

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
National Risks¹	High	
1) Macroeconomic		ADB will conduct macroeconomic policy dialogue with core agencies in coordination with other development partners and will support ongoing efforts to reform SOEs and the finance sector through program loans and technical assistance. ADB will assess and monitor the impact of structural reforms on budget implementation and, if necessary, shift focus to budgetary support and public sector reform. Annual debt sustainability assessments will be conducted, paying close attention to contingent liabilities, and ADB will provide technical assistance on debt management, including on lending policy.
2) Public financial management		ADB will provide technical assistance to improve monitoring and evaluation systems. ADB will also use the proposed joint development partner budget support program as a platform for policy dialogue with the government on PFM reform issues. ADB will participate actively in the PFM working group of development partners.
3) Procurement		ADB will push for the inclusion of a broader definition of conflict of interest, a proper complaint mechanism, and stricter language on disciplining malpractice in the new Public Procurement Law. ADB will also enhance the enforcement of ADB guidelines on conflicts of interest and will explore procurement training for government agencies. The OSFMD will facilitate information workshops for ADB staff on split packaging and its impacts. The resident mission will review all procurement plans early in project design.
4) Corruption		ADB will engage the government through anti-corruption dialogue and will evaluate support for the Construction Sector Transparency Initiative to support anti-corruption efforts. ADB will assess the impact of ongoing land law reforms on ADB projects, particularly those related to resettlement plans and safeguard mechanisms.
Contextual Risks		
The government fails to adopt and implement a sound macroeconomic management framework.	Moderate	Risk mitigants are discussed above in the National Risks section under the Macroeconomic sub-heading. Nevertheless, effective mitigation will not be available until the SBV receives functional independence and can implement monetary policy through more effective policy levers such as an interest rate corridor mechanism. The FSDP includes measures designed to establish the groundwork for such a reform. Output 1 will provide a continuing focus on the development of a short-term money market, including initiatives to introduce a more efficient and deep repo market.

¹ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

Political will for financial sector reforms declines over time.	High	Through SEDS 2011–2020 the government has shown a strong commitment to a transparent reform agenda. While slow to materialize, political will to implement financial sector reforms is actually beginning to increase. The government has recently concluded its first FSAP, which identified a number of priority reforms, including SOE reform, bank recapitalization, and the development of the financial sector as an alternative to bank lending. The National Financial Supervisory Commission, which was created by the Prime Minister, provides a shadow consolidated oversight function which supports the Prime Minister’s semi-annual performance evaluations of both the SBV and MOF. In addition, the Prime Minister has issued a number of decisions to initiate overdue reforms, including the adoption of IAS (18 March 2013) and the reform and further development of the contractual savings sector (18 September 2012).
Government does not address SOE reform and bank re-capitalization in a timely manner, resulting in a further loss of investor confidence.	High	<p>ADB is using an MFF to support the corporate, operational, and financial restructuring of selected individual SOEs on a pilot basis.² The MFF was approved with a view to developing a general approach piloted on select SOEs other than state-owned commercial banks to guide the reform and restructuring of the remaining large SOEs. The proposed model will go beyond mere equitization to comprehensive transformation. The first tranche of the MFF, or Periodic Financing Request 1, supported the restructuring and reform of two selected SOEs based on their readiness to undertake proper corporate, financial, and operational restructuring. The MFF is now proposed to be extended to other qualified SOEs in coordination with the MOF under the project’s second tranche, or Periodic Financing Request 2.³ A CDTA approved in June 2013 aims to help the MOF in strengthening the institutional process and the policy framework to sustain SOE reforms, and help it in preparing candidate SOEs to implement their individual restructuring plans.⁴</p> <p>In addition, the government has established the VAMC under Decision No. 1459/QĐ-NHNN, dated 27 June 2013.⁵ The VMAC’s primary mission is to quickly resolve NPLs, mitigate risks for credit institutions and enterprises, and promote credit growth. It is anticipated that bank recapitalization can proceed after the VMAC provides a more accurate accounting of NPLs and associated losses.</p>

² ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed MFF to the Socialist Republic of Viet Nam for the State-Owned Enterprise Reform and Corporate Governance Facilitation Program*. Manila. The MFF, with a total allocation of \$630 million (\$600 million from ordinary capital resources and \$30 million from the Asian Development Fund) has been structured into a three-tranche program. The first tranche for \$130 million (\$120 million from ordinary capital resources and \$10 million from the Asian Development Fund) became effective in 2011 and is being implemented. The ordinary capital resources loan is meant to support the financial restructuring of the selected SOEs, while the Asian Development Fund loan is to help them implement the corporate and organizational restructuring, including strengthening corporate governance standards.

³ ADB. 2011. *Technical Assistance to the Socialist Republic of Viet Nam for Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program*. Manila.

⁴ ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam: Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program*. Manila.

⁵ The VAMC operates in compliance with the Enterprise Law and Decree No.53/2013/ND – CP, dated 18 May 2013.

Coordination between the SBV and MOF is not adequate, resulting in conflicting application of policy and disruptions in the bond market.	Moderate	The FSDP includes a policy action designed to increase the transparency of the SBV's monetary interventions. In addition, the FSDP includes specific provisions through which the SBV and MOF coordinate on the issuance of short-term debt and efforts to develop a short-term yield curve.
Adequate funding is not provided to support sustained capacity development efforts.	Moderate	<p>CIDA is currently providing extensive capacity development to the banking supervisory arm of the SBV. The Banking Regulation and Supervision Support Project is valued up to Can\$14 million and will run for 5 years from 2013 to 2018. The project will strengthen the banking regulatory and supervisory framework in Viet Nam in accordance with international standards. In particular, the institutional and technical capacity of the BSA of the SBV, which has the mandate to regulate, license, and supervise banks in Vietnam, will be strengthened. The project also supports selected SBV departments that play a key role in supporting the BSA in fulfilling its mandate.</p> <p>To complement this effort, ADB has proposed to provide a project loan of similar size and scope to strengthen the capacity of the SBV in key areas not covered by the CIDA project. It is anticipated that this project loan will be part of a larger, multi-donor effort to address the needs of the SBV as identified in the recently completed comprehensive skills gap assessment and linked medium term-development plan.⁶ The government has agreed, in principle, with this proposal.</p>
Technical money market risks.	Moderate	In collaboration with the IMF, ADB will provide technical assistance to enhance SBV's capacity to implement monetary policy through the money market. ADB will also provide technical assistance to support the introduction of repurchase agreements, including assistance to revise laws and regulations if necessary.

Overall Moderate to High

ADB = Asian Development Bank, BSA = Banking Supervisory Agency, CIDA = Canadian International Development Agency, CDTA = capacity development technical assistance, FSAP = Financial Sector Assessment Program, FSDP = Financial Sector Deepening Program, IAS = International Accounting Standards, IMF = International Monetary Fund, MFF = multi-tranche financing facility, MOF = Ministry of Finance, NPL = nonperforming loan, OSFMD = Operations Services and Financial Management Department, PFM = public financial management, SBV = State Bank of Viet Nam, SEDS = Socio-Economic Development Strategy, SOE = state-owned enterprise, UNDP = United Nations Development Programme, VAMC = Viet Nam Asset Management Company.
Source: ADB.

⁶ Ernst and Young. 2013. *Skill Gap Assessment Report, Financial Sector Modernization and Information Management System Project*. Hanoi.