

# **Ex-Post Project Evaluation 2014: Package III-5 (Vietnam)**

**March 2016**

**JAPAN INTERNATIONAL COOPERATION AGENCY**

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**ICNET CO.LTD.**

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Ex-Post Evaluation of Technical Cooperation Project  
Project for Institutional Capacity Development for Infrastructure Finance in Vietnam

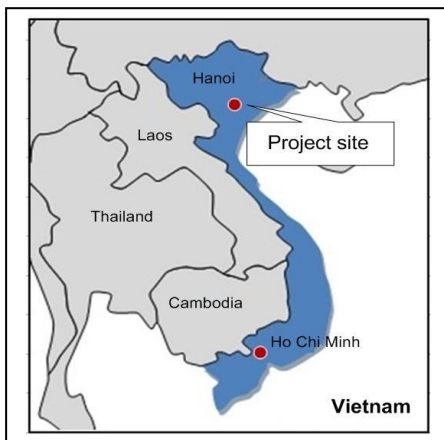
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## **0. Summary**

The purpose of this project is to enhance the investment lending operations of the Vietnam Development Bank (VDB) as a financial institution for development, to ensure that VDB functions in a self-regulated and effective manner. It was expected that doing so would enhance the sustainability of VDB's investment lending in accordance with its medium-term strategies and socio-economic development goals. The policy position of VDB basically remained unchanged from the start through the end of this project, and its consistency with development policies has been confirmed. By contrast, based on analysis of readiness of VDB, it would be hard to say that its planning, including target setting, was appropriate, and relevance is evaluated to be fair. Results are apparent to some degree on three of the four Outputs identified for this project. However, the customer information system (CIS) required for the most important of these Outputs, "improving credit risk management capacity", was not completed in a desirable form and thus the Project Purpose has been achieved to only a limited degree. As a result, it is hard to consider that the project has contributed to the development impacts identified in the indicators of the Overall Goal, and it has been determined that the Overall Goal has not been achieved and the effectiveness and impact of the project are fair. While the project began with the expectation that the information for the customer information database essential to development of the CIS would be ready, the information available in the database as of the project commencement was limited. Since VDB had to spent time preparing the database prior to development of the CIS, it resulted the project period and project costs to exceed the plan, therefore, efficiency of the project is fair. With regard to sustainability of the project, there are no problems in policy systems, institution, or technical aspect. While there appears to be room for improvement in with regard to finances, fund mobilization through VDB bonds shows steady growth. Several improvements have been confirmed including a system in place that enables consultation with the Ministry of Finance (MOF) on adjustment of interest rates for lending or compensation for losses from differences in rates, and it has been determined that there are no problems.

From the above, the project is evaluated to be partially satisfactory.

## 1. Project Description



Project Location



Vietnam Development Bank

### 1.1 Background

Since the adoption of the Doi Moi economic reform policies, Vietnam has achieved high economic growth rates. However, to maintain this growth amid the trend toward international integration through the Association of Southeast Asian Nations (ASEAN) and other arrangements, the country needed further investment in the areas of infrastructure and industrial development. Based on the Prime Minister Decision No. 108 (2006), the VDB was established in July 2006 as an organization to provide development investment and export credit. This was done by reorganizing the Development Assistance Fund, which until then had handled tasks including medium- to long-term financing, guarantee of bonds, interest subsidy, and refinancing of Official Development Assistance (ODA) and export development loans for projects with a highly public nature. Under the Prime Minister Decision No. 112 (2006), generally known as the “Banking Sector Roadmap,” which identified general reform policies for the banking sector, the functions of VDB were differentiated clearly from those of commercial banks, as it was assigned the role of a guidance policy financial institution responsible for development investment and finance, expected to satisfy booming demand for investment in the areas of infrastructure and industrial development and thus to contribute to sustained high rates of economic growth in Vietnam.

VDB inherited about 2,500 employees, 61 branches in all of Vietnam’s provinces, and a balance of approximately USD six billion in loans from the Development Assistance Fund. Its operations is deemed to have a considerable impact on the future of Vietnam’s economy, the course of action for VDB’s management was, to some degree, specified through Government Ordinance No. 151 (2006) and other means. However, the preparation of detailed decrees toward self-regulated management, relations with related institutions such as the MOF and State Bank of Vietnam (SBV), establishment of methods for credit risk management and fund mobilization, development of a structure for system operation, and development of the human resources responsible for each of these areas remained

pressing concerns for the purposes of realizing this mission. After its establishment, VDB prepared a medium- and long-term strategic plan<sup>1</sup> and advanced efforts toward these objectives. It was against this background that the Vietnamese government requested technical cooperation from the Japanese government on enhancement of the functions of VDB.

1.2 Project Outline

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|--|--|--|
| Overall Goal   | Sustainability of investment lending of VDB is strengthened in accordance with VDB’s strategic plan and socio-economic development objectives.   |  |
| Project Purpose  | VDB’s autonomous and effective operations of investment lending as a development bank are strengthened.  |  |
| Outputs  | Output 1   | Framework of VDB’s governance is established with its clear mission.                 |
|  | Output 2   | Credit risk management is improved.  |
|  | Output 3   | Knowledge of fund mobilization and Asset and Liability Management (ALM) is enhanced. |
|  | Output 4   | Human resource development system is enhanced.                                       |
| Total cost (Japanese Side)                                   | 280 million yen  |  |
| Period of Cooperation  | September 2008–August 2011<br>November 2011–March 2012 (extended period)   |  |
| Implementing Agency  | Vietnam Development Bank   |  |
| Other Relevant Agencies / Organizations in recipient country | Ministry of Finance, State Bank of Vietnam, Ministry of Planning and Investment  |  |
| Supporting Agency in Japan                                   | Development Bank of Japan  |  |
| Related Projects   | JICA: Poverty Reduction Support Credit (Phases 1 to 10, 2001–2011)<br>Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ): dispatch of long-term experts (Human Resource Management, Banking Management) (2009–2011) |  |

1.3 Outline of the Terminal Evaluation

The results of the Terminal Evaluation conducted in June 2011 are outlined below.

