD Guidelines.¹⁶ Financial sector reform programs, while challenging to implement, are very important and relevant to a country's overall economic development. This is particularly true for a country like Viet Nam, which is making a transition to a full market economy. The government's strategy for sustaining high growth relies on achieving a high investment of as much as 40% of gross domestic product, including public investment. The relevance of FSPL III is also reflected in its full alignment with the government's Socio-Economic Development Plan 2006–2010 (SEDP), approved in 2006. SEDP strongly emphasizes the objectives of business development, private investment, and a continuing transition to a market-based system with greater integration with the global economy. The program is also part of ADB's country strategy and program for 2007–2010, which includes supporting business-led pro-poor growth through promoting infrastructure development, a business-enabling environment, and financial intermediation. The focus on financial sector reform continues to play an important role in the government's Socio-Economic Development Strategy, 2011–2020 and ADB's Country Partnership Strategy, 2012–2015 for Viet Nam.

31. The work used to justify ADB's support for the program was satisfactory, and both the problem tree analysis and the sector analysis were of good quality. There could have been greater appreciation of the government's institutional constraints to achievement of the expected results, but this was only a minor drawback. Finally, the program design and the financing instrument, which used a cluster approach with two tranches for subprogram 1, were appropriate for a technically complicated program that required close monitoring. Changes made during implementation, particularly during subprogram 2, affected overall implementation, but were relevant and largely necessary given the global financial crisis. While the crisis was foreseeable, particularly towards the end of 2007, the severity was not. Changes to include financial sector stability and improved human resources development as outputs were timely and appropriate. Other factors that form part of the assessment for relevance include (i) satisfactory coordination with other development partners, and (ii) satisfactory stakeholder ownership for the overall program, although there is a need for stronger ownership of specific components of the program.¹⁷ The government's feedback on the program supported the assessment that it was relevant. Based on the survey submitted and on a scale of 1-5, the government rated the relevance of FSPL III as 3.9.

¹⁵ The survey is in Appendix 6.

¹⁶ The 3 criteria are (i) the extent to which the proposed outcome of the project is consistent with the country's development priorities and ADB's country and sector strategies, both at appraisal and at evaluation; (ii) the extent to which the work used to justify project intervention was satisfactory and based on a sound problem tree analysis, including consideration of the main constraints to the achievement of results; and (iii) the extent to which the design and the financing instrument selected were an appropriate response to the identified development problem.

¹⁷ This resulted in delayed and suboptimal implementation of selected core actions, which is discussed further in the rating for effectiveness in achieving the outcome of the program.

B. Effectiveness in Achieving Outcome

32. FSPL III is rated as less effective. This assessment is based primarily on ex post assessment of the indicators in the outcome of the DMF. The outcome stated in the DMF for subprogram 1 was “capital markets play a greater role in domestic financing,” and for subprogram 2, it was “increased share of capital markets in financing domestic investment.” The indicators included (i) an increase in the number of listed companies from 44 in 2005 to at least 125 in 2009 and 700 by 2011; (ii) an increase in market capitalization in the Hanoi Stock Exchange (HNX) and Ho Chi Minh Stock Exchange (HOSE) combined from 1.11% of GDP in 2005 to about 30% in 2011; and (iii) an increase in the total value of government bonds outstanding from 10% of GDP in 2005 to about 20% of GDP in 2011.

33. Only the first of these three indicators was achieved. At the end of 2009, there were 357 listed companies on the HNX and 196 on the HOSE. By the end of 2011, the number increased to 396 and 303, respectively, bringing it very close to the target of 700. However, the assessments for the other two indicators are not as promising. By the end of 2011, total market capitalization for the exchanges was recorded at approximately 21% of GDP, and the total value of government bonds outstanding was 12.7% of GDP. These numbers increased slightly to 23.2% for total market capitalization as of 2012 and 14.4% for government bonds outstanding as of end-2013, but these numbers are still well short of the targets in the DMF.¹⁸

34. The number of listed companies in Viet Nam is the third highest among Southeast Asian countries, just behind Malaysia and Singapore and ahead of Indonesia, Philippines, and Thailand. However, in terms of market capitalization as a percentage of GDP, Viet Nam is behind all ASEAN countries except Cambodia and Lao PDR, both of which have very nascent stock exchanges. This reflects the fact that, while listing a company is relatively easy, once listed, these companies are unable to attract investment. The growth of the local currency bond market has been strong, with growth reaching 26.8% year-on-year as of end-June 2013; however, with structural impediments, such as interest rate caps and the absence of proper hedging mechanisms such as swaps and derivatives, issuance became problematic for all but the shortest maturities. The total local currency bond market as a percentage of GDP is well below the overall average of 54.3% for emerging East Asia. MOF recognized these weaknesses, and, as a first step to address them, has finalized the bond market development road map. Based on the survey submitted and on a scale of 1-5, the government rated the effectiveness of FSPL III as 3.8.

C. Efficiency in Achieving Outcome and Outputs

35. FSPL III is rated as less efficient. This is based on an assessment of the efficiency of the implementation process. Overall, the implementation of reforms was not completed based on the agreed timelines, resulting in the timelines being extended several times. Communication between the executing agency, implementing agencies, and ADB was less efficient and in some instances did not facilitate completion of reforms. Despite provision of \$1 million for technical assistance, several indicators could not be completed, and even when targets were achieved, they were not achieved within the agreed time frame. For example, two indicators used in the first output of subprogram 1 envisioned that: (i) accounting standards would be upgraded through step-by-step implementation of mark-to-market accounting by March 2009; and (ii) the legal framework for auditing would be strengthened through the draft Law on Independent Audit,

¹⁸ Statistics are based on a combination of data sources including official websites, World Federation of Exchanges reports, and Asian Bond Online.

which should include provisions specifying the functions and responsibilities of professional associations and SROs. By the end of the program period and even by 2014, Viet Nam's accounting system is not based on mark to market. Similarly, although the Law on Independent Audit has been approved, the provisions covering SROs are insufficient.¹⁹ This leads to several possible conclusions. First, TA support may not have been sufficient or sufficiently focused to target priority areas. Second, the targets may have been overestimated, which reveals weaknesses in the policy dialogue. Third, the target indicators may not have taken into account the structural issues and capacity constraints of the implementing agencies. Going forward, both the government and ADB have to pay more attention to the indicators in the outputs of the DMF. A balance has to be struck between ambitious reforms and realistic indicators that reflect step-by-step implementation. These indicators have to be embedded within the government's national strategies or blueprints to ensure ownership, and the government has to be accountable in meeting their own targets. Based on the survey submitted and on a scale of 1–5, the government rated the efficiency of FSPL III as 4.1.

