ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 50051-001
November 2016

Proposed Programmatic Approach, Policy-Based Loans, and Technical Assistance Grant for Subprogram 1
Socialist Republic of Viet Nam: Improving Public Expenditure Quality Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 November 2016)

Currency unit	–	dong (D)
D1.00	=	$0.000044
$1.00	=	D22,460

ABBREVIATIONS

ADB	–	Asian Development Bank
FDS	–	finance development strategy
GDP	–	gross domestic product
M&E	–	monitoring and evaluation
MOF	–	Ministry of Finance
MPI	–	Ministry of Planning and Investment
ODA	–	official development assistance
PEFM	–	public expenditure and fiscal management
SAV	–	State Audit Office of Vietnam
TA	–	technical assistance

NOTE

In this report, "$" refers to US dollars.

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Directors	K. Bird, Public Management, Financial Sector, and Trade Division, SERD
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PROGRAM AT A GLANCE

1. Basic Data			**Project Number:** 50051-001
Project Name	Improving Public Expenditure Quality Program, Subprogram 1	**Department /Division**	SERD/SEPF
Country	Viet Nam, Socialist Republic of	**Executing Agency**	Ministry of Finance
Borrower	Socialist Republic of Viet Nam		

2. Sector	**Subsector(s)**	**ADB Financing ($ million)**
✓ **Public sector management**	Public expenditure and fiscal management	200.58
	Total	**200.58**

3. Strategic Agenda	**Subcomponents**	**Climate Change Information**	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low

4. Drivers of Change	**Components**	**Gender Equity and Mainstreaming**	
Governance and capacity development (GCD)	Institutional development Institutional systems and political economy Public financial governance	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Private sector development (PSD)	Conducive policy and institutional environment		

5. Poverty and SDG Targeting		**Location Impact**	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8, SDG9		

6. Risk Categorization: Complex

7. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

8. Financing

Modality and Sources	Amount ($ million)
ADB	**200.58**
Sovereign Capacity development technical assistance: Technical Assistance Special Fund	0.58
Sovereign Programmatic Approach Policy-Based Lending (Loan): Asian Development Fund	117.30
Sovereign Programmatic Approach Policy-Based Lending (Loan): Ordinary capital resources	82.70
Cofinancing	**0.00**
None	0.00
Counterpart	**0.00**
None	0.00
Total	**200.58**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

Source: Asian Development Bank

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Improving Public Expenditure Quality Program, and (ii) proposed policy-based loans to the Socialist Republic of Viet Nam for subprogram 1 of the Improving Public Expenditure Quality Program. The report also describes the proposed technical assistance (TA) for Support for Improving Public Expenditure Quality Program, and if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, approve the TA.[1]

2. The program supports the government's commitment to improve the provision of infrastructure and service delivery to lift living standards and reduce poverty, and represents a medium- to long-term partnership between the Asian Development Bank (ADB) and the government. The government's priority areas to improve service delivery include (i) efficiently allocating public financial resources; (ii) strengthening the identification and management of fiscal risks; and (iii) improving the monitoring, evaluation, and oversight of budget expenditure. The program is aligned with ADB's country partnership strategy, 2016–2020 for Viet Nam[2] and is included in the country operations business plan, 2017–2019 for Viet Nam.[3]

II. THE PROGRAM

A. Rationale

3. **The development problem**. Sustained high economic growth, averaging 6.5% during 2005–2015, has supported one of the highest levels of public expenditure on infrastructure and services in Southeast Asia. For example, Viet Nam spent an average of 11% of gross domestic product (GDP) per year on public infrastructure during 2010–2015 and plans to spend $20.2 billion on infrastructure in 2016, a 50% increase in real terms since 2014. Similarly, the combined nominal recurrent expenditure on health and education grew 98% during 2011–2015, increasing its share of the total state budget from 18% to 24%. Yet higher government expenditure has not always been directly associated with improved outcomes. Despite nearly half of the state budget capital expenditure being allocated to infrastructure during 2011–2015, Viet Nam ranked 85th out of 138 countries in the 2016 Global Competitiveness Index for the quality of its infrastructure, well behind its regional competitors (Figure 1). Similarly, results from a Public Administration Performance Index survey revealed that in 2015, user satisfaction with public hospitals had fallen to their lowest level since the survey began in 2011.[4]

4. The disconnect between high levels of investment and the quality of infrastructure and public services highlights the government's challenges in efficiently allocating and implementing scarce budgetary resources due to weaknesses in public expenditure and fiscal management (PEFM) systems.[5] For instance, Viet Nam's incremental capital–output ratio, a common measure of investment efficiency, was 5.2 in 2014, meaning that $5.20 spent on investment produces only $1 of income (Figure 2). The incremental capital-output ratio in neighboring countries is 3–4. Viet Nam's inefficient investment erodes economic growth and undercuts

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[1] The design and monitoring framework is in Appendix 1.

[2] ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016–2020 – Fostering More Inclusive and Environmentally Sustainable Growth.* Manila.

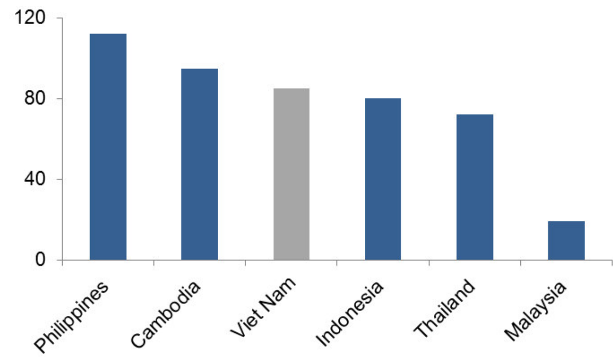
[3] ADB. 2016. *Country Operations and Business Plan: Viet Nam, 2017–2019*. Manila.

[4] UNDP. 2016. *PAPI 2015—The Vietnam Provincial Governance and Public Administration Performance Index: Measuring Citizens' Experiences*. Ha Noi.

[5] Sector Assessment (Summary): Public Sector Management (Public Expenditure and Fiscal Management) (accessible from the list of linked documents in Appendix 2).