1.3.1 Achievement Status of Project Purpose at the time of the Terminal Evaluation

With the exception of the credit-risk quantification function initially planned, the project has been evaluated to be in the process of generating the planned Outputs, and this can be expected to lead to achieving the Project Purpose in the future.

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<sup>1</sup> Approved in 2013

### 1.3.2 Achievement Status of Overall Goal at the time of the Terminal Evaluation (Including Other Impacts)

The project was in the process of developing the internal credit-rating system, and it was anticipated that it would be a long time until the project would demonstrate results. Thus it was determined that it was still too early to evaluate it. However, by the time of the Terminal Evaluation, the project had made progress toward achievement of the Overall Goal in areas including the following: (i) actions by the government on reforming VDB policy framework; (ii) actions by VDB on institutional decisions related to the credit-risk management policy; and, (iii) heightened awareness among VDB employees and consistent demands for reform by the government of the policy framework, with this heightened awareness serving as an underlying factor. Accordingly, the project was expected to achieve its Overall Goal.

### 1.3.3 Recommendations at the time of the Terminal Evaluation

The following five recommendations were made at the time of the Terminal Evaluation. The status with regard to each recommendation at the time of ex-post evaluation described below.

| Recommendation at Time of Terminal Evaluation   | Status at Time of Ex-post Evaluation   |
|---|--|
| <p><b>(1) Institutional decisions related to the credit-risk management policy:</b><br/>The internal credit-rating system will be completed soon and delivered to VDB. To put the system to effective use, it is important for VDB to establish clear policies on credit risk management, including the positioning of the system, to ensure it is well understood within the bank, and to ensure thorough compliance with the system. It is recommended that VDB make firm institutional decisions related to the credit-risk management policy and focus on implementing these as much as possible.</p> | <p>At the time of the ex-post evaluation, it was confirmed that efforts had been made toward enhancement of internal monitoring within VDB, including enhancement of the structure for checking information entered to the internal credit-rating system. In addition, efforts were being made to optimize internal controls, including switching to control by the head office and a more centralized decision-making structure, in response to changes in Vietnam's economic and financial conditions.</p> |
| <p><b>(2) Collection and storage of customer information:</b><br/>In the process of implementing this project, it was reported that some problems had been encountered in basic information management. The problems were caused by deficiencies and inconsistencies in data in the core banking system, and organizational and business management weaknesses were identified. It is recommended that VDB takes urgent measures to correct these weaknesses.</p>   | <p>At the time of the ex-post evaluation, it was apparent that although the content of the database covers the information necessary for debtor classification, there is room for improvement with regard to details of nonfinancial information and data-entry formats.</p>   |
| <p><b>(3) Upgrading of the internal credit-rating system:</b><br/>The internal credit-rating system will be delivered to VDB in a state in which not all functions have been developed. VDB is expected to complete the system by developing a credit-risk quantification function through its own effort. It is recommended that VDB devotes sufficient efforts to completing development of the system and putting it to effective use, in accordance with the roadmap prepared by this project.</p>  | <p>The internal credit-rating system function that was incomplete at the time of completion of the project (for handling of nonfinancial information) remained to be completed at the time of the ex-post evaluation. It is expected to be completed in the process of development of version two of the CIS.</p>  |

|   |   |
|---|---|
| <p><b>(4) Aid coordination with donors:</b><br/>The project strived to establish cooperative relationships with donors who provide assistance to VDB. To ensure the sustainability of this project after the completion of technical cooperation, it is expected that support from these donors will assist in organizational strengthening of VDB and generate positive synergy effects for this project. It is recommended that appropriate cooperative relationships be maintained by the evaluation team.</p>   | <p>Donors have not provided any assistance to VDB since completion of the project. In contrast, in development of CIS version 2, there are plans to incorporate an early warning system with assistance from Germany into the framework created by JICA, and the results of assistance from individual donors can be described as being put to use in a coordinated manner.</p> |
| <p><b>(5) Maintenance of the internal credit-rating system after delivery:</b><br/>In the lead-up to completion of the project, VDB was concerned as to whether it could put the internal credit-rating system into stable operation after delivery. The start and establishment of operation of a newly developed system often requires corrections and updates due to various circumstances. Both the developer and the user need to strive to resolve such challenges. It is recommended that thorough preparations be made from an early stage to ensure that, were any problem to arise, operation of the system would not be brought to a stop.</p> | <p>After adoption of the internal credit-rating system, entry to the system was suspended because the adjustment items for financial information and nonfinancial information did not match the actual circumstances. To revise these items, VDB itself has begun developing version 2 of the system.</p>   |

## 2. Outline of the Evaluation Study

### 2.1 External Evaluators

Tsuyoshi Ito, IC Net Limited

Miki Mukogawa, KPMG AZSA LLC

### 2.2 Duration of Evaluation Study

In this ex-post evaluation, the study was conducted as follows:

Duration of the Study: February 2015–March 2016

Duration of the Field Study: June 7–20, 2015; August 9–15, 2015

### 2.3 Constraints during the Evaluation Study

The financial conditions of the counterpart, VDB, were verified for evaluating the financial resources necessary to sustain the results generated by this project. However, because VDB does not release any financial information other than those shown in its annual reports, the External Evaluators were unable to obtain details except some information. As a result, evaluation on financial information is based on limited information.