D. Preliminary Assessment of Sustainability

36. FSPL III is rated as likely to be sustainable. Although some output indicators were not achieved or met with implementation delays, the government remains committed to financial sector reforms. The government has identified financial sector development as a key aspect of the reform agenda, and it is related to all four focus areas in the government's Socio-Economic Development Strategy, 2011–2020 including macro-economic stability and structural reforms. A bond market development road map has also been approved and adopted, and includes both quantitative and qualitative targets. The government plans to increase outstanding local currency bonds to 38% of GDP by 2020. Finally, in 2012, the government approved a capital market strategy up to 2020 with the goal of bringing the total value of stock market capitalization to around 70% of GDP by 2020. In addition, most of the outputs, in particular the completed indicators related to securities issuance, consumer protection, and regional cooperation, show promising signs of being sustainable. For example, achievement of the indicators on the number of retail investors, trading volume, value on both stock exchanges, disclosure of key market information via SSC's website, and establishment of a special bond trading platform are likely to continue and be sustainable. Viet Nam's acceptance as a full signatory of the IOSCO's MMOU in 2013 also demonstrates that initiatives on regional cooperation are likely to be sustainable. Institutional arrangements and cooperation between SBV and implementing agencies show promising signs of being sustainable. However, the coordination mechanism for the money market will need to be revisited as it is not clear whether the existing structure is sufficiently effective or sustainable to develop the money market. The post-program partnership framework included in subprogram 2 also contributed to this assessment, and some of the policy actions identified in that framework formed the basis of subprogram 1 of FSDP. Based on the survey submitted and on a scale of 1–5, the government rated sustainability of FSPL III as 4.1.

E. Impact

37. The impact of FSPL III is a deeper, more diversified, and more resilient financial sector. The performance targets and indicators used are:

- (i) An increase in the broad money supply (M2)-to-GDP ratio of about 8 percentage points by the end of 2013 (82% in 2005);

¹⁹ The full assessment of all output indicators is in Appendix 1.

- (ii) An increase in the share of non-bank financial sector assets to total financial sector assets from 15% in 2005 to 16% in 2009 and 20%–25% in 2013; and
- (iii) An average solvency ratio for banks that is above the 8% minimum capital adequacy ratio by 2013.

38. Although the M2-to-GDP ratio increased to 126.2% in 2009 before dropping to 123% in 2012, using this indicator may not be the most appropriate way to measure the impact. A rapid increase over a short time period specifically in the cash component of broad money supply may signal inflationary pressures. This is particularly true for Viet Nam, where the inflation rate went up from 6.6% in 2009 to 9.8% in 2010 and 14.3% in 2011. Instead, it is preferable to measure credit intermediation directly using private sector credit growth. Alternatively, indicators such as market capitalization relative to GDP and local currency bonds outstanding can be used to measure the depth of the non-bank sector.

39. During subprogram 1, the initial target for the increase in the share of non-bank financial assets was from 15% in 2005 to 30% in 2009. Given market conditions and the fact that Viet Nam's financial sector is heavily reliant on banking services for financial intermediation, this 100% increase was unrealistic. Thus, the recalibration of the target to 20-25% in 2013 was appropriate. As of 2011, the share of non-bank financial assets had reached 21.1%, which demonstrates slow but steady progress.

40. The indicator on banks' average solvency ratio is difficult to assess due to the limited data. However, the latest IMF Article IV consultation in June 2014 stated that "...scope exists to accelerate banking sector reform...Important steps include a thorough recognition of non-performing loans and an accelerated approach to their resolution, including through relevant legal reform a strengthening of operations at the Vietnam Asset Management Company, and increased capital buffers in banks."²⁰ Overall, the impact of FSPL III in the non-bank financial sector is encouraging. However, further progress in the banking sector, especially in regard to the solvency ratio and capital adequacy ratio is still needed.

41. FSPL III was assessed as having minimal impact on the environment, involuntary resettlement, and indigenous people, and was therefore categorized as category C.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

42. 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

²⁰ Report obtained from IMF's website, <http://www.imf.org/external/np/sec/pr/2014/pr14275.htm>, accessed on 26 June 2014.

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.

B. Lessons

43. The major lessons learned are:

- (i) 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. As an illustration of this, the issuance of circulars, which was heavily relied upon as having achieved the desired outcomes under FSPL III, does not necessarily mean that the objectives of the circulars have been met, or even that the actions required by these circulars have indeed been carried out. Circulars are merely the medium through which the desired end results are to be achieved. Measurability of end results in the form of quantitative targets (including transitional targets) would significantly improve the grey assessment areas to the benefit of both ADB and the government;
- (ii) Related to the point above, the DMF 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 accountability. These indicators then should be measured by both ADB and the government at the end of each year of the program. When the indicators fall short, corrective measures should be agreed on and included as a reform in the following year;
- (iii) These indicators should be linked to the policy matrix, as reforms should contribute to the achievement of these indicators. 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. The post-program partnership framework is important to maintain dialogue between program clusters. While the policy matrix and the DMF are separate documents in form, they should be connected through a cause and effect relationship;
- (iv) Given the challenges of coordination in Viet Nam and the financial sector generally, 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. In the initial stage, ADB staff, including those from the

Resident Mission, should participate in meetings and discussions. This is to prevent the existence of a coordination mechanism only on paper;

- (v) ADB and the government 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. This is especially important when new institutions, legal and regulatory frameworks, or standards are being introduced. Such a focused and phased approach may better accommodate capacity constraints, avoid delays, and enable a more accurate measurement of outcome and impact;
- (vi) Program loans should be focused and consist of targeted high impact policy actions in a few selected areas, which cumulatively lead to the desired outcome. This will increase government ownership of the program and thus avoid delays in implementation of the reforms;
- (vii) 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. In the case of FSPL III, the policy actions that were reformulated during subprogram 2 should be reassessed as part of future programs;
- (viii) Financial sector reforms must be supported by sufficient TA resources. The design of financial sector TA should be undertaken in close coordination with the relevant executing and implementing agencies and aligned to their work plan. TA projects should be focused, and targeted particularly at reforms that have been substantially delayed;
- (ix) For capacity building, TA grants are likely to be insufficient. An ad hoc approach to training is insufficient and can be counterproductive. Instead, ADB and the government should discuss the possibility of either a project loan to support capacity building or of MOF earmarking a portion of the program loan to fund the capacity building initiatives of a structured medium-term program through the government budget process. Given its importance, this can be considered as a policy action in the policy matrix; and
- (x) 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. An example of this is the adoption of international financial reporting standards in close coordination with the international accounting standards board (IASB).

C. Recommendations

1. Program Related

44. **Future monitoring.** Based on the assessment in this PCR, two areas require closer monitoring and potentially more support. They are adoption of international financial reporting standards and implementation of the Law on Independent Audit. Given its importance to financial system stability, development of the money market has been included in the FSDP. These areas will require monitoring based on agreed indicators as outlined in the lessons learned section above.

45. **Covenants.** Covenants were largely complied with under FSPL III and policy actions mostly completed. Therefore no changes to the loan covenants or program agreements are necessary.

46. **Further action or follow-up.** FSPL III has been followed by FSDP, for which subprogram 1 was approved in December 2013. Subprogram 2 of FSDP, tentatively scheduled for 2016-2017, should consider the lessons learned in this PCR, especially at the implementation stage. The policy actions of subprogram 2 that do not contribute to achievement of the outputs and outcome indicators should be revisited.

47. **Additional assistance.** Technical assistance should focus on reforms that have not materialized despite several financial sector programs, especially adoption of IAS 39. Once approved, they should be implemented as part of the next subprogram (subprogram 2 of FSDP). A sizable TA project should be included in subprogram 2.

48. **Timing of the program performance evaluation report.** This PCR was prepared in June 2014, 6 months after approval of subprogram 1 of FSDP. The reason for this is that the PCR was prepared only after closure of the TA that was linked to FSPL III. Unfortunately, this meant that subprogram 1 of FSDP could not benefit from the lessons learned from this PCR. In these situations, ADB should consider either allowing the PCR to be prepared even before the related TA has been closed or determining that new programs should not be processed until after the PCR has been prepared. Under the first option, a separate TA completion report can be prepared when the TA has been closed. Subprogram 2 of FSDP should take into account the recommendations made in this PCR.