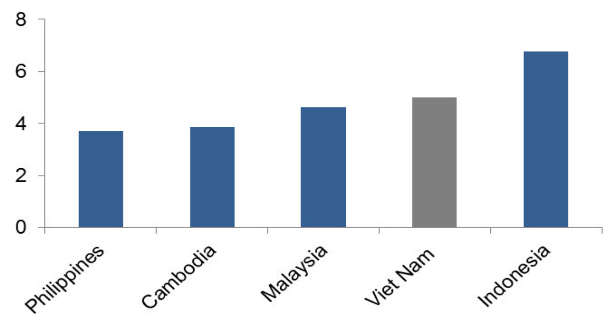
efforts to reduce poverty. With Viet Nam's fiscal space declining and public debt levels approaching their legislated limit of 65% of GDP, enhancing PEFM will be vital for improving infrastructure and service delivery and sustaining long-term poverty reduction.

Figure 1: Infrastructure Quality Ranking



Legend: 1 = best, 140 = worst.
Source: World Economic Forum. 2016. *Global Competitiveness Report, 2016–2017*. Geneva

Figure 2: Incremental Capital–Output Ratio, 2014



Note: Higher values indicate lower productivity.
Source: World Bank. 2016. *World Development Indicators 2016.* Washington, DC.

5. **Binding constraints.** Sound PEFM can be defined as a system through which public financial resources are planned, directed, and controlled to enable the efficient (cost per unit of output) and effective (benefits relative to costs) delivery of public service goals. Recent diagnostics highlight four binding constraints to effective PEFM in Viet Nam.[6] These are (i) inefficient public resource allocation, including a lack of longer-term expenditure planning and consideration of costs associated with maintaining public assets; (ii) poor identification and management of fiscal risks, which lead to unplanned fiscal costs and challenges in tracking and mitigating risks; (iii) weak oversight and evaluation of expenditure, which erode accountability for results; and (iv) inadequate domestic resource mobilization, which limits funds available for public expenditure (footnote 6). These constraints are discussed in in paras. 6–9.

6. **Inefficient public resource allocation**. While the Ministry of Finance (MOF) continues to strengthen its PEFM system, weaknesses remain in budget planning and execution. First, there is no medium-term expenditure framework so budgets are developed and approved to cover 1 year at a time. As a result, multiyear projects are often started without any assurance that funds will be available to complete them. This hampers strategic investment planning and limits advance project preparation. Second, there are more than 30 off-budget funds, each established under a different law and government decision. While off-budget expenditure is approved by the National Assembly, under the supervision of the MOF, there is no consolidated reporting on how the funds are used and expenditure is not coordinated with national investment planning. In addition, limited information on government assets makes it difficult to manage assets and allocate budget for maintenance expenditure, which undermines the quality of public infrastructure investment. While the government has introduced the concept of gender-responsive budgeting into the national budget, the extent to which this is translated into better planning and resource allocation has been limited. Gender analysis is rarely a part of policy analysis, and there is a lack of sex-disaggregated data and evidence-based research to guide

[6] Government of Viet Nam. 2013. *Public Expenditure and Financial Accountability (PEFA) Assessment*. Ha Noi.

planning decisions. As a result, consideration of how public expenditure impacts gender has not been mainstreamed into the budget process.[7]

7. **Poor identification and management of fiscal risks.** There are significant deviations between approved budgets and expenditure outturns arising from limitations in fiscal risk management. Capital expenditure exceeded budget plans by an average of 29.2% during 2011–2015, while recurrent spending on health fell below budget targets by an average of 13.3% during the same period. Further, limited controls over the use of government guarantees significantly erode budget reliability. Government guarantees accounted for over 18.0% of public debt, or 11.4% of GDP, at the end of 2015. State policy banks are a major user of government guarantees, but a lack of information on these banks' financial status makes it difficult to assess how this risk affects public debt management.[8] Projects guaranteed by the government are risky, particularly those issued to state enterprises with opaque balance sheets and untested debt service capacity. Nevertheless, guarantees are often issued without any charge to the borrowing entity. Finally, Viet Nam has progressively devolved fiscal responsibilities so that more than half of the state budget is now spent by subnational governments. Yet most provinces continue to rely on central government transfers and have limited accountability for repaying debt mobilized by the central government on their behalf, including official development assistance (ODA). Combined with unclear responsibilities over the provision of counterpart funding, this limits incentives for well-disciplined and accountable fund utilization.

8. **Weak oversight and evaluation of expenditures.** The government's public expenditure monitoring and evaluation systems require strengthening to lift spending quality. Formal appraisal mechanisms are often not independent, with responsible agencies subordinate to authorities who are the ultimate project owners. The National Assembly is often given insufficient time to thoroughly review budget proposals. Reporting standards for evaluating public investment projects are not consistent, and information systems to monitor progress against targets are underdeveloped. Due to current resource limitations, the State Audit Office of Vietnam (SAV) can only audit 50%–60% of government reporting units. Moreover, audit results are not consistently released publicly, particularly for enterprises with large state holdings. Ongoing decentralization of project appraisal also presents challenges. Provincial governments, despite being in a better position to judge the success of a project, often lack the human capacity and systems to effectively undertake review and reporting functions.

9. **Inadequate domestic resource mobilization**. Weaknesses in mobilizing domestic resources are creating pressures for fiscal consolidation. While Viet Nam's tax administration performs well compared with its peers, there has been a significant downward trend in revenue as a share of GDP since 2010.[9] Viet Nam has reduced its tax base with tax and tariff reductions, exemptions for favored firms, and incentives to encourage new foreign direct investment. Reversing the decline in the revenue-to-GDP ratio will be vital to stem a build-up in public debt and restore fiscal policy to a more sustainable path.[10] To address this, significant new tax measures will be required. Administrative measures will also be needed to reduce tax evasion and arrears, disclose incidents of tax fraud, and streamline value-added tax refund procedures.

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[7] United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). 2015. *Gender Responsive Budgeting in Viet Nam*. Ha Noi.

[8] Social policy banks include the Viet Nam Bank for Social Policies and Viet Nam Bank for Investment and Development. These banks are 100% state-owned and implement directed lending programs on behalf of government, often at preferential terms to targeted disadvantaged groups.

[9] International Monetary Fund (IMF). 2016. *Vietnam: 2016 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Vietnam*. IMF Country Report No. 16/240. Washington, DC.

[10] Macroeconomic and Debt Sustainability Assessment (accessible from the list of linked documents in Appendix 2).