## 3. Results of the Evaluation (Overall Rating: C<sup>2</sup>)

### 3.1 Relevance (Rating: ②<sup>3</sup>)

#### 3.1.1 Relevance to the Development Policy of Vietnam

At the time of the ex-ante evaluation for this project, the Socio-economic Development Plan

<sup>2</sup> A: Highly satisfactory; B: Satisfactory; C: Partially satisfactory; D: Unsatisfactory

<sup>3</sup> ③: High; ②: Fair; ①: Low

(2006–2010), Vietnam’s national development plan, had called for promotion of investment in the infrastructure field as well as that of industrial development. Under the Prime Minister Decision No. 112 (2006), generally known as the Banking Sector Roadmap, VDB was expected to contribute to sustained high rates of economic growth in Vietnam by satisfying demand for investment in the areas of infrastructure and industrial development as a policy financial institution responsible for development investment and finance. Because lending by banks in Vietnam is centered on short-term loans, VDB was expected to lend mainly to long-term projects difficult for other commercial banks to service<sup>4</sup>.

During the project implementation period, Decree No. 106/2008 and then Decree No. 75/2011 were enacted, requiring VDB to make efforts as commercial financial institutions toward the same kind of financial discipline. Strengthening of credit risk management capacity that the project attempted to implement would be preconditions for establishing such financial discipline. The Socio-economic Development Plan (2011–2015) followed the basic policy of the previous five-year plan, and it also applied the same ratios of investment to GDP. The amount of investment required for domestic infrastructure in Vietnam is massive, remaining of a scale that would be difficult for commercial finance to handle, so that government investment is essential. Under such circumstances, VDB plays a core role, and it is clear that investment lending by VDB is highly important.

As described above, the policy position of VDB basically remained unchanged from the start of this project through its completion, and this project was consistent with development policies at both points in time.

### 3.1.2 Relevance to the Development Needs of Vietnam

The following were pressing issues at the time of the preparatory study: preparation of detailed decrees toward self-regulated management of VDB; building relations with related institutions such as the MOF and SBV; establishment of methods for credit risk management and fund mobilization; development of a structure for system operation; and development of the human resources responsible for each of these areas. At the time, VDB had only recently been formed through the reorganization of the Development Assistance Fund and the organization was comparatively new. For this reason, its functions as a policy financial institution were still in the development stage, and its employees still lacked sufficient capabilities. Thus it was considered necessary to improve its risk management and credit appraisal capabilities.

As confirmed at the time of the ex-post evaluation, each of the four Outputs of this project was priority to VDB throughout the project period. In addition, VDB’s medium-term strategy (through 2020) approved in 2013 identifies priority areas including standardization of business processes, risk management, and establishment of systems for internal rating and loan classification. As such, it is determined that these priorities have been consistent with the development needs.

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<sup>4</sup> While VDB share in Total Economy’s Investment accounted for 13–14% of the national budget in 2005–2006, in 2007 its rose rapidly to 25%, as it occupied an important position as a government financial institution.



### 3.1.3 Relevance to Japan's ODA Policy

At the time of the ex-ante evaluation, “promoting growth” was included as one of the three pillars of Japan's Country Assistance Program for Vietnam (2004), and “improving the investment environment” and “developing economic infrastructure” were identified as priorities. Promotion of investment in public works projects related to economic infrastructure through enhancing the lending functions of VDB as a development bank, an objective of this project, is in conformity with these priority areas. This is recognized to be consistent with Japan's ODA policies to Vietnam at the time of the preparatory study.

There was no change from the ex-ante evaluation through completion of the project in the policy positioning of VDB as an institution responsible for government lending for public investment. Also, developing an internal credit-rating system to serve as the foundation of VDB's lending operations and enhancement of risk management in connection to it were priority issue at the start of the project. In VDB's medium-term strategy approved in 2013, enhancing VDB's appraisal and risk management capacities and improving its financial autonomy were identified as priorities at the time of completion of the project; hence maintaining the consistency with development needs. Furthermore, the Country Assistance Program for Vietnam at the time of the ex-ante evaluation called for the development of an investment environment for promoting Vietnam's economic growth and economic infrastructure improvements, and these too are consistent with the purposes of this project. Thus it has been determined that there are no problems with the composition of the project.

### 3.1.4 Propriety of Project Plans, Approaches, etc.

When it was checked at the time of the ex-post evaluation whether study and analysis had been conducted during project planning with regard to matters such as the fact that VDB lacked experience in the banking business because its predecessor had been the Development Assistance Fund and the fact that customer information database essential to the actual development of an internal credit-rating system had not been developed, traces of such study or analysis were not found. Also, records of sufficient study of VDB's readiness could not be confirmed from interviews with parties involved at the time either. As a result, as described in “3.2 Effectiveness and Impact” below, achievement on Output 2, a core component of the project, is limited, and it would appear that the Project Purpose also has not been achieved. For these reasons, it is conceivable that the project plan was not formulated properly.

From the above considerations, while the implementation of this project sufficiently conforms to Vietnam's development policy and development needs as well as Japan's ODA policy, it would be hard to say that the project plan was appropriate, and for these reasons the project's relevance is evaluated to be fair.

It is inconceivable that any staff member would have used skills and knowledge obtained through training on credit risk management and credit activities based on internal ratings at the time of completion of the project. Because full operation of the CIS had not yet begun at the time of

completion of the project, the stage had not yet been reached for referring to CIS data for credit activities.

### 3.2 Effectiveness and Impact<sup>5</sup> (Rating: ②)

#### 3.2.1 Effectiveness

##### 3.2.1.1 Project Output

Four Outputs were specified as those necessary to achieve the purpose of the project. Each of these Outputs, and its achievement, is described below.

##### (1) Output 1

Output 1 is “The framework of VDB’s governance is strengthened with its clear missions.” Indicators used to verify its achievement included (i) outcome of policy dialogue with supervising ministries, (ii) Annual Business Plan for Investment Credit is in line with the Strategic Plans of VDB, (iii) Status of Legal Document (Preparation/Approval) and (iv) Relevance of Legal Documents,

##### (i) Outcome of Policy Dialogue with the Supervising Ministries

Preparatory study of the project stated, “Channels for dialogue will be secured with the supervising government agencies of the Ministry of Planning and Investment (MPI), the MOF, and SBV. A systemic platform (including participating sections from each agency, levels, and frequency of meetings) will be secured for discussion of policy issues related to VDB’s business, with these government agencies playing core roles, and a shared understanding will be achieved on methods of participating in this platform as part of the project. Also, it is expected that the agencies participating in the Joint Coordination Committee (JCC) will be VDB, the MOF, the MPI, and the SBV. Efforts will be made to incorporate these agencies, while explaining the functions and roles of the JCC as the top decision-making agency for the project.” However, from interviews with VDB at the time of the ex-post evaluation, it would appear that no such platform had been established from the time of completion of the project till the ex-post evaluation.