2. General

49. In addition to the recommendations made above, ADB and the government need to have more regular dialogue on financial sector reforms and ensure that they are linked to measurable indicators in the outputs and outcome of the program. The capacities of the executing and implementing agencies, including the establishment of an institutional mechanism for coordination, should be emphasized and, where appropriate, supported through TA. The government's complex and lengthy approval procedures should also be taken into account when ADB prepares the processing schedule for program approvals. ADB and the government's approval processes should be mapped out along the same timeline.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Status
Impact A deeper, more diversified, and resilient financial sector	Increase in the M2-GDP ratio by about 8 percentage points by the end of 2013 (82% in 2005)	Reports and websites of SBV and MOF	126.2% in 2009 and 123% in 2012 (achieved)
	Increase in share of non-bank financial sector assets to total financial sector assets from 15% in 2005, 16% in 2009 to about 20-25% in 2013.	Websites and statistics published by MOF and SBV	25.1% in 2009 and 21.1% in 2011 (achieved)
	Maintain average solvency ratio for banks above the 8% minimum capital adequacy ratio by 2013	Website and report from SBV	Undercapitalized based on IMF's Article IV assessment (not achieved)
Outcome Capital markets play a greater role in domestic financing	Increase in number of listed companies from 44 in 2005 to about 700 in 2011	Reports and statistics published by SBV, MOF and stock exchanges	553 listed companies in 2009 and 699 listed companies in 2011 (achieved)
	Increase in total value of Government bond outstanding from 10% of GDP in 2005 to about 20% of GDP in 2011	SBV, MOF and SSC reports	12.2% in 2009 and 12.7% in 2011 (not achieved)
	Increase in market capitalization in combined HNX and HOSE from 1.11% of GDP in 2005 to about 30% in 2011	Websites and reports from SSC and stock exchanges	21% (536 trillion dong) in 2011 (not achieved)
Outputs Enhanced capital market liquidity through improved information disclosure	The weighted average bid-ask spread for government bonds declines by about 5 basis points by end of 2010 from 22 basis points in 2007	MOF, SSC, HNX reports and websites	25.6 basis points in 2009 and 13.2 basis points in 2010 (temporarily achieved) ²³
	Transactions of shares of public listed companies with shares registered with VSD promptly reported to the relevant stock exchanges from February 2009	SSC and stock exchanges websites and annual reports	Reported since November 2007 (achieved)
	Accounting standards upgraded through step by step alignment with international accounting standards from March 2010	Letter from MOF on timeline for alignment with international accounting standards Copy of the relevant regulations	Not achieved

²³ Although 13.2 basis points meets the target in the DMF, by 2012 the bid-ask spread had increased to 30.5 basis points.

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Status
Strengthened institutional framework for securities issuance	Total value of equity issuances of public listed companies by end of 2010 is about double that in 2005 (about \$360 million in 2005)	MOF, HNX and SBV reports/statistics/websites	\$1.12 billion (achieved)
	Proportion of debt of 5-year and above maturity in total government debt increases by about 7 percentage points by end of 2010 from 23% in 2005	MOF and SBV annual reports	28% in 2009 and 24% in 2010 (temporarily achieved) ²⁴
Enhanced legal and regulatory framework for investor and consumer protection and financial stability	Increase in number of retail investors in the stock markets from 30,000 in 2005 to about 80,000 by end of 2010	MOF statistics, SSC annual report	1,182,357 by 2011 (achieved)
	Improve ranking in protecting investors based on Doing Business assessment – better ranking for 2010-2013 (175 in 2007 and 171 in 2009)	Doing Business, World Bank Group Report	Ranked 167 by 2012 (achieved)
	Trading volume of both stock exchanges in 2010 about double the volume in 2005 (115.6 million shares) and trading value is about double the value in 2005 (\$250 million)	Annual reports and websites of MOF, SSC state treasury report, HNX and HSE	16.25 billion shares traded (volume) in 2011 with a value of \$12.09 billion by 2011 (achieved)
Improved human resource development and regional cooperation	Government approves Viet Nam's admission as an MMOU Annex B signatory by 2011	IOSCO website	Achieved
	Increase number of staff trained by about 10% from 2010-2013	Report of the preliminary assessment of the training needs of the SBV staff	Achieved
	SBV Report on Human Resource Development Plan to 2015 and vision up to 2020	SBV capacity building report and confirmation letter to this effect	Approved July 2011 (achieved)

GDP = gross domestic product, HNX = Hanoi Stock Exchange, HSE = Ho Chi Minh Stock Exchange, IOSCO = International Organization of Securities Commissions, MMOU = Multilateral Memorandum of Understanding, MOF = Ministry of Finance, SBV = State Bank of Vietnam, SSC = State Securities Commission.

²⁴ The indicator used for subprogram 1 was for an increase by at least 5 percent points from 23% in 2005, so the figure in 2009 meant that this output was achieved. However, by 2013, this proportion had dropped to 12%, hence the assessment of “temporarily achieved”.

**STATUS OF COMPLIANCE WITH POLICY MEASURES:
SUBPROGRAM 1 (FIRST TRANCHE RELEASE)**

Component	First Tranche Actions	Performance
A. Capital Market Liquidity		
A.1 Market disclosure and dissemination of information	New Securities Law to be adopted to move toward a disclosure-based regime for the securities market	Accomplished The Government adopted a comprehensive new Securities Law in June 2006, which became effective on 1 January 2007.
	MOF to issue circular specifying disclosure requirements for issuers, public companies, securities intermediaries and market institutions	Accomplished The disclosure requirements were further clarified by MOF through a circular noting that information disclosure should be made in a complete, accurate and timely manner in accordance with the law.
	Securities trading centers (STCs) to publicly disclose on their websites: (i) market indices, volumes traded for all listed securities, and daily high and low prices on a daily basis; and (ii) information on listed company ownership and changes therein by significant shareholders, management and directors, and (iii) audited annual financial statements	Accomplished The circular also clarified the disclosure requirements of STCs. They are required to disclose, among others, information on securities transactions (number of securities traded, prices, indices, price fluctuations, orders, and volume).
A. 2 Market information standards	MOF to issue accounting guidelines for stock exchanges	Accomplished MOF developed and issued accounting guidelines that for the operation of stock exchanges.
	MOF to issue regulation to improve examination quality for certification of public accountants (revise Decision 59 on examination and certification of public accountants), and issue regulation controlling quality of accounting and auditing services	Accomplished MOF issued a regulation to upgrade the quality of examinations used for certifying public accountants, revising it to be more consistent with the requirements of the changing economy.
A.3 Market infrastructure for secondary trading of securities	MOF to establish a central registry system for listed securities, with ownership evidenced by book entry; and the Government to consolidate depository, clearing, and settlement under a single entity (i.e., VSD) that is	Accomplished The government has established VSD as the central registry for listed securities with ownership evidenced by book entry. In