10. **The government public financial management strategy.** The government's Finance Development Strategy (FDS), 2011–2020 and its rolling 3-year medium-term action plan, 2015–2017 lay out a comprehensive reform plan to improve the impact of public expenditure on poverty reduction and sustainable growth.[11] The FDS aims to reduce financial waste, enhance the accountability and transparency of budget operations, and empower subnational governments to provide services more directly to the public. In line with the FDS, the government has approved PEFM reforms, including passing the Public Investment Law in 2014 and the State Budget Law in 2015. However, the government now faces significant implementation challenges because numerous decrees are needed to clarify how the principles of the laws will be implemented. Significant capacity development is required to ensure officials can implement enhanced PEFM requirements. While reforms are focused on PEFM processes, they are expected to catalyze incremental institutional reforms over the medium-term. To ensure reforms are sustainable, support for these planned institutional changes is needed.[12]

11. **ADB's experience.** The program will build on ADB's long engagement in Viet Nam's PEFM reform through policy dialogue, loan programs, TA, and knowledge support (Figure 3).[13] In 2008, ADB began supporting civil service reform, developing a standardized system for job analysis, job descriptions, and qualification standards in government agencies. Following this, ADB supported the preparation of the government's Socio-Economic Development Plan, 2011–2015 and followed this up with capacity building and TA activities aimed at (i) enhancing the efficiency of externally financed public investments, (ii) further improving civil service capacity and performance management, and (iii) strengthening monitoring and evaluation systems and their links to national strategies. During this time, ADB also supported revisions to the Procurement Law, and related reforms that regulate investment through private sector models. Since 2014 ADB has stepped up its support for PEFM in Viet Nam, providing targeted support to the government for enhancing public asset management systems, strengthening public debt management, reducing risks associated with government guarantees, and working across central agencies and the National Assembly to strengthen oversight of budget implementation.

12. **Lessons and program synergies.** ADB's past engagement has demonstrated that addressing Viet Nam's PEFM weaknesses will require a sequential long-term approach. Requests for support have often been dealt with in an ad hoc manner, leading to a wide array of activities with few synergies between them. The program will address this by developing a sequenced long-term plan for policy reform and institutional change addressing expenditure and investment quality. This approach will facilitate ADB's deep engagement in policy reforms and generate synergies for ADB operations, particularly infrastructure, with direct links to road, rail, and metro asset management systems as well as to secondary education reform. The program's support for enhanced public debt and ODA management and strengthened project evaluation will create synergies across ADB's portfolio. The program will also complement operations in state-owned enterprise reform and the financial sector. For instance, reforms to strengthen subnational capital mobilization will allow more direct lending from commercial banks to provincial governments, contributing to financial sector deepening. Likewise, reforms will support ADB efforts to commercialize state-owned enterprises by tightening controls over the issuance of government guarantees to these entities, and strengthening their audit standards (footnote 2).

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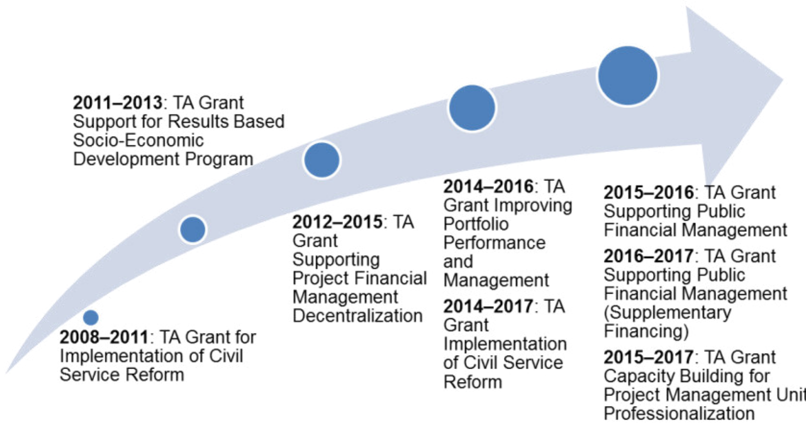
[11] Decision No. 450/QD-TTg of 18 April 2012 of the Prime Minister approving the Financial Strategy until 2020, and Decision No. 224/QD-BTC of 30 January 2013 of the Ministry of Finance approving the Action Plan of the Financial Sector to Implement the Finance Development Strategy until 2020. Ha Noi.

[12] Government of Viet Nam. 2010. *Vietnam's Socio-Economic Development Strategy for 2011–2020*. Ha Noi.

[13] ADB Sector Program and Experience (accessible from the list of linked documents in Appendix 2).

Figure 3: ADB's Engagement in Viet Nam Public Expenditure and Fiscal Management Reform



TA = technical assistance.
Source: Asian Development Bank.

13. **ADB's added value to the program design and implementation**. ADB provided technical support for the preparation of the government's first 5-year public debt and borrowing plan and supported the introduction of new procedures to more comprehensively register public debts and liabilities for national and subnational governments. ADB also conducted a risk assessment of provincial government debt mobilization through commercial banks to guide the implementation of the revised State Budget Law. TA was provided to support the development of a risk management system for government guarantees and to tighten their use. In addition, ADB supported the development of life cycle management systems for rail and metro assets, and established improved public asset management information systems. Finally, ADB helped complete a National Assembly user guide for the State Budget Law, to enhance scrutiny of the state budget, prepared a manual to govern the financial management of ODA projects, and trained 250 government officials to support its implementation.

14. **Development partner coordination.** The program was developed in close collaboration with other development partners and led to the establishment of a development partner PEFM working group in 2015 to ensure support is provided in a coordinated manner.[14] Understanding the urgent need to reverse the decline in Viet Nam's revenue-to-GDP ratio, various development partners (European Union, International Monetary Fund, Japan International Cooperation Agency, World Bank) have been supporting the government in taxation reform, which consequently will not form part of the program. ADB's added value through the program will be maximized by its deep, long-term engagement on issues related to expenditure and investment quality, particularly those that have strong synergies with ADB operations (para. 12). ADB will also actively foster new partnerships to leverage expertise, such as with the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) to assist in operationalizing a gender-responsive budgeting action plan for the transport sector.[15]

[14] Development Coordination (accessible from the list of linked documents in Appendix 2).
[15] This partnership will directly assist Viet Nam in achieving Sustainable Development Goal 5.c.1 "Proportion of countries with systems to track and make public allocations for gender equality and women's empowerment." Inter-Agency and Expert Group on SDG Indicators. 2016. *Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators* (E/CN.3/2016/2/Rev.1, Annex IV).