By contrast, throughout the period of the project, the project management unit met regularly for discussion within VDB. These meetings also included discussion of a policy framework befitting the donors, the MOF, and VDB. Furthermore, after completion of the project VDB’s medium-term strategy was approved, and based on this a consensus was reached on matters such as adjustments to loan interest rates. Thus, in fact, coordination does take place among stakeholders.

##### (ii) Annual Business Plan for Investment Credit is in line with the Strategic Plans of VDB

VDB’s medium-term strategy was approved in February 2013 after the completion of the project. Accordingly, annual plans based on this strategy during the project period were not prepared, and at the time there was no fundamental document serving as a basis for formulating annual plans.

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<sup>5</sup> Impact also is considered in judging effectiveness for rating purposes.

According to interviews with the MOF at the time of the ex-post evaluation, approval of the medium-term strategy was delayed because it took time to complete reconsideration of matters such as the financial system and the policy positioning of VDB as a policy financial institution, necessitated by changes in external factors such as financial instability in Vietnam. The approved medium-term plan explicitly calls for enhancing the independence of VDB and calls for development and enhancement of business processes such as appraisal, internal rating, and internal controls.

(iii) Status of Legal Document (Preparation/Approval) and (iv) Relevance of Legal Documents

Although the related laws and regulations necessary to the establishment of VDB's policy framework have been prepared for the most part, it is a fact that, on some points, SBV Decision No. 493 (2005) on internal standards for credit evaluation is not compatible with a form of business based on VDB's policy framework<sup>6</sup>, and VDB is operating loan classification in accordance with the internal rules. In the project, the following recommendations were made in order to reflect basic concepts from the perspective of realizing sustainable development finance by VDB in amendment of decrees towards revising the legal system related to VDB lending through consultation with the MOF.

- Clarification of the roles and operations of VDB in consideration of the lengthening of restrictions on long-term fund-raising
- Revising the method of selecting projects for the list of projects eligible for investment finance, and regular meetings with policy authorities
- Autonomous loan decision-making and clarification of responsibilities for companies and projects who lack repayment capacity
- Implementation of a supervisory structure in accordance with the goals of the draft bulletin accompanying SBV Decision 493 regarding VDB's credit risk management
- Improvement of the autonomy of VDB with regard to various conditions of lending and fund mobilization
- Enhancement of financial sustainability (e.g., principle of balanced inflows and outflows, principle of reliability of repayment)
- Confirmation by the government of the basic principles of a policy financial institution (e.g., nonprofit, supplemental finance, self-regulation of management)
- Consideration for the establishment and enactment of a law governing VDB, as a long-term issue

According to interview with the project's expert at the time of the ex-post evaluation, a restriction on large loans stating "the amount of loans to an investor (borrower) must not exceed 15% of VDB's capital" was added to Decree No. 75 concerning investment finance and export finance. This is understood to reflect the recommendations made by the project.

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<sup>6</sup> As with other financial institutions, VDB is required to comply with the 2005 SBV Decision 493 regarding internal standards for credit evaluation. However, because this decision was made with an eye toward ordinary financial institutions that mainly issue short-term loans, in some cases it is not compatible with the business of VDB, which handles medium- to long-term investment finance including that for policy-related projects.

As seen above Indicator 1 was achieved, but with regard to Indicator 2, the annual business plan was not based on the medium- to long-term strategy, because of delays in approval of VDB’s strategy. Indicator 3 has been achieved for the most part. With regard to Indicator 4, although the situation cannot necessarily be described as properly achieving the state called for by that indicator because on some points a business form based on VDB policy framework does not conform to regulations such as SBV Decision No. 493, SBV appreciates the fact that such a decree assumes short-term lending, which differs from the medium- to long-term lending of VDB. Overall, although at the time of completion of the project, it could not necessarily be said that all indicators identified concerning enhancement of the policy framework of VDB based on its clear missions under Output 1 had been achieved, it could be said that for practical purposes they had been achieved for the most part.

(2) Output 2

Output 2 is “Credit risk management is improved” and 7 indicators shown in Table 1 were identified. Of these, Indicators 1 through 5 are qualitative indicators measured by the state of progress, while Indicators 6 and 7 are ones for which quantification is possible. Indicators 2 and 3 show some progress comparing the start and the end of the project, and Indicator 7 can measure the number of people involved. In contrast, Indicators 1, 4, and 5 show almost no progress comparing the start and the end of the project, and Indicator 6 has not been achieved. Since it was difficult to measure achievement objectively for some items regardless of whether the indicator was qualitative or quantitative. Therefore, Achievement is summarized below and remarks are made in case there are other factors to be considered even if the indicator has not been achieved.