	legally separate from the STCs	addition, the government has consolidated depository, clearing, and settlement under a single entity, VSD, which is legally separate from the STCs.
	SSC to draft and submit to MOF a plan for establishing a specialized bond trading platform at Hanoi STC	Accomplished Hanoi STC has submitted a plan to MOF for establishing a specialized bond trading platform.
	Ho Chi Minh STC to become an exchange and be established as limited liability company; SSC to approve exchange rules (listing, trading, membership, and information disclosure) and require the exchange to enforce these rules	Accomplished Ho Chi Minh STC became an exchange incorporated as a limited liability company. SSC has subsequently approved the exchange rules relating to listing, trading, membership, and information disclosure; and has required Ho Chi Minh STC to enforce these.
B. Institutional Framework for Securities Issuances		
B.1 Government securities issuance to support the capital markets	MOF to publish calendar of issuance of government bonds on a quarterly basis	Accomplished The government has agreed on concrete steps for (i) SBV to produce regular liquidity forecasts with inputs from MOF on expected government expenditures and receipts, and (ii) MOF to publish issuance schedules for government securities, to improve the flow and predictability of assets to the market.
B.2 Create benchmark issues for Government securities	MOF to undertake issues of a designated benchmark security in primary debt market to support the formulation of the benchmark yield curve	Accomplished The government has undertaken three benchmark issues, on a pilot basis, to draw lessons for the broader development of benchmark securities
	MOF to issue regulation to allow bond issuance in big lots and reopening (Decision 46/2006/QD-BTC)	Accomplished The government has reviewed its Decision No. 46/2006/QDBTC to permit large-size issues and reopening of bond issues.
B.3 Develop short end of the bond	SBV to use open-market operations to sell treasury bills and SBV bills to absorb excess liquidity to achieve realignment of	Accomplished SBV has used open market

market	money market rates	operations to sell treasury bills and SBV bills to absorb excess liquidity.
B.4 Enhance supply of other securities	The Government to issue decrees on corporate bond issuances, including bond issuances of equitized enterprises	Accomplished The government has issued decrees guiding issuance of corporate bonds, including issuance of debt by equitized enterprises.
	SBV to impose limits on parent bank lending to leasing subsidiaries	Accomplished SBV has imposed a prudential ceiling on parent bank lending of 10% of the paid-up capital of the parent bank.
C. Consumer Protection		
C.1 Improve consumer protection	(i) A comprehensive Securities Law to be adopted to incorporate international best practices (IOSCO) with regard to investor protection, and (ii) regulations on implementing the law to be adopted	Accomplished The new Securities Law adopted by the government and effective from January 2007 is consistent with international best practice (IOSCO standards) for protecting the lawful rights and interests of investors.
	SSC to develop a master plan for improving market surveillance and compliance	Accomplished SSC developed and implemented a master plan for improving its capabilities for market surveillance and monitoring.
	SSC to create a new department of market surveillance and compliance	Accomplished SSC established a new Department of Market Surveillance and Compliance.
	Government to issue a decree on penalties for administrative offences under the new securities law	Accomplished The government has issued a decree on penalties for administrative offences under the new Securities Law.
	SSC to publish on its website all cases of penalties imposed on regulated persons (e.g., identification of parties sanctioned, sanctions imposed, amount and type of sanctions, and Decision of Imposing Penalties)	Accomplished SSC published on its website all cases of penalties imposed on regulated persons, including identification of parties sanctioned, sanctions imposed, amount and

		type of sanctions, and description of violations.
C.3 Enhance consumer protection in insurance markets	Government to issue new decrees 45/2207/ND-CP and 46/2007/ND-CP, replacing decrees 42/2001-ND-CP and 43/2001/ND-CP respectively to strengthen regulation of insurance companies (e.g., “fit and proper” requirements for directors and managers of insurance companies, capital requirements including a simple risk-based capital approach, solvency, policy holder reserving, financial reporting; and internal audit)	<p>Accomplished</p> <p>Two important decrees (decrees 42 and 43) have been replaced by new decrees 45 and 46, which deal with all practical aspects of operating insurance companies in Viet Nam, from license applications and market conduct to solvency and reserving.</p>
C.4 Regulatory coordination to improve market oversight	Government to issue directive to improve financial services market oversight	<p>Accomplished</p> <p>The government has issued a directive aimed at improving the structure of financial markets' oversight</p>
D. Regional Cooperation		
D.1 Regional cooperation in development of securities markets	SSC to enter into MOUs with regional securities regulators to promote sharing of information	<p>Accomplished</p> <p>Viet Nam (SSC) entered into MOUs with securities regulators in three countries in 2006: Malaysia, Singapore, and Thailand.</p>

**STATUS OF COMPLIANCE WITH POLICY MEASURES:
SUBPROGRAM 1 (SECOND TRANCHE RELEASE)**

Component	Second Tranche Actions	Performance
A. Capital Market Liquidity		
A.1 Market disclosure and dissemination of information	<p>State Securities Commission (SSC) to provide web-based disclosure of results of auctions including information on volumes, prices, high and low bids for placement of securities via auctions.</p> <p>The Ministry of Finance (MOF) to disclose on the MOF website information on the structure, outstanding amounts, and borrowing costs with regards to government domestic securities.</p>	Accomplished This information is provided on the website (http://en.hnx.vn) for the HNX (previously the Hanoi Securities Trading Center [HaSTC]). Data on the results of government bond auctions and corporate bond auctions in terms of volumes, prices, and bids are now provided on a daily basis.
	SSC to require traders to promptly report securities transactions of public companies with securities registered with Viet Nam Securities Depository (VSD) to securities trading centers, including price and volume information and bid/offer spreads	Accomplished Securities transactions are reported by the securities companies to the stock exchanges, which transfer the trading data to the VSD, where settlement occurs.
A.2 Market Information Standards	MOF to issue: (i) regulations for step by-step implementation of mark-to-market international accounting standard 32 (IAS 32 Financial Instruments: Disclosure and Presentation) into Viet Nam's accounting system, and (ii) accounting guidelines for securities firms and for repurchase agreements.	Accomplished (i) Guidelines for incorporating IAS 32 into Viet Nam's accounting standards were issued on 7 November 2009 through Circular 210/2009/TT-BTC. (ii) Circular 95/2008/TT-BTC has been issued, providing accounting guidelines and regulations applicable to securities firms. Guidelines for repurchase agreements were issued in October 2009 through Circular 206/2009/TT-BTC.
	MOF to prepare and submit to the government a draft law on	Satisfactory – ongoing and on track.

	Independent Audit, including provisions specifying the function of independent business association, self-regulatory organizations and a road map for delegation of management of the accounting, auditing profession to the association	The draft law on independent audit was eventually submitted to the government in June 2010, during processing of subprogram 2, and finally approved on 29 March 2011.
A.3 Market infrastructure for secondary trading of securities.	Specialized bond trading platform established at Hanoi STC	Accomplished. Decision 86/QĐ – BTC dated 15 January 2008 approved the master plan for establishment of a specialized bond trading platform at Hanoi STC.
	Hanoi STC and VSD to become limited liability companies and SSC to approve their rules (listing, trading, membership, and information disclosure, registration, depository, settlement, and clearing mechanism)	Accomplished Both the VSD and the Hanoi STC were reorganized as single-member limited liability companies following Prime Minister's Decision 171/2008/QĐ-TTg dated 18 December 2008 and Decision 01/2009/QĐ-TTg dated 2 January 2009.
	SSC to develop an information technology plan to enable electronic filing by regulated parties (issuers, public companies, regulated intermediaries), enhance SSC's supervision of securities markets, and improve activities to publicly disseminate information	Accomplished The SSC developed in 2008 an information technology plan to develop a systematic database for the information disclosures required for public companies under the new Securities Law.
B. Institutional Framework for Securities Insurance		
B.1 Government securities issuance to support the capital markets.	MOF and SBV to establish a department-level working group to promote development of the money and bond markets	Accomplished The working group was established under the SBV Decision 476/QĐNHNN dated 5 March 2009. The working group comprises 12 members at director and deputy director general level and 2 members at officer/expert level.