15. **Programmatic approach and policy-based loans.** A programmatic approach through policy-based loans was chosen because it is most effective in: (i) enabling ADB to provide medium-term support for the implementation of policies necessary to achieve FDS, 2011–2020 targets; (ii) leveraging PEFM reforms to make nation-wide improvements to the quality of public expenditure; and (iii) contributing to filling the gap in government's financing to meet funding needs in education, health, social protection and infrastructure. Subprogram 1 will focus on national legislative and regulatory upgrades in PEFM, while subprogram 2 will center on the implementation of legislation introduced under subprogram 1. This approach uses policy-based lending and extensive policy dialogue to address the long-term horizon required for PEFM upgrades and to ensure reforms are properly sequenced. To further deepen reforms, a third subprogram may be considered subject to the successful implementation of subprograms 1 and 2. It is envisioned that subprogram 3 would deepen the program's impact by addressing fiscal decentralization issues in more detail, building on the more disciplined provincial borrowing rules and tighter subnational expenditure controls introduced under subprograms 1 and 2.

16. **Economic impact of the program**. The program is expected to enhance the quality of public expenditure. Potential economic gains will be achieved by (i) improving project quality through stronger monitoring and evaluation; (ii) implementing more proficient investment planning, budget management, and life cycle asset management; and (iii) strengthening control over and reducing government-guaranteed loans (para. 29).

B. Impact and Outcome

17. The impact will be the improved provision of infrastructure and service delivery to lift living standards and reduce poverty. The outcome will be enhanced public financial management systems. The program is structured around three policy outputs: (i) a more productive allocation of public resources, (ii) strengthened identification and management of fiscal risks, and (iii) improved oversight and monitoring and evaluation of budget implementation.[16] Subprogram 1 has 14 policy actions, which the government completed during November 2014–September 2016. Subprogram 2 contains 14 policy actions, of which 10 are prior expected actions (triggers).

C. Outputs

18. **Output 1: Public financial resources more productively allocated**. This output will strengthen systems that guide the allocation and disbursement of public funds and improve the management of assets created by this expenditure. Achievements included under subprogram 1 include the introduction of 5-year medium-term expenditure frameworks and 5-year public investment plans that allow for more strategic and disciplined expenditure planning. By requiring additional public revenues and expenditures to be recorded in annual budget documentation, wasteful off-budget spending will be reduced. Subprogram 1 also supported the introduction of gender-responsive and performance-based budgeting as principles of state budget management. To ensure that investments are sustainable, subprogram 1 introduced more stringent life cycle public asset management focusing on establishing transparent information systems for improved metro, rail, and road asset management.

19. Under subprogram 2, the government will roll out measures to provide detailed guidance on performance-based budget management. The government will complete its first

[16] Future support beyond the program period may target the implementation of PEFM reforms in provincial governments, subject to the successful implementation of national reforms and agreement of relevant authorities.

5-year expenditure plans and release them publicly. It will also realize direct budgetary savings by reducing off-budget expenditure and curtailing use of state budget contingency funds. User fees will be introduced to fund maintenance and operational costs of major infrastructure assets.

20. **Output 2: Identification and management of fiscal risks strengthened**. This output strengthened the government's management of fiscal risks, improved transparency, and transferred responsibility for repaying liabilities to fund users. Achievements under subprogram 1 include the government strengthening its control over the provision and management of government guarantees, reducing the maximum guarantee from 100% of investment capital to below 80%. The government is now holding parent companies directly responsible for guaranteed debts in the event of subsidiary default.[17] The government completed a detailed risk assessment of the implications of allowing provincial governments to mobilize capital from commercial banks and introduced onlending procedures for provinces that increased their responsibility for loan repayment based on their own-source revenue raising ability. In addition, the government enhanced transparency and accountability by requiring state policy banks to publicly disclose the total capital mobilized by issuing government-guaranteed bonds and to disclose their financial status at the time the bonds are issued.

21. Under subprogram 2, the government will prioritize adhering to sustainable public debt limits and will ensure that the overall stock of government guarantees declines. To further increase transparency, the government will prepare a consolidated annual public debt report disclosing all types of central government debt, including government guarantees. Under subprogram 2, the government will encourage discipline in the use of government guarantees by developing a methodology for calculating risk-based user fees to offset fiscal costs created by the guarantees. The government will ensure provincial governments comply with onlending policies to increase their accountability for borrowing, and will issue guidelines to define ODA and concessional borrowing financial management mechanisms in more detail.

22. **Output 3: Oversight and monitoring and evaluation of budget implementation improved**. This output strengthened systems for evaluating public investment and enhanced the legal framework for preventing the misuse of public funds. Achievements under subprogram 1 include the government upgrading the State Audit Law to require a state audit of all enterprises in which the state holds more than 50% of charter capital. This reform requires (i) a state audit of agencies that mobilize and manage public debts, and (ii) the public disclosure of audit reports along with the government's annual report of consolidated audit results. The government strengthened the supervision of public investment by mandating the preparation of, and compulsory funding allocations for, annual project evaluation reports. It established evaluation criteria to systematically assess the efficiency and effectiveness of public investment and introduced a uniform data management framework for results-based monitoring. The government also strengthened budget oversight by the National Assembly. The reforms provide for a review of 5-year financial and public debt repayment plans and any supplementary appropriations using over-realized revenues. To allow for a more comprehensive review of budget submissions, the government increased the amount of time that budget screening committees may take to review budget documentation from 45 days to 55 days.

23. Under subprogram 2, the government will upgrade information management systems to provide results-based monitoring data for public investment nationally and provincially. It will further strengthen supervision and evaluation by introducing minimum quality standards to all project evaluation reports. To increase transparency, the government will publish SAV's

[17] In 2015, domestically guaranteed debt by the central government was equal to $9.2 billion, or 4.9% of GDP.

consolidated audit results for 2015 and 2016, as well as all complete state audits for enterprises. It will also publish monitoring and evaluation reports for at least 50% of capital expenditure on the public investment information portal of the Ministry of Planning and Investment (MPI).

D. Development Financing Needs

24. To finance subprogram 1, the government has requested a loan of $200 million, with an equivalent amount programmed for subprogram 2. The loans for subprogram 1 will include one of $117.3 million equivalent financed from ADB's Special Funds resources (Asian Development Fund) and another of $82.7 million financed from ADB's ordinary capital resources. The Asian Development Fund loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per annum during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement. The ordinary capital resources loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Policy-based loan proceeds will be disbursed following ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

25. In 2016, the government plans to borrow approximately $20.9 billion to cover a budget deficit of 5% of GDP, with an estimated $4.9 billion to be mobilized from ODA to fill the financing gap. The size of the loan reflects the government's financing needs and the weight of the program as highlighted by the net economic benefits and the costs of implementation calculated in the program impact assessment.[18]

E. Implementation Arrangements

26. MOF will be the executing agency. The MPI, the National Assembly Committee for Financial and Budgetary Affairs, and SAV will be the implementing agencies. A steering committee, chaired by MOF and with implementing agencies as members, will oversee the program. The implementation period is from November 2014 to September 2016 for subprogram 1, and from October 2016 to July 2018 for subprogram 2.