Table 1: Output 2 Indicators and Achievement

| Indicator | Type of indicator   | Achievement/ Progress | Status upon completion of project | Remarks  |   |
|-----------|---|-----------------------|-----------------------------------|--|---|
| 1         | Frequency of meetings and minutes of the risk management committee and credit risk management committee | Qualitative           | No progress                       | No meetings of the risk management committee and credit risk management committee held.  | It is fair to say that it would not be meaningful to hold meetings of these committees while performance on Indicators 2 to 6 is low. |
| 2         | Status of preparation of a model database on corporates   | Qualitative           | Medium progress                   | While the initial model for the CIS was completed at the time of completion of the project, operation has not yet begun because of overall delays in development.  | -   |
| 3         | State of progress on trials of debtor classification using the internal rating system                   | Qualitative           | Medium progress                   | Internal ratings were assigned using CIS and methods of loan classification were established. However, because the adjustment items of financial information and nonfinancial information did not match the actual circumstances, it cannot be said that the internal rating system was completed at the time of project completion. | -   |

|   |  |              |                    |   |  |
|---|--|--------------|--------------------|---|--|
| 4 | State of progress on loan classification   | Qualitative  | No progress        | Project aimed to establish loan classification based on combination of the period in arrears and the internal rating. However, VDB continues to classify debtors based on the period in arrears according to the internal rule. | -  |
| 5 | State of preparation of guidelines for quantification of credit risk   | Qualitative  | No progress        | No guidelines prepared for quantification of credit risk.   | Because there has been no change in the circumstances in which loan classification is based on the period in arrears only, risk quantification would be difficult to put into practice.  |
| 6 | Introduction of stricter monitoring system by 2011   | Quantitative | Not achieved       | Stricter monitoring not implemented by FY2011.  | Not implemented at the time of completion of the project.  |
| 7 | Number of trainees (staff) who have used the skills and knowledge obtained through participation in the training program (credit risk management, internal ratings, credit activities based on internal ratings) | Quantitative | Medium performance | Because staff members have used the skills and knowledge obtained through training on internal ratings, it is possible to measure the applicable number of people.  | It is inconceivable that any staff member would have used skills and knowledge obtained through training on credit risk management and credit activities based on internal ratings at the time of completion of the project. Because full operation of the CIS had not yet begun at the time of completion of the project, the stage had not yet been reached for referring to CIS data for credit activities. |

From an overview of each of the indicators under Output 2, it is clear that only Indicators 2, 3, and 7 related to the CIS have been achieved to a medium degree, while almost no progress has been made on the other indicators. In other words, project activities related to Output 2 can be said to be limited mostly to development of the CIS. Furthermore, the following points concerning the CIS, which was said to have been finished and to have been awaiting approval for full-fledged operation at the time of completion of the project, were identified through survey on VDB's activities after the completion of the project in the ex-post evaluation:

- It was in operation only at the head office for about two years after the completion of the project.
- Although its installation to all branches was planned for April 2012, installation actually took place in May 2014.

- Although it had been installed at the branches, authorization for data entry had not been granted.
- Data entry to the CIS had been suspended because adjustment items for financial information and nonfinancial information did not match to the actual circumstances.
- VDB itself had begun development of Version 2 of the CIS to revise the adjustment items for financial information and nonfinancial information.

In consideration of the above points, the CIS cannot be considered complete at the time of completion of the project. Conceivable main reasons for this result are (i) the delay in CIS development and (ii) the lack of an environment for tasks such as classifying loans and quantifying credit risk.

#### 1) The delay in development of CIS

The main cause of the delay in CIS development was the fact that, in contrast to expectations from before the project implementation, VDB had not accumulated electronic data on customer information and transaction records, essentially required for development of the CIS. So preparations were made while awaiting progress on VDB's development of its core banking system (referred to as "VDB Online") which took place concurrently with the project. From the time it was established through reorganization of the Development Assistance Fund until it began development of VDB Online, VDB lacked any standardized documented rules on methods of managing customer information, and it did not maintain customer information in electronic data by any method with a high degree of compatibility.

In addition, although it had been expected that a CIS could be developed through a scoring method using VDB Online data during the extended period of the project<sup>7</sup>, there were numerous data-entry errors, so that it proved more troublesome than anticipated for the project to correct data entry and improve the quality of the data<sup>8</sup>. As a result, the CIS was completed right before the completion of the project, and it can be said that other activities through use of internal ratings were not conducted.

Furthermore, although the project was said to have conducted pilot tests at five branches, from the observation conducted at sample branches in the ex-post evaluation, it was clear that there was some variation in the content of such tests. For example, while the Dong Nai Branch had advanced to the stage of actual data entry to the CIS, the Ninh Binh Branch had not conducted data entry but had merely held a half-day classroom training session that covered only a description of the content of the CIS. Considering the fact that installation at all branches took place more than two years after that training session, it would be difficult to consider practical trial operation to have been conducted through the pilot testing in this project.

However, training on credit risk management has been conducted separately from the project

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<sup>7</sup> See section "3.3. Efficiency" for details of the extension of the cooperation period.

<sup>8</sup> While at the time of project planning it was anticipated that the debtor classification system would employ the scoring method, after the project began the use of the screening method, which could be established with less information available, was proposed in light of the state of information held by VDB at that time, and development proceeded in accordance with this proposal. Later, use of the scoring method was required by the Credit Institution Law (2010), and in the end it was the scoring method that was adopted.

without waiting for completion of the CIS, including recommendations on collateral evaluation for purposes of quantifying credit risk and introduction to methods of loan classification. While these activities can be evaluated highly as the results of implementation in accordance with the Project Design Matrix (PDM) within the feasible scope before completion of the CIS, in many cases they did not extend past the level of introduction to the relevant concepts. From the perspective of indicators used as a basis for measurement of Output 2, although most indicators are qualitative, it would be hard to say that the purpose has been achieved.

The following are possible reasons for the failure to develop an environment for realizing loan classification and quantification of credit risk. Regarding loan classifications, in May 2010 a draft government bulletin was issued in connection with SBV Decision No. 493 calling for more advanced credit risk management by shifting from the previous method of classifying loans based solely on number of days in arrears to a method incorporating internal ratings as well. However, application of the decree was delayed because it was determined that it would not be practical to do so at the time, including application to private-sector banks, as the problem of nonperforming loans in Vietnam's financial sector became severe. Furthermore, because VDB as policy financial institution was, unlike other banks, expected to issue long-term loans and finance infrastructure and other projects, it would have been even more difficult to apply the decision.