	MOF-SBV working group to meet quarterly to exchange relevant information on the development of money and the bond markets (including liquidity forecast by SBV and issuance schedule by MOF)	Accomplished The group held three meetings in 2009—in March, April and September—to benefit from inputs from the lead consultant for bond market development under ADB's technical assistance (TA). The working group has made substantial progress in improving the information flows between MOF and SBV relating to bond market development.
	MOF to: (i) establish the task force to develop government bond market, (ii) the task force to have quarterly meeting with market participants to exchange information on issuance of the government securities, and (iii) study and prepare the road map for removal of the interest ceiling in auctions of the government's securities	Accomplished MOF established an internal working group for developing the bond market under Decision No. 1355/QD-NHNN dated 29 May 2009, with 10 members and headed by the deputy general director of State Treasury.
	MOF to prepare a study for establishing a primary dealer system	Accomplished MOF has undertaken a study with ADB assistance on the feasibility and desirability of establishing a primary dealer system (PDS).
B.2 Create benchmark issues for government securities	MOF, in consultation with SBV, to identify and issue appropriate benchmark maturities	Accomplished MOF has consulted with SBV on identifying appropriate benchmark maturities. In this regard, the MOF sent Document No. 12524/BTC-TCNH dated 4 September 2009 to the SBV for comments, and the SBV replied through Document No. 7110/NHNN-CSTT dated 14 September 2009. Maturities of 2, 3, 5, 10, and 15 years have been identified for the purpose of creating benchmark.

	MOF to issue guidelines for buyback of government securities	Accomplished Guidelines for buyback of government securities were issued by the MOF in September 2009 (Decision No. 2346/QD-BTC dated 28 September 2009).
B.3 Develop short end of the bond market	SBV to issue a master repurchase agreement and use it in all SBV's repurchase transactions	Accomplished ²⁵ SBV has introduced a new master repurchase agreement (MRA) through Decision 27/2008/QD-NHNN, which came into effect in early 2009. SBV is using the new MRA in all its transactions with banks.
B.4 Enhance supply of other securities	SBV to rationalize prudential requirements.	Accomplished SBV has undertaken the review and on 5 December 2008, its Governor issued Decision 34/2008/QĐ-NHNN providing amendments and additional articles to supplement the Regulation of prudential requirements of credit institutions. Additionally, SBV has allowed that, for a leasing company which is a credit institution's subsidiary, the credit institution is entitled to provide uncollateralized credit of maximum 5% of its paid-in capital, provided that the credit institution strictly follows the above ceilings.
	SBV, in cooperation with the Supreme Court, to develop an awareness program for leasing stakeholders (e.g., economic court judges and other government officials concerned), and submit it for ADB support	Accomplished SBV provided ADB with a proposed training program for relevant agencies to enhance awareness on leasing, and in May 2009 ADB undertook a training workshop that included representatives from the Economic Court,

²⁵ Although the assessment made by the project officer when releasing the second tranche was that this reform was "accomplished", SBV clarified during the fact finding mission that Decision 27/2008/QĐ-NHNN is only used in open market operations for repurchasing valuable papers between SBV and credit institutions.

		Prosecution Agency, Ministry of Public Security, Ministry of Justice, Ministry of Transportation, MOF, and SBV.
C. Consumer Protection		
C.1 Improve consumer protection	SSC to implement master plan, including developing regulation and procedures of market surveillance and compliance	Accomplished SSC has prepared a master plan for improving market surveillance and compliance, and in 2008 a new Department of Market Surveillance and Compliance proposed under the plan was established.
	SSC to adopt and implement web-based system to facilitate the lodging of investors' complaints to be resolved in line with current procedures	Accomplished The website of the SSC provides for web-based lodging of investors' complaints. The procedure for processing complaints is provided for in the detailed regulation attached to Decision No. 421/2007/QĐ-UBCK of the SSC.
	SSC to publish consolidated tables of all cases and penalties imposed on regulated persons.	Accomplished SSC is publishing an annual table of all cases and penalties imposed on regulated persons. The table is also available on its website.
	SBV to draft a decree on bankruptcy of credit institutions, including the role of the Deposit Insurance Agency in the resolution process	Accomplished SBV has drafted the decree on bankruptcy of credit institutions, providing regulations on the application of the Bankruptcy Law to credit institutions.
	Government to give priority to capital allocation for funding for essential information technology infrastructure to support the program based upon feasibility studies	Accomplished The government has sought to allocate capital expenditure for the funding of information technology

		infrastructure that is essential to strengthen the financial sector. In addition to the acquisition of the information technology system for the AMLIC for about \$1.2 million, the government has approved the financing of information technology systems for the HNX and VSD of about \$2.84 million.
C.2 Strengthen anti-money laundering regime	AMLIC to: (i) establish information technology system for collecting, processing, and recording information; and (ii) increase staff to effectively implement Decree 74 and related regulations	<p>Satisfactory – ongoing and on track</p> <p>During the fact finding mission, SBV confirmed that the action on the AMLIC has been belatedly completed and it is now operational. This has been verified by the Financial Action Task Force report of February 2014. Further, a new department called the Anti-Money Laundering Department (AMLD) was created in July 2014.</p>
C.3 Enhance consumer protection in insurance markets	MOF to implement risk-based capital adequacy framework by initially determining paid-up charter capital corresponding to lines (scope) of business and number of branches, and by setting a schedule in respect of excluded assets partly or in full to determine appropriate solvency margins of insurance firms (through revision of Circulars 98/2004/TT-BTC and 99/2004/TT-BTC).	<p>Accomplished</p> <p>Decrees 45 and 46 (No. 45-2007-ND-CP and 46-2007-ND-CP), and their implementing Circulars 155 and 156 (155-2007-TT-BTC and 156-2007-TT-BTC) have replaced earlier decrees and circulars. These decrees and circulars represent the main body of insurance regulations applicable in Viet Nam, and include such issues as risk based capital adequacy rules.</p>
	MOF to adopt regulation on investment-linked insurance products	<p>Accomplished</p> <p>New legislation has been introduced specifically dealing with the new life insurance contracts—Universal Life (Decision 96/2007/QĐ-BTC) and investment linked products (Decision 102/2007/QĐ-BTC). Unit</p>

		(Investment) linked policies started to be offered in 2009.
C.4 Regulatory coordination to improve market oversight	The government to undertake a study, with proposed assistance from ADB, of the institutional framework to strengthen the coordination and cooperation between regulatory agencies for financial market supervision	Accomplished The issue of the institutional framework for improved supervisory cooperation has been studied by both MOF and SBV, including through a study financed by ADB TA to assess the regulatory architecture.
D. Regional Cooperation		
D.1 Regional cooperation in development of securities markets	SSC to (i) conduct an assessment of its ability to meet benchmarks under the IOSCO MMOU, and (ii) SSC to develop a road map for SSC to become a signatory to Appendix B of the IOSCO MMOU.	Accomplished SSC has undertaken an assessment of its ability to meet benchmarks under the IOSCO MMOU by filling out the evaluation form required by IOSCO and submitting the assessment to the IOSCO General Secretariat in July 2009.
	SSC to develop regulation giving guidelines for foreign securities investment and provision of securities services	Accomplished SSC developed the regulation and guidelines for foreign individuals and institutions on investing and providing services in securities markets in Viet Nam (Decision 121/2008/QD-BTC dated 24 December 2008).