III. TECHNICAL ASSISTANCE

27. The government has requested TA to support the implementation of reforms under subprogram 2.[19] The TA is estimated to cost $650,000, of which $575,000 equivalent will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). MOF and MPI will provide counterpart support in the form of office space, counterpart staff, and other facilities. The scope of the TA parallels the three program outputs and provides (i) technical support to enhance infrastructure asset management, (ii) an analysis of risk-sharing mechanisms between the central and provincial governments, (iii) upgrades of public debt management toward international standards, (iv) support to implement the Public Investment Law (2014) and the Decree on Supervision and Evaluation of Public Investment, and (v) capacity building to implement gender-responsive budgeting practices in targeted line agencies.

28. MOF will be the executing agency for the TA. MOF and MPI will be the implementing agencies. The TA will begin in January 2017 and will be implemented over 15 months ending

[18] Program Impact Assessment (accessible from the list of linked documents in Appendix 2).
[19] Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

March 2018. The TA will provide 8 person-months of international consulting services and 22 person-months of national consulting services. The consultants will work on an intermittent basis and will be engaged following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursements under the TA will be made following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. DUE DILIGENCE

A. Economic and Financial

29. A growing body of empirical research demonstrates the strong link between quality public financial management systems and economic growth and poverty reduction.[20] A program impact assessment was prepared to estimate the potential benefits and costs of subprogram 1 using a cost–benefit analysis framework. Once fully implemented, the net benefits are expected to approximate $1.04 billion per annum. The benefits will come from budget efficiencies and savings generated through (i) better government planning and asset management, (ii) a transfer of extra-budgetary accounts into the consolidated budget, (iii) a reduction in the amount and risk from government guarantees, and (iv) efficiencies derived from enhanced project evaluation and monitoring systems.

B. Governance

30. A governance risk assessment was conducted[21] and the government undertook and published its first public expenditure financial accountability assessment in July 2013 (footnote 6). While there have been improvements in the quality of budget operations, the government continues to face challenges in the transparency and accountability of public fund usage. To address these challenges, the government is pursuing a progressive reform agenda. ADB has supported these efforts since 2008 with initiatives to improve planning, strengthen PEFM, and increase legal transparency and accessibility. These efforts are being further expanded and deepened under the planned program (footnote 13). Consistent with commitments to good governance, program implementation will follow ADB's Revised Staff Guidelines for Implementing the Second Governance and Anticorruption Action Plan.[22]

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MOF.

C. Poverty and Social

32. The program will have positive impacts on poverty and social issues. The program will support higher economic growth from better quality infrastructure and services as a result of more efficient state budget expenditure. At the same time, economic growth will become more sustainable by alleviating fiscal pressures and putting in place a more disciplined system of public debt management. Under subprogram 1, the program will be classified *some gender elements* because of its support for introducing gender equity and performance measurement principles into state budget systems. This will allow for a more targeted allocation of public resources to the poor and other vulnerable groups such as women.

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[20] Peterson. S. 2015. *Public Finance and Economic Growth in Developing Countries*. London: Routledge Press.

[21] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

[22] ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II): Assessing and Managing Governance Risks in ADB Operations.* Manila.

D. Safeguards

33. The program does not trigger ADB's safeguard policies and is classified *category C* for the environment, involuntary resettlement, and indigenous peoples.

E. Risks and Mitigating Measures

34. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan (footnote 21). The expected net benefits and impacts of the program are expected to outweigh the risks. At the macroeconomic level, medium risks include public debt constraints which could disrupt investment plans and weak institutional coordination that limits the ability of the authorities to fully implement reforms. Development partners are providing coordinated policy dialogue and support to the government to improve public debt management and rebuild economic buffers. At the microeconomic level, medium risks include reforms that may make it more challenging for provincial governments to raise capital, and insufficient human capacity that might hamper the achievement of targeted reforms, particularly if vested interests resist new accountability and transparency measures. ADB will work with central government ministries and the National Assembly to mitigate these risks.

V. ASSURANCES

35. The government and MOF have assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan document.

VI. RECOMMENDATION

36. I am satisfied that the proposed programmatic approach and policy-based loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

(i) the programmatic approach for the Improving Public Expenditure Quality Program;

(ii) the loan of $82,700,000 to the Socialist Republic of Viet Nam for subprogram 1 of the Improving Public Expenditure Quality Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and

(iii) the loan in various currencies equivalent to SDR85,483,000 to the Socialist Republic of Viet Nam for subprogram 1 of the Improving Public Expenditure Quality Program, from ADB's Special Funds resources (Asian Development Fund), with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

21 November 2016

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with
Provision of infrastructure and service delivery improved (Finance Development Strategy, 2011–2020)[a]