Under such conditions, there was a possibility that use of the internal ratings developed by the project to classify loans in combination with days in arrears could involve management policies differing from the handling needed in practical operations<sup>9</sup>.

With regard to SBV Decision No. 493, Notification No. 2 was issued in April 2015 after several revisions in response to changes in the Vietnamese economy and establishment of Vietnam Debt and Asset Trading Corporation. Notification No. 2 is a regulation on loan classification according to the international standard issued in January 2013 based on the Prime Minister's Decision No. 254 "Scheme to Restructure the System of Credit Institutions during the period from 2011 to 2015." Accordingly, loan classification is standardized across all banking institutions and for VDB, disposal of nonperforming loans (NPL) would be promoted by using Credit Information Center<sup>10</sup> by grasping the actual situation of NPL in details. As it has not been long since the Notification has been issued, no effect was observed at the time of ex-post evaluation. The loan classification policy of VDB is governed by the lending and export and investment credit loan management policies and strategy of the government that are related to the strategic activities of VDB (Decision No. 369). However, regulatory environment on VDB's loan classification is changing and there would be some important impact on VDB to implement credit risk management on its own in the future.

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<sup>9</sup> For example, it is conceivable that a situation could arise in which even though it would be difficult to dispose of project A through decision-making by VDB alone such disposition would be needed because the project was classified as a highest-risk loan based on the combination of the internal rating and the number of days in arrears.

<sup>10</sup> A private institution established to manage the risks of financial institutions to centrally controlling the customer information related to individuals and institutions.

2) Failure to develop an environment for tasks such as classifying loans and quantifying credit risk

On the subject of quantification of credit risk as well, from the circumstances described above it can be said that the groundwork has not been laid for implementing practical operations to quantify risks through classifying loans, estimating the recoverable amount of high-risk loans with consideration for collateral and guarantees, and setting up individual provision of loans. Also, from project implementation through the time of the ex-post evaluation, the provision of loans set up by VDB (risk reserve funds) by accumulating each period an amount equal to 0.5% of the annual average balance of loan, in accordance with the Prime Minister Decision No. 44. In other words, under the decree a method is employed in which provision of loans is calculated uniformly regardless of the degree of risk of default.

Accordingly, although the initial model of the CIS, central to Output 2, was finished after the completion of the project because of deficiencies in the data needed for system development in the initial stages the system was delayed overall, and it had not yet reached the operation stage. Also, most other indicators had not been achieved, therefore Output 2 is evaluated to be low.

(3) Output 3

Output 3 is “Knowledge of fund mobilization and ALM (Asset Liability Management) is enhanced” and indicators were (i) learning progress of trainees, (ii) quality of training materials prepared, and (iii) number of participants in the training programs including workshops/seminars.

From the initial plan, Output 3 was limited to enhancement of knowledge that contributes to practical operations. It was expected that the training would not be intended for purposes such as improving VDB’s practical operations and the activities of Output 3 were expected to serve merely a supplementary role. In fact, at the time of the completion of the project, it proved difficult to put this knowledge to practical use in actual operations, so that, as initially expected, the output was limited to knowledge enhancement. A follow-up survey was conducted to measure the degree of progress on learning, and it showed a high degree of satisfaction among participants.

The results of the ex-post evaluation showed that VDB thought that the training should have included more practical content; however considering that Output 3 in the project was merely a supplementary, its activities were considered relevant and Output 3 has been evaluated to have been achieved for the most part.

(4) Output 4

Output 4 is “Human resource development system is strengthened.” The quality of training plans (training subjects, schedule, number of participants, etc.) was used as an indicator.

Prior to the project, training content for human resource development had been provided through EU assistance. After that, when enhancement of independent training by VDB became an issue, highly practical content such as sector-specific appraisal training was prepared through activities based on the



concept of tutor training by JICA experts. At the time of the ex-post evaluation, 24 training subjects have been prepared, and 10 to 20 training courses are planned for each year. However, less than 10 courses are actually held each year, and since 2013 in particular the number of planned courses has decreased due to budget cuts. For these reasons, achievement on Output 4 is determined to be fair.

3.2.1.2 Achievement of Project Purpose

The Project Purpose and related indicators and achievement are summarized below.

| Purpose  | Indicators  | Achievement  |
|--|---|--|
| Project Purpose: VDB’s autonomous and effective operations of investment lending as a development bank are strengthened. | (i) Number of projects which are justified from a viewpoint of financial feasibility as well as clear mission of VDB in 2011. | According to information from the time of completion of the project, over the five-year period from 2006 through 2010 the total number of investment loans was 1,160. When VDB was asked to provide information at the time of the ex-post evaluation, it was not possible to obtain the information because it could not be disclosed externally. |
|  | (ii) Quantitative and qualitative trends of NPL (5.6% at the start of project)  | 3.7% in 2008, 4.1% in 2010. However, when VDB was asked to provide information at the time of the ex-post evaluation, it was not possible to obtain the information because it could not be disclosed externally.  |
|  | (iii) Progress of dissemination of credit risk management system to branch offices (quantitative and qualitative)             | The CIS had not been adopted at the time of completion of the project. Operation of the CIS throughout the entire VDB began in May 2014.   |

The purpose of this project was “VDB’s autonomous and effective operations of investment lending as a development bank are strengthened” and three indicators were identified. Of these, no information was provided from VDB at the time of the ex-post evaluation for Indicators 1 and 2, because VDB was unable to disclose financial information.

Of the four Outputs described under 3.2.1.1 above, the output considered most important for achieving the Project Purpose is Output 2 (“Credit risk management abilities are improved”), which is related directly to enhancement of VDB’s investment lending operations. VDB shared this understanding. Because Indicators 2 (development of CIS) and 3 (trial efforts for debtor classification), both core indicators for Output 2, were not completed in a desirable form during the project period, it would be hard to say that the Project Purpose has been achieved.

The most important reason for the delay in development of the CIS is the undeveloped state of the customer information database (VDB Online) that was a prerequisite for the CIS. Also, while the main cause of the failure to complete trial efforts to classify debtors is the fact that the handling of nonfinancial information in the CIS does not match the current circumstances of VDB, it is surmised that although this had been anticipated during the project period VDB had desired to complete the

system in the ideal form proposed by the Japanese side. Although this delay in the CIS and these problems with VDB Online were unavoidable, ultimately performance on the Project Purpose can be considered to have been only limited.

3.2.2 Impact

3.2.2.1 Achievement of Overall Goal

The project’s Overall Goal, indicators and achievement are summarized below. Of the five indicators identified for the Overall Goal, one could not be measured while for three of them data could not be obtained from VDB because it was not subject to data disclosure.

| Purpose  | Indicators  | Achievement  |
|--|---|--|
| Overall Goal: Sustainability of investment lending of VDB is strengthened in accordance with VDB’s strategic plan and socio-economic development objectives. | Status of the progress of state credit investment in the Socio-economic Development Plan  | National credit investment, which had totaled VND 17.725 trillion at the time the project started (2008), totaled VND 21.819 trillion upon completion of the project in 2012 and grew to VND 29.5 trillion in 2013.  |
|  | Outstanding amount of VDB’s investment lending grows at an annual average of 15 to 17% (in current price)   | Because VDB provided no data, balances of loans indicated in annual reports from 2007 to 2013 are used alternatively. Analysis shows that, while the rates of growth exceeded 15% in 2007, 2008, and 2011, they were less than 15% in the other years, particularly in 2012 and 2013 when they were in the single digits, at 7% and 6% respectively.   |
|  | Amount of disbursement of VDB’s investment lending grows at an annual average of 20 to 25% (in current price)   |  |
|  | Investment lending of VDB in the infrastructure and industry sectors (I and III of eligible list of Decree. 151) continue to account for more than 75% in terms of outstanding balance. | No information available.  |
|  | Results of post-evaluation for selected projects are rated high.  | An attempt was made to examine the structure for management of loans from appraisal to recovery through a sample survey of individual VDB projects. However, for reasons including the facts that internal rating using the CIS was positioned as merely one type of reference information in appraisal, adjustment items to CIS financial information were not entered, and only part of the CIS nonfinancial information was entered, the results of the sample survey are not considered likely to depict the results of this project. Thus, it has been determined that measurement of this indicator is not feasible. |

Source: Questionnaire submitted to VDB at the time of the ex-post evaluation

To verify the degree of contribution of project results to the Overall Goal, in the ex-post evaluation the kind of progress made on portions not achieved during the project was confirmed after the completion of the project, on the assumption that after the project VDB would make progress through its own efforts in accordance with the following development scenario. Specifically, progress by VDB toward the Overall Goal was divided into the following seven stages. Steps 1 through 4 correspond to

the project outputs while Steps 5 through 7 correspond to the Project Purpose. While the project made visible contributions to Step 1, progress on subsequent steps were demonstrated by VDB through its own efforts after completion of the project. As a result of the ex-post evaluation, as of 2015 VDB was considered to be at the stage of Steps 1 through 3.

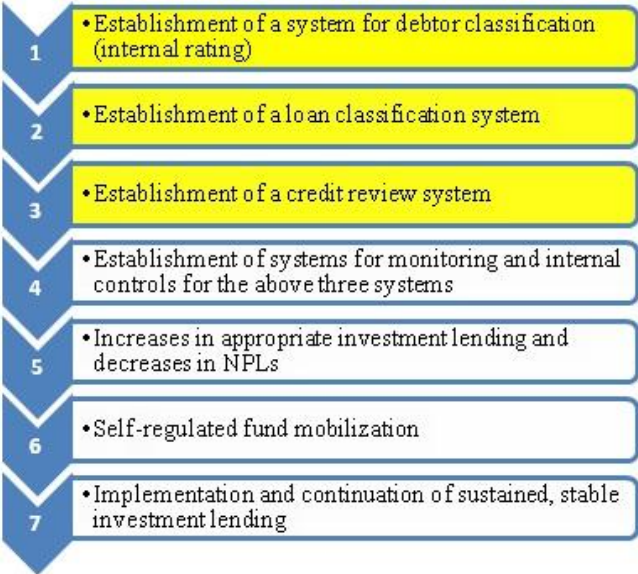


Figure 1: VDB Development Process

After the completion of the project, despite some remaining problems the CIS was introduced to all branches, a structure was established under which data would be collected from the branches and entered at the head office, efforts initiated on development of version 2 of the CIS to resolve its remaining problems, and agreement was reached with the MOF to hold meetings to discuss loan interest rates. Through these measures, VDB is making steady progress toward autonomy, and they are considered to be based on project efforts including improving the data in VDB Online, completing CIS version 1, and transfer of technology through these efforts. However, it has been determined that the Overall Goal has not been achieved because it is hard to imagine that the project and subsequent efforts by VDB have contributed to the development effects identified in the indicators for the Overall Goal, because of reasons including the following: introduction of the CIS to all branches was in May 2014, and nonfinancial information is not being put to use.

### 3.2.2.2 Other Impacts

No other indirect effects were identified in the ex-post evaluation.

Implementation of the project has demonstrated effects to a certain degree, and its effectiveness and impact have been evaluated to be fair. It would be hard to say that the Project Purpose has been achieved considering that the delays in development of the CIS, the most important output, and the fact that trial efforts of internal rating were insufficient. Although steady progress has been made toward self-regulation by VDB since the completion of the project, the degree to which the Overall Goal has been achieved is limited.

## 3.3 Efficiency (Rating: ②)

### 3.3.1 Inputs

The table below summarizes planned and actual (upon project completion) inputs for this project.

| <b>Input</b>                                    | <b>Plan</b>   | <b>Actual (Upon Project Completion)</b>   |
|---|---|---|
| (1) Experts                                     | Long-term: 0<br>Short-term: 5   | Long-term: 0<br>Short-term: 20  |
| (2) Trainees received                           | 12 persons  | 28 persons  |
| (3) Equipment                                   | Unknown   | Copier, automatic document feeder, double-sided copier parts  |
| (4) In-country training, third-country training | Unknown   | In-country training: 506 persons<br>Third-country training (The Philippines): 10 persons  |
| Japanese side<br>Total Project Cost             | 196 million yen   | 280 million yen   |
| Input by Vietnamese government                  | <ul style="list-style-type: none"> <li>• Assignment of counterparts</li> <li>• Working facilities inside VDB and hardware and software for credit risk management</li> <li>• Securing budget (costs of in-country training, seminars/workshops, in-country travel)</li> </ul> | <ul style="list-style-type: none"> <li>• Assignment of 14 counterparts</li> <li>• Working facilities and hardware and software for credit risk management</li> <li>• Project operation and management expenses (costs of in-country training, seminars/workshops, in-country travel, etc.)</li> </ul> |

#### 3.3.1.1 Elements of Inputs

While dispatch of experts was planned for five people, actual input was 20 experts. However, this is the cumulative total number of experts, and the fields of the experts dispatched were the same five fields identified in initial plans; development finance, credit risk management, fund mobilization, ALM, and human resource development. With regard to experts on credit risk management in particular, roughly two experts were dispatched at all times; because this was an input focused on

Output 2, it is considered an appropriate input in light of the outputs that the project sought to achieve.

#### 3.3.1.2 Project Cost

The amount of cooperation totaled JPY 280 million, or 143% of the planned amount of JPY 196 million. Main reasons for this difference seem to include the extension of the cooperation period in order to switch from the screening method to the scoring method in trial use of debtor classifications using the internal credit-rating system, in addition to the fact that it took more effort than initially planned to collect the information needed to develop the CIS. See the section on Output 2 of Effectiveness and Impact concerning these circumstances.

#### 3.3.1.3 Period of Cooperation

The actual project period was three years and six months (September 2008 through March 2012), or 116% of the planned period. Due to six month extension, the cooperation period was longer than planned. The main reasons for the extension were the need to handle incomplete information in VDB Online at the start of the development process and switching from the screening method to the scoring method in trial use of debtor classifications using the internal credit-rating system. Extension of cooperation period should have been considered carefully because internal rating system was not completed despite the extension.

For the above reasons, both the project period and project cost exceeded the plan. Therefore, the efficiency of the project is fair.

### 3.4 Sustainability (Rating: ③)

#### 3.4.1 Related Policy and Institutional Aspects for the Sustainability of Project Effects

VDB's investment lending occupies an important position in Vietnam's national credit investment, an important constituent in GDP and total economic capital investment. Vietnam's economic growth depends to a considerable extent on growth in national credit investment, and for this reason sustained and effective growth in VDB's investment loans contributes to the growth of Vietnam's economy. The five-year Socio-Economic Development Plan (2011–2015) identifies improvement in financial markets as one of the three priority areas for restructuring the economy, and it calls for systemic improvements toward effective and efficient management of financial markets as one means of doing so. Furthermore, the Strategy on “Public Debts and National Foreign Debts in the Period of 2011–2020 and Visions to 2030” was approved by a 2012 Prime Minister Decision, and this period is expected to establish the groundwork for an environment for management of public debt (related financial institutions and relevant legal systems) by 2015.

At the time of the completion of the project, a stalemate had been reached on the Prime Minister's approval of VDB's medium- to long-term strategies. However, the medium-term strategy was approved in February 2013. In the medium-term strategy, VDB is positioned as a public financial institution to handle investment lending for projects given priority by the government. It also identifies

capital increases and issue of VDB bonds among important objectives for securing financial autonomy in the future, and the policy positioning of VDB remains basically unchanged.

For these reasons, it can be said that sustainability has been secured with regard to policy and institutional aspects.

#### 3.4.2 Organizational Aspects of the Implementing Agency for the Sustainability of Project Effects

VDB reorganized its branches to improve its operational efficiency based on the medium-term strategy approved in 2013<sup>11</sup>. No major changes were made to the head office, which consists of 22 departments including the Departments of Development Policy, Plan Balancing, and Investment Credits. While at the time of the ex-ante evaluation VDB had two Transaction Centers and 60 branches, as a result of the restructuring based on the medium-term strategy it now has two Transaction Centers (in Hanoi and Ho Chi Minh), 12 regional centers, and 32 branches.

The jurisdictions of head-office departments are defined clearly and there is no confusion among operations. There are no problems with VDB's internal division of responsibilities regarding credit risk management or with the jurisdictions and responsibilities of departments responsible and staff assignments.

Although there is some room for improvement through use of IT, for the most part there are no problems with the structures for reporting, communication, sharing of information, and coordination inside the head office and between the head office and branches. As standard formats for reporting and communication between the head office and branches, semiannual organization-wide meetings and quarterly customer information reports are used. In addition, consultation and technical guidance are conducted on an everyday basis through telephone and other means.

In sum, for the above reasons it has been determined that the structures needed to sustain the results demonstrated are maintained at VDB.

#### 3.4.3 Technical Aspects of the Implementing Agency for the Sustainability of Project Effects

At the time of the completion of the project, VDB was equipped with a degree of knowledge and technical skills needed for making improvements on its own after the project (e.g., knowledge of collecting the information needed for internal ratings). Evidence for this includes the fact that, since the completion of the project, VDB has kept striving toward technical improvement and development, by forming working groups with related sections with the Customer Center playing a central role and making repeated improvements to the CIS, which currently has progressed to version 2. At the time of the ex-post evaluation, the debtor classification manual prepared at the time of the completion of the project was distributed to the branches and used in CIS operation. Currently revision of the manual is planned to match the upgrade to CIS version 2 January 2016. It also has been confirmed that VDB

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<sup>11</sup> At the time of the ex-post evaluation the process of branch restructuring was still in process. However, the branch restructuring