STATUS OF COMPLIANCE WITH POLICY MEASURES: SUBPROGRAM 2

Reformulated/New Core Actions	Achievements
A. Enhanced Capital Market Liquidity Through Improved Information Disclosure	
MOF to issue a Circular on disclosure of information in securities market applicable to listed and unlisted public companies	<p>Accomplished</p> <p>MOF issued MOF Circular Number 9/2010/TT-BTC dated 15/01/2010</p>
MOF to initiate the gap assessment for applicable accounting standards to align the Vietnamese accounting standards closer to the International Accounting Standards.	<p>Accomplished</p> <p>(i) MOF Circular Number 210/2009/TTBTC dated 6 November 2009 to guide the application of international accounting standards on the presentation of financial statements and disclosure of financial instruments; and</p> <p>(ii) Confirmation letter from MOF on initiating the gap assessment study for applicable accounting standards against international standards, including a broad timeline for implementation of recommendations.</p>
MOF to submit to the Government the draft Law on Independent Audit.	<p>Accomplished</p> <p>(i) Letter number 62/TTr-BTC from MOF dated 14 May 2010 submitting the draft law to the government; and</p> <p>(ii) Draft Law on Independent audit</p>
VSD to complete the pilot implementation of automatic synchronization of records between its Head Office and the HCMC branch with full implementation of book-entry based system for public companies which are centrally registered with VSD.	<p>Accomplished</p> <p>Report dated 30 August 2010 from VSD to MOF on the completion of this action.</p>
Enhance corporate governance of Stock Exchanges (SEs) by transforming HNX into a limited liability company	<p>Accomplished</p> <p>(i) HNX was transformed into a limited liability company in 2009 in accordance with the Decision 01/2009/QD-TTg dated 2 January 2009 by the Prime Minister; and</p> <p>(ii) Copy of the Decision (Gazette) – available on the government website.</p>
Draft feasibility study on building an IT system to supervise the securities industry	<p>Accomplished</p> <p>The draft feasibility study by SSC on the disclosure system, which is part of the IT plan</p>

SSC to formulate the Viet Nam Securities Market Development Strategy for the period 2010-2020 for submission to MOF.	Accomplished Draft Securities Market Development Strategy for the period 2010-2020.
MOF to issue a Circular revising the regulation of registration, deposit, clearing and securities settlement to enable SSC to issue guidelines for the timing of subsequent securities' sales after an original trade.	Accomplished MOF Circular Number 43/2010/TT-BTC dated 25 March 2010.
HNX to report on the performance of the UpCOM market after one year of operation, from June 2009 to June 2010	Accomplished HNX progress Report on the performance of the UpCOM market after one year of operation, from June 2009 to June 2010.
B. Strengthened Institutional Framework for Securities Issuance	
(i) The law on Public Debt Management to be approved by the National Assembly. (ii) The Government to establish PDMO with appropriate mandate.	Accomplished (i) The Law on Public Debt Management (which was approved on 17 June 2009 and took effect on 1 January 2010). (ii) MOF Decision No 1168/QD-BTC dated 22 May 2009 on the functions, tasks, responsibilities and organizational structure of the Debt Management and External Finance Department (PDMO).
MOF to seek public consultation on the comprehensive draft Decree replacing Decree 141/2003/ND-CP which covers all issues relating to the Government bonds, Government-guaranteed bonds and municipal bonds.	Accomplished (i) Draft Decree to replace Decree 141/2003/ND-CP (ii) Status Report number 106/TTDTNVCM on public consultation dated 15 March 2010
(i) SBV to complete a review and assessment of the risks in areas of central banking operations, including money market and open market operations and to agree stage one (i.e. short term measures) of an implementation plan (covering short term, medium-term and long term) based on the gaps identified in the study.	Accomplished (i) TA 4732 VIE Report: Review and assessment of the risks of the operations of Central Banking Department of the State Bank of Viet Nam – November 2009/January 2010. (ii) Correspondence between ADB and SBV on agreed TORs and documentary evidence on appointment of experts to provide support with implementable short-term risk mitigation measures.
MOF to review the regulatory regime (Decree 52/2006/ND-CP) for the issuance of corporate bonds to further develop the corporate bond market.	Accomplished Draft Decree to replace Decree 52/2006/ND-CP – this will be the comprehensive “umbrella” for the corporate bond market.

C. Enhanced Legal and Regulatory Framework for Investor and Consumer Protection and Financial Sector Stability	
MOF to submit to the Government the draft Law on Amendment To Some Articles of the Securities Law, including enhancing the adequacy of enforcement powers	<p>Accomplished</p> <p>(i) Submission letter No 90/TTr-BTC dated 15 July 2010 by MOF to the Government</p> <p>(ii) The draft Law On Amendment To Some Articles of the Securities Law.</p>
SBV Law and Credit Institutions Law to be approved by the National Assembly	<p>Accomplished</p> <p>(i) Law on State Bank of Viet Nam No. 46/2010/QH12 on 16/06/2010</p> <p>(ii) Law on Credit Institution No. 47/2010/QH12 on 16/06/2010</p>
<p>(i) SBV to issue instructions to credit institutions to submit a plan to raise minimum charter capital requirements by end-2010.</p> <p>(ii) SBV to issue instructions to credit institutions to submit monthly status with respect to adequacy of meeting the charter capital requirements.</p> <p>(iii) SBV to issue implementing circular on organization and operations of commercial bank.</p>	<p>Accomplished</p> <p>(i) Letter 397 for credit institutions dated 14 January 2010;</p> <p>(ii) Letter 398 for SBV local branches to monitor the enforcement by credit institutions dated 14 January 2010).</p> <p>Accomplished</p> <p>Document number 3417/NHNNTTGSNH and 3418/NHNN-TTGSNH issued by SBV on 10/05/2010 directing credit institutions and branches of SBV in provinces and cities to implement and report on the increased capital of credit institutions according to Decree No. 141.</p> <p>Accomplished</p> <p>(i) Decree 59 Decree 59/2009/Nd-CP dated 16 July 2009</p> <p>(ii) Circular 06 issued by SBV</p>
(i) SBV to issue the circular providing for: (a) merger and acquisition of credit institutions; (b) the application of bankruptcy to credit institutions; (c) direct control of defaulting credit institutions by SBV; and (d) licensing requirements for joint-stock banks.	<p>Accomplished</p> <p>(i) SBV Circular 4 dated 11 Feb 2010 on mergers and acquisitions of financial institutions</p> <p>(ii) Bankruptcy Decree 05/2010/ND-CP of 18 January 2010</p> <p>(iii) Circular 08 dated 22 March 2010 on Special Control over Credit Institutions</p>