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Public financial management systems enhanced	By 2018: a. Improvement against PEFA assessment ratings for policy-based fiscal strategy and budgeting to an average of B+ by 2018 (2013 baseline: B)[b] b. Improvement against PEFA assessment ratings for budget reliability to an average of C by 2018 (2013 baseline: D+)[c] c. Improvement against PEFA assessment ratings for transparency and management of public assets and liabilities to an average of B+ by 2018 (2013 baseline: B)[d]	a–c. PEFA report	Macroeconomic instability undermines economic growth and hampers reform. Lack of political will to control rising public debt results in sharp unproductive expenditure contraction. Poor development partner coordination reduces effectiveness of development assistance.
Outputs 1. Public financial resources more productively allocated	**Subprogram 1 (2016):** 1a. Revised State Budget Law (2015) approving the introduction of 5-year medium-term fiscal frameworks and introducing gender equality and performance-based budgeting as principles of state budget management approved by the National Assembly (2016 baseline: NA) 1b. Decree on metro and rail asset management allowing the participation of private entities in railway operations, and requiring operators to report real asset values and physical asset status to MOF annually issued by the government (2016 baseline: NA) **Subprogram 2 (2018):** 1c. 5-year medium-term public investment plan published in the annual budget (2016 baseline: NA)	1a–b. MOF reports	Poor coordination between ministries limits reform momentum and impact. Insufficient capacity of provincial governments to adequately implement reform measures.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	1d. 5-year medium-term fiscal framework published in the annual budget (2016 baseline: NA)		
2. Identification and management of fiscal risks strengthened	**Subprogram 1 (2016):** 2a. PAPI assessment rating for transparency reaches 6.00 (2014 baseline: 5.88)	2a. PAPI reports	
	2b. Number and value of all guarantees provided by the central government to social policy banks published publicly (2015 baseline: NA)	2b. Consultant report	
	2c. Risk assessment on potential implications of subnational capital mobilization from commercial banks completed (2016 baseline: NA)	2c. Consultant report and program progress reports	
	Subprogram 2 (2018): 2d. PAPI assessment rating for transparency reaches 6.50 by 2018 (2014 baseline: 5.88)[e]	2d. PAPI annual report	
	2e. Equity contributions of at least 20% for all borrowing entities using state guarantees enforced by the government (2015 baseline: NA)	2e. Annual budget documents and program progress reports	
	2f. Revised circular on the use of state guarantees approved by 2018 (2016 baseline: NA)	2f. Program progress reports	
3. Oversight and monitoring and evaluation of budget implementation improved	**Subprogram 1 (2016):** 3a. Capacity development plan for provincial government implementation of the State Budget Law (2015) finalized (2016 baseline: NA)	3a. National Assembly and consultant reports	
	3b. Training manual for National Assembly CFBA members on State Budget Law (2015) implementation completed (2016 baseline: 0)	3b. National Assembly and consultant reports	
	Subprogram 2 (2018): 3c. Information management	3c. MOF reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	system that support results framework for national and provincial-level budget monitoring adopted (2015 baseline: none) 3d. Public investment evaluation framework with uniform quality standards adopted (2015 baseline: NA)	 3d. MPI reports	
Key Activities with Milestones Not applicable. Refer to the Policy Matrix in Appendix 4.			
Inputs **ADB** Subprogram 1 $200,000,000 (loan): $117.3 million equivalent in ADF lending and $82.7 million in OCR lending Subprogram 2 $200,000,000 (loan): $100 million in regular OCR lending and $100 million in concessional OCR lending Technical assistance: $575,000 (TASF-V)			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank, ADF= Asian Development Fund, CFBA = Committee for Financial and Budgetary Affairs, MOF = Ministry of Finance, MPI = Ministry of Planning and Investment, OCR = ordinary capital resources, PAPI = Public Administration Performance Index, PEFA = public expenditure and financial accountability, TASF = Technical Assistance Special Fund.

Note: Details will be aligned with the policy matrix for the program loan to be prepared during the project preparatory technical assistance. This design and monitoring framework is indicative for the entire cluster of subprograms proposed. Viet Nam's next national-level PEFA is scheduled for completion in 2018.

[a] Decision No. 450/QD-TTg of 18 April 2012 of the Prime Minister approving the Financial Strategy until 2020, and Decision No. 224/QD-BTC of 30 January 2013 of the Ministry of Finance approving the Action Plan of the Financial Sector to Implement the Finance Development Strategy until 2020. Ha Noi.

[b] Under the revised 2016 PEFA scoring methodology, this includes indicators 17, 16, and 18, which (in the order listed) link to indicators 11, 12 and 27 under the 2011 methodology used to calculate Viet Nam's 2013 PEFA scores.

[c] Under the revised 2016 PEFA scoring methodology, this includes indicators 1, 2, and 4, which (in the order listed) link to indicators 1, 2, and 5 under the 2011 methodology used to calculate Viet Nam's 2013 PEFA scores.

[d] Under the revised 2016 PEFA scoring methodology, this includes indicators 5, 6, 9, and 13, which (in the order listed) link to indicators 6, 7, 10, and 17 under the 2011 methodology used to calculate Viet Nam's 2013 PEFA scores.

[e] The Viet Nam PAPI is based on data collected since 2009 through an annual citizens survey covering about 15,000 people in 63 provinces. Rigorous sampling methodological standards are used to ensure proportionality and random selection. The PAPI is funded by the United Nations Development Program.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=50051-001-3

1. Loan Agreement: Ordinary Capital Resources
2. Loan Agreement: Asian Development Fund
3. Sector Assessment (Summary): Public Sector Management (Public Expenditure and Fiscal Management)
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Attached Technical Assistance
7. Country Economic Indicators
8. International Monetary Fund Assessment Letter
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan
11. List of Ineligible Items

Supplementary Documents

12. Macroeconomic and Debt Sustainability Assessment
13. Program Impact Assessment
14. Sector Assessment: Public Sector Management
15. ADB Sector Program and Experience (Public Expenditure and Fiscal Management)
16. ADB Value Addition, Program Synergies, and Reform Sequencing

DEVELOPMENT POLICY LETTER

MINISTRY OF FINANCE
SOCIALIST REPUBLIC OF
VIET NAM

Hanoi, November 4 , 2016

Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Dear Mr. President,

Letter of Development Policy from the Socialist Republic of Viet Nam
Improving Public Expenditure Quality Program

We would like to express our appreciation for the continuing support of the Asian Development Bank (ADB) and your own keen interest in helping Viet Nam improve its public financial management systems for better efficiency of public expenditure, and ultimately for better infrastructure and services delivery for the people of Viet Nam.

As you are well aware, Viet Nam's economic growth has accelerated at the fastest rate since 2009, from 5.8% during 2009-2013 to 6.0% in 2014 and 6.7% in 2015. Private consumption increased to 9.3%, spurred by rising employment and lower inflation. Investment remained robust, supported by healthy foreign direct investment (FDI) inflows and domestic credit expansion. Inflation slowed to an average of 0.6% in 2015, the lowest level since 2001, driven mainly by lower global commodity prices. Lower interest rates, higher consumer and investor confidence led to soaring credit growth of 18%, well exceeding the government's target range of 13%–15%. Government's revenues rose by 13.7% while expenditures grew by 6.6%, narrowing the fiscal deficit to 5.7% in 2015 (as per the second annual estimates) from 6.33% in 2014.

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While the overall economic picture is positive, the implementation of Government's Socio-Economic Development Strategy (SEDS) objectives for the period 2011–2020 has been slower than expected due to, among others, weaknesses in Viet Nam's public expenditure and financial management (PFM) systems, including (i) inappropriate public resource allocation for the maintenance and operations of assets created as a result of investment decisions; (ii) poor identification and management of fiscal risks, leading to unexpected fiscal costs and limiting Government's ability to develop systems to track and mitigate risks; (iii) weak oversight and evaluation of expenditures leading to poor monitoring of implementation and limited accountability for results to the National Assembly and the public, and (iv) inadequate domestic resource mobilization, thus limiting funds available for public expenditures.

The Government of Vietnam has recognized the importance of improving PFM and has included it as strategic priority of its Socio-Economic Development Strategy (SEDP) for the period 2011–2020. In light of the SEDP 2011-2020, the Finance Sector Strategy (2012–2020) was developed by the Ministry of Finance, laying out specific priorities of the Government in increasing the efficiency and effectiveness of public financial management systems. Accordingly, a number of important regulatory reforms have taken place. First, the Law on Procurement (LOP) became effective on 1 July 2014, together with several implementing Decrees. These reforms have continued to progressively align Viet Nam's procurement practices with internationally accepted principles and development partners' policies. Secondly, in December 2014, the National Assembly passed the new Public Investment Law (PIL), which covers the management and use of public capital. The PIL, together with its accompanying decrees, looks to address the gaps in the legal framework and to define the basic principles governing public investment, including transparency, quality and efficiency. The PIL introduces a 5-year Medium-term Investment Plan (MTIP) which should help strengthen financial planning for multi-year projects. Finally, in June 2015, the National Assembly approved the new State Budget Law (SBL), the first revision since 2002. The SBL strengthens budget planning by introducing medium-term expenditure framework; integrates off-budget provisions into the general budget for more fiscal transparency; and improves budget oversight for enhanced fiscal disciplines. The SBL also seeks to address some of the shortcomings of fiscal decentralization by providing more details over revenue and expenditure assignments throughout the four administrative levels.

We understand that continued efforts are required to put these initial regulatory reforms into full implementation to produce intended results. Thus, we request ADB's favorable consideration of the proposed Improving Public Expenditure Quality Program (IPEQ). This proposed program will support the

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Government's PFM regulatory reforms and their enforcement agenda over the period November 2014 to October 2016, targeting more productive allocation of public resources, enhanced budget reliability, and improved oversight and monitoring and evaluation of budget implementation. These will help improve Viet Nam's Public Expenditure and Financial Accountability (PEFA) assessment ratings through strengthening the efficiency of budgeting process with the introduction of medium-term financial framework; monitoring of arrears as settling payments; quality and timeliness of in-year budget reports; monitoring and management of overall fiscal risks.

Specifically, for more productive allocation of public financial resources, control over the allocation and disbursement of public funds has been strengthened with the adoption of the State Budget Law (2015) which introduces medium-term budgeting practices, reduces the amount of public funds expended through unplanned transactions, and assigns increased responsibility to subnational governments. The Public Procurement Law and more detailed guidelines also have been passed, introducing 5-year public investment plans and enhancing public disclosure of capital development expenditure, among others. For enhanced reliability of national budget, the Government has strengthened existing regulations relating to government guarantees including guaranteed bonds, and official development assistance management to reduce fiscal risks and improved efficiency by implementing a more comprehensive risk-based public debt and ODA management system that encourages more disciplined and economical capital mobilization, including at the sub-national level. Lastly, the Audit Law and Resolution 387 on legislative oversight of budget have been revised and Decree 84 on public investment monitoring and evaluation has been issued to enhance budget oversight and the provision of reliable performance monitoring reports to reduce budget waste and prevent corruption in the use of public financial assets.

To ensure the momentum for reform is not diminished by these recent achievements, the Government is committed to an ongoing medium-term policy reform program to extend the Government's dialogue with ADB beyond IPEQ Program. The Government and ADB will jointly engage in an ongoing policy dialogue to better refine the reform agenda for more effective public financial management systems. The Government also stands committed to take necessary steps during and beyond the program period to support on-going monitoring of progress through a review of the relevant outputs and outcome indicators.

To support these reforms, the Government has requested a policy based program loan of $200 million for Subprogram 1. The loan amount is based on the financing needs of the Government, the strengths of the policy package, and its development impacts.

In conclusion, we acknowledge and appreciate ADB's support of our initiatives to introduce more prudent, efficient and effective public financial management systems in Viet Nam. We request for ADB's consideration of the proposed $200 million Subprogram 1 of the IPEQ Program. We reaffirm our commitment to follow up the above-mentioned reforms under the ensuing post program partnership framework.

Once again, thank you for your support and we look forward to ADB's Board approval of the IPEQ Program at an early date.

Sincerely yours,

Tran Xuan Ha
Vice Minister of Ministry of Finance

C/c: Mr Eric Sidgwick, Country Director, Viet Nam Resident Mission
Mr Arron Batten, Country Economist, Viet Nam Resident Mission

POLICY MATRIX

Improving Public Expenditure Quality Program (IPEQ)

	Subprogram 1 Accomplishments November 2014 – September 2016 (Policy triggers are in bold)	Actions for Subprogram 2 October 2016 – July 2018 (Policy triggers are in bold)	Medium-term framework and expected results (2016-2020)
Output 1: More productive allocation of public financial resources			
1.1. Improved budgeting systems ADB TA, *Supporting Public Financial Management* ADB TA, *Improving Public Expenditure Quality*	*The Government increased budget effectiveness by introducing medium-term budgeting practices and reducing off-budget fund allocations. Accomplishments include:* 1. **The budget planning system was strengthened by introducing 5-year medium-term fiscal frameworks, reducing off-budget funds** (estimated at $4.0 billion, or 8.9% of total state budget expenditure, in 2013)**, and adopting principles for gender equality and performance-based budgeting.** 2. **The government introduced a 5-year public investment plan that sets out its short and medium-term investment program** (estimated at 21% of state budget spending in 2016) **and issued detailed guidance to support ongoing implementation.**	*The Government implements the medium-term budget framework. Accomplishments include:* 1. **The Government implements its first 5-year medium-term fiscal framework to guide the preparation of the annual state budget and issues principles for performance-based budget management.** 2. **The Government publishes its first 5-year public investment plan to ensure capital expenditure is fully aligned with the priorities of SEDP, 2016–2020.** 3. The Government continues to limit unplanned expenditure by reducing the maximum size of the state budget contingency fund from 5% of state budget to 4% (estimated at $540 million in 2016).	• The government continues to improve the effectiveness and efficiency of state budget management. • The government institutionalizes medium term expenditure and debt planning systems. • The government continues to reduce unplanned expenditure.

	Subprogram 1 Accomplishments November 2014 – September 2016 (Policy triggers are in bold)	Actions for Subprogram 2 October 2016 – July 2018 (Policy triggers are in bold)	Medium-term framework and expected results (2016-2020)
1.2. Better infrastructure asset management ADB TA, *Supporting Public Financial Management* ADB TA, *Improving Public Expenditure Quality*	*The Government improved its infrastructure asset management by introducing competition, improving management information systems and increasing transparency. Accomplishments include:* 3. **The government enhanced its management of rail assets by allowing the participation of private entities in railway operations, and requiring asset managers to report their financial results to line ministries on an annual basis.** 4. **The government improved the management of road assets by developing a road asset database enabling it to better monitor the physical condition of road assets.** 5. The government increased road maintenance efficiency by issuing national standards for calculating road asset maintenance needs and road asset depreciation.	*The Government implements its infrastructure asset management and achieves cost savings. Accomplishments include:* 4. The government continues to improve management of rail assets by developing a rail asset database to integrate asset and operational data, and track the physical condition of rail assets under state management. 5. **The government increases the quantity (length) of roads captured in the central government's road asset management database, upgrades data quality and provides relevant government agencies with full access to the database.** 6. **The government increases the contribution of road user fees to cover the recurrent operational costs of roads under the central government management.**	• The government establishes a national life-cycle infrastructure asset management system.
Output 2: Identification and management of fiscal risks strengthened			
2.1. Lower fiscal risks	*The Government reduced fiscal risks by implementing a more disciplined and risk-*	*The Government continues to reduce fiscal risks by reducing its stock of*	

	Subprogram 1 Accomplishments November 2014 – September 2016 (Policy triggers are in bold)	Actions for Subprogram 2 October 2016 – July 2018 (Policy triggers are in bold)	Medium-term framework and expected results (2016-2020)
ADB TA, *Supporting Project Financial Management Decentralization* ADB TA, *Supporting Public Financial Management* ADB TA, *Financial Sector Deepening Program* ADB TA, *Improving Public Expenditure Quality*	*based public debt and ODA management system. Accomplishments include:* 6. **To reduce fiscal risks, the government limits the coverage of government guarantees to 80% of the total project investment amount, and holds parent companies responsible for guaranteed debts in the event of subsidiary default.** (Total government guaranteed debt amounted to $20.7 billion and represented 11.1% of GDP at end-2015) 7. **The government improved transparency, and the accountability of state policy banks by requiring them to publicly disclose capital mobilized through government guaranteed bonds, and to disclose their financial status when issuing guaranteed bonds.** (Total guarantees for state policy bank bonds estimated at $7.2 billion and represent 3.8% of GDP at end-2015) 8. **The government increased the fiscal autonomy and fiscal accountability of provincial governments by allowing them to run fiscal deficits subject to approved debt ceilings and by holding them more**	*government guarantees and increasing transparency. Accomplishments include:* 7. **To manage fiscal risks, the government reduces the total stock of government guarantees, adopts a methodology to charge risk-based user fees for new guarantee issuances, and publically discloses information on government guarantees in the annual report on public debt to the National Assembly.** 8. **State policy banks publish all required information disclosures when issuing guaranteed bonds.** 9. **Provincial Governments adhere to their approved onlending and debt ceiling schedules.**	• The government establishes a more disciplined and transparent public expenditure and debt management system. • The government continues to reduce fiscal risks by reducing reliance of state government guarantees.

	Subprogram 1 Accomplishments November 2014 – September 2016 (Policy triggers are in bold)	Actions for Subprogram 2 October 2016 – July 2018 (Policy triggers are in bold)	Medium-term framework and expected results (2016-2020)
	responsible for repayment of ODA and less concessional loans. 9. To reduce the reliance of provincial governments on the state budget, the government identified fiscal risks and controls necessary for provincial governments to borrow directly from commercial banks. (Provincial governments absorbed 50.1% of state budget capital expenditure in 2015) 10. The government reduced unplanned expenditure by requiring national agencies and provinces to fully secure counter-part funding commitments through the budget before mobilizing new loans.		
Output 3: Oversight and monitoring and evaluation of budget implementation improved			
3.1. More accountable use of public funds ADB TA, *Support for Implementation of Results-Based SEDP*	*The Government enacted measures to reduce budget waste and prevent corruption in the use of public funds. Accomplishments include:* 11. **The government required state audits of all enterprises in which the state holds more than 50% of charter capital, and the subsequent public disclosure of state audit reports, except those which contain**	*The Government continues to enact measures to reduce budget waste and prevent corruption in the use of public financial assets. Accomplishments include:* 10. **The State Audit of Viet Nam publishes annual reports on consolidated audit results for 2015 and 2016, and state audits for enterprises completed for 2015 and 2016.**	• The government introduces a comprehensive result-based monitoring and evaluation system for public investment.

	Subprogram 1 Accomplishments November 2014 – September 2016 (Policy triggers are in bold)	Actions for Subprogram 2 October 2016 – July 2018 (Policy triggers are in bold)	Medium-term framework and expected results (2016-2020)
ADB TA, *Supporting Public Financial Management* ADB TA, *Improving Public Expenditure Quality* ADB TA, *Supporting Public Financial Management*	**classified information.** 12. The government required all budget entities to prepare annual supervision and evaluation reports supported by compulsory funding for monitoring and evaluation of all public investment project submissions. 13. **The National Assembly strengthened its budget oversight by increasing budget screening periods** (10 days) **and requiring National Assembly approval for the allocation of unplanned revenues.** 14. The government strengthened control of investment projects by adopting a standard reporting format for supervision and assessment reports of public investment projects.	11. The National Assembly further strengthens budget oversight by issuing a Manual on Legislative Oversight of State Budget to all National Assembly members. 12. **The government enhances monitoring and evaluation reports, covering a majority of budget capital expenditure.** 13. **The National Assembly Committee for Financial and Budgetary Affairs reviews for approval all supplementary appropriations beginning in 2017.** 14. The government introduces a set of minimum quality standards for all supervision and evaluation reports.	• The National Assembly strengthens its role in oversight of public expenditure. • The government enhances the accountability of budget users.

ADB = Asian Development Bank, GDP = gross domestic product, ODA = official development assistance, SAV = State Audit Office of Viet Nam, SEDP = Socio-Economic Development Plan, TA = technical assistance.