<p>(ii) SBV to enhance the prudential and solvency ratio of credit institutions by issuance of a new circular – this includes requirement to increase the capital adequacy ratio (CAR) from 8% to 9% and other prudential measures.</p>	<p>(iv) Circular 09 dated 26 March 2010 on requirements to incorporate a domestic joint stock commercial bank (prior to granting a license by SBV)</p> <p>Accomplished</p> <p>Circular number 13/2010/TT-NHNN dated 20 May 2010.</p>
<p>SBV to undertake a mutual evaluation with the Asia Pacific Group (APG) on Money Laundering and to introduce measures to strengthen the procedures and capacity for effective supervision of AML requirements.</p>	<p>Accomplished</p> <p>(i) APG Evaluation Report dated July 2009</p> <p>(ii) Circular 22/2009/TT-NHNN dated 17/11/2009 providing guidance on anti-money laundering measures</p> <p>(iii) Decision 470/QD-TTG dated 13 April 2009 on the establishment of National Committee for Anti-Money Laundering</p> <p>(iv) Draft procedures for AML component for on-site inspections for credit institutions</p> <p>(v) Assessment of implementation of Decree 74</p>
<p>(i) MOF to submit to the Government the draft Law on Amendments To Some Articles of the Law on Insurance Business.</p> <p>(ii) The Government to issue the Decree on administrative penalties for insurance businesses.</p>	<p>Accomplished</p> <p>(i) The draft Law on Amendments To Some Articles of the Law on Insurance Business (which was submitted to the Government in June 2010).</p> <p>(ii) Letter (number 76/TTr-BTC) from MOF dated 17 June 2010 submitting the draft law to the Government.</p> <p>Accomplished</p> <p>Decree 41/2009/ND-CP dated 5 May 2009.</p>
<p>D. Improved Regional Cooperation and Human Resource Development</p>	
<p>MOF to submit to the Prime Minister for approval for Viet Nam to become a MMOU Annex B Signatory, following admission approval by IOSCO.</p>	<p>Accomplished</p> <p>Confirmation letter from MOF on its submission to the Prime Minister.</p>
<p>(i) SBV Governor to issue a directive for SBV to formulate human resource development plan to 2015 and a vision up to 2020.</p>	<p>Accomplished</p> <p>A letter from the Personnel Department of</p>

<p>(ii) SBV to conduct assessment on the training needs to serve as a basis for a comprehensive Outline of the Human Resource Development Plan to 2015 and vision to 2020</p>	<p>SBV confirmed the plan.</p> <p>Accomplished</p> <p>Report on the assessment of the training needs of SBV staff.</p>
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STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
Subprogram 1		
1. The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program Cluster.	Article IV (Section 4.02 a)	Complied
2. The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this section.	Article IV (Section 4.02 b)	Complied
3. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program Cluster, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and Policy Matrix	Article IV (Section 4.03a)	Complied through policy dialogue during missions
4. The Borrower shall (a) ensure that the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of the Program Cluster, and in particular, the Program and other activities consistent with the objectives of the Program Cluster, as more fully described under Paragraph 1 of Schedule 1 to this Loan Agreement, the Policy Letter and Policy Matrix; and (b) provide necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program and the Program Cluster	Schedule 5, Para 1	Complied
5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time engage in active policy dialogue on sector issues, policy reforms and other measures during the Program Cluster and on additional reforms that may be considered necessary or desirable, and exchange views on, the progress made in carrying out the policies and actions set	Schedule 5, para 6	Complied through program reviews and Government staff updated ADB staff accordingly

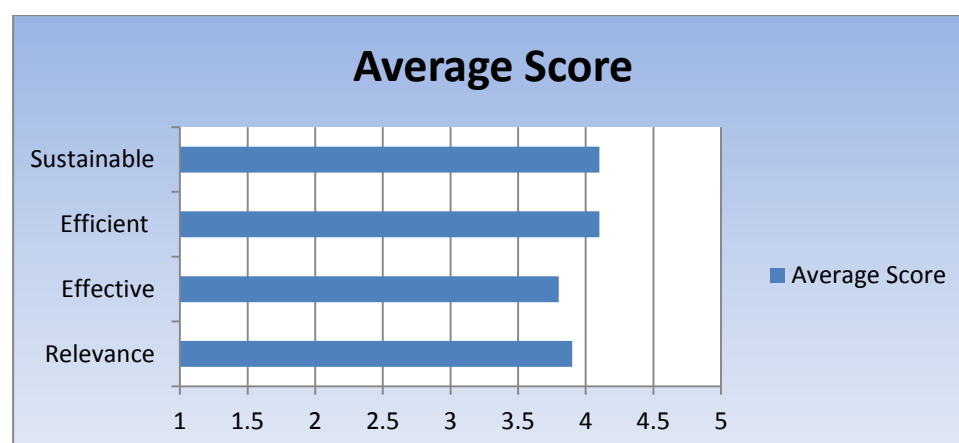
Covenant	Reference in Loan Agreement	Status of Compliance
<p>out in the Policy Letter and the Policy Matrix.</p> <p>6. The Borrower and ADB shall jointly assess the impact and evaluate the benefits of the Program within 18 months of the Loan Effectiveness, in accordance with ADB's Program Performance Management System. The Borrower and ADB may use the findings of such assessment and evaluation in refining the Program Cluster</p> <p>Subprogram 2</p> <p>1. The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program Cluster.</p> <p>2. The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this section.</p> <p>3. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program Cluster, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and Policy Matrix</p> <p>4. The Borrower shall (a) ensure that the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of the Program Cluster, and in particular, the Program and other activities consistent with the objectives of the Program Cluster, as more fully described under Paragraph 1 of Schedule 1 to this Loan Agreement, the Policy Letter and Policy Matrix; and (b) provide necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program and the Program Cluster</p>	<p>Schedule 5, para 11</p> <p>Article IV Section 4.02a</p> <p>Article IV Section 4.02b</p> <p>Article IV (Section 4.03a)</p> <p>Schedule 5, Para 1</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied through policy dialogue during missions</p> <p>Complied</p>

Covenant	Reference in Loan Agreement	Status of Compliance
5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time engage in active policy dialogue on sector issues, policy reforms and other measures during the Program Cluster and the PPPF, that may be considered necessary or desirable, and exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix	Schedule 5, Para 6	Complied through program reviews and government staff updating ADB staff accordingly
6. The Borrower shall cause the SBV in coordination with the IAs to submit a Program Cluster completion report to ADB within six (6) months after the Effective Date that assesses compliance with, and impact of, the agreed actions under the Program and Program Cluster. The report, showing the overall outcomes and output results of the Program Cluster and taking into account the interim completion report prepared for the Program Cluster's Subprogram 1, will be prepared and submitted to ADB.	Schedule 5, Para 12	Complied through the response to the survey (Appendix 5) and discussions during preparation of the draft PCR

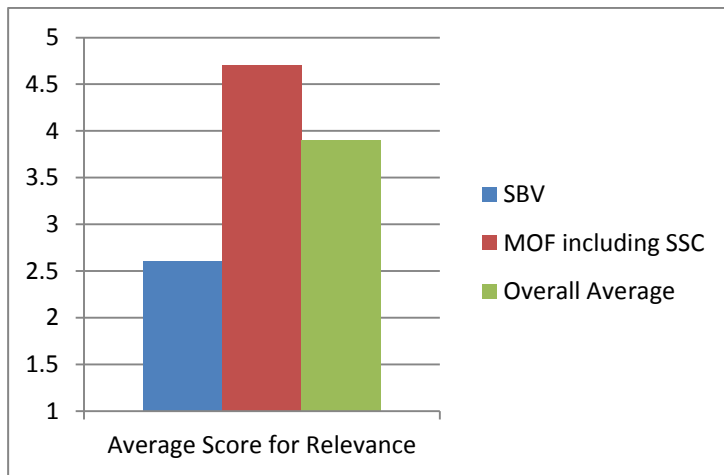
PROGRAM COMPLETION REPORT – GOVERNMENT SURVEY RESULTS

1. As part of the program completion report process, the Asian Development Bank (ADB) and the Government of the Socialist Republic of Viet Nam designed a survey questionnaire to collect the views of executing and implementing agencies on the performance of the Third Financial Sector Program Loan (FSPL III). The survey was circulated in April 2014 and discussed in June 2014. After the mission, a revised response was provided by the State Securities Commission (SSC) in July 2014. Senior policymakers from the State Bank of Viet Nam (SBV), Ministry of Finance, and SSC completed the questionnaire. It included a rating on a scale of 1 (minimum) to 5 (maximum) for the FSPL III's relevance to the government's development goals, effectiveness in achieving the expected outcome, the efficiency with which ADB managed the FSPL III, and the likelihood of the sustainability of financial sector programs beyond FSPL III. The questionnaire also gave the government the opportunity to suggest what features of FSPL III should be retained, dropped, or added in the next program cluster. The sections below summarize the feedback received from the government, in point form (quantitative) as well as comments received (qualitative). A consistent observation of all responses is the discrepancy in the points awarded by SBV as the executing agency on the one hand, and both MOF and SSC on the other. The scores provided by SBV were substantially lower than MOF and SSC. This may infer several possible conclusions including that the borrower (MOF) was satisfied with the results of the loan, while SBV's experience of working with ADB to implement reforms in the financial sector was not so positive.

2 **Summary of Results.** Overall, the government rated FSPL III relevant (3.9), effective (3.8), highly efficient (4.1), and most likely to be sustainable (4.1).

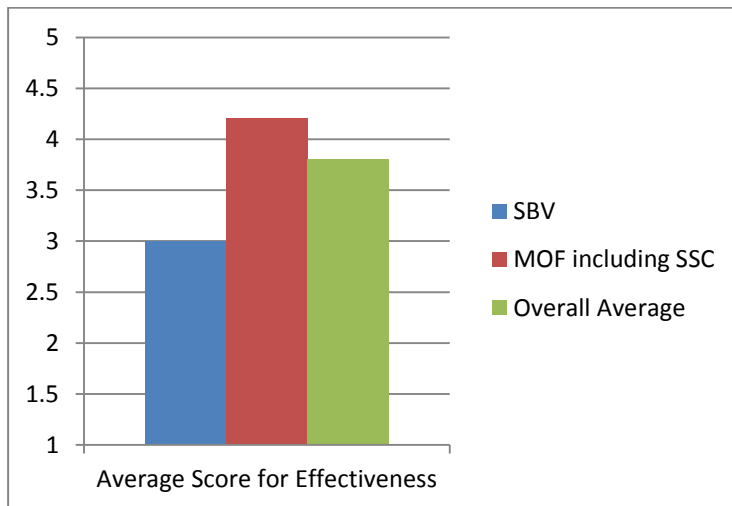


3. **Relevance to the government's objective of developing the financial sector.** On average, the government rated FSPL III as relevant. However, when broken down by agency, the discrepancy in the rating of SBV (2.6) from MOF including SSC (4.7) is demonstrated in the graph below.



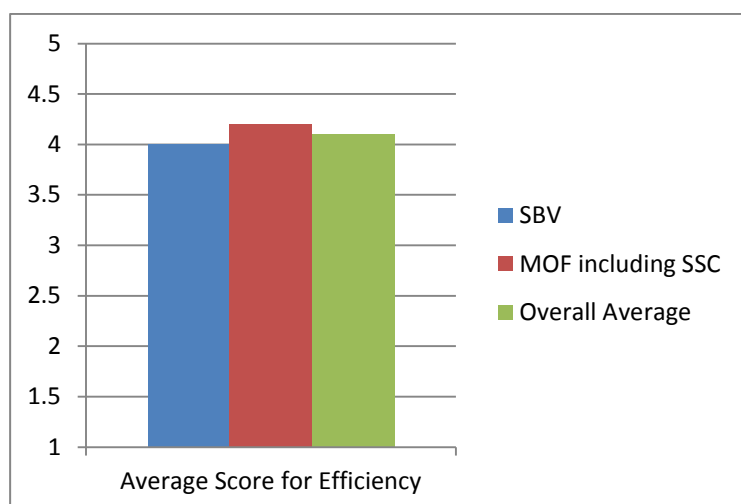
4. Notwithstanding the low rating, SBV did find the focus areas on (i) strengthening the institutional framework for securities issuance, and (ii) enhancing the legal and regulatory framework for investor and consumer protection and financial sector stability, to be relevant. One of the comments provided by SBV reads, “ADB should conduct surveys and concrete reviews on the conditions in Viet Nam, as well as consultations with line ministries and agencies, before building up policy matrices.”

5. **Effectiveness in achieving the expected outcome.** On average, the government rated FSPL III as effective. The difference in the rating between the agencies is again obvious and reflected in the graph below.



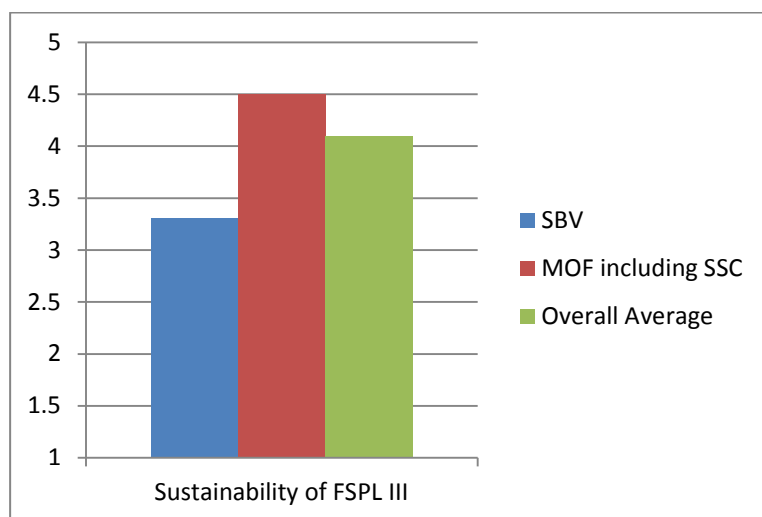
6. Of all the outputs, the government rated (i) strengthening the framework for securities issuance, and (ii) improving human resource development and regional cooperation as highly effective. SBV provided a consistent score of 3 for all outputs.

7. **ADB efficiency in managing the program and achieving the outcome and outputs.** Overall, the government rated FSPL III as highly efficient (4.1). An interesting observation for this section is that there was consistency in the rating of all the agencies, as seen in the graph below.



8. Notwithstanding the high score above, MOF provided some constructive feedback in the survey that reads, “Communication between ADB and the implementing agencies was not very efficient and sometimes caused misunderstanding between the two parties.”

9. **Sustainability of the program's outcome and outputs.** Overall, the sustainability of FSPL III also scored highly and the program was rated as highly likely to be sustainable. The breakdown of the assessment is seen in the graph below:



10. The questionnaire also asked for additional feedback from the government on improvements that can be made in future programs. MOF did not provide specific feedback, just noting that the current structure is appropriate. SSC emphasized that indicators in the DMF “should have been agreed by both sides especially the details of qualitative and quantitative indicators.” This supports one of the lessons learned that both parties should play closer attention to the indicators in the DMF and that the policy matrix should be read together with the DMF. In addition, SBV noted that, “consultants should have experiences in Viet Nam’s markets or from a country with a similar developing level to make appropriate and practical recommendations to Viet Nam. This will help save time for both consultants and relevant parties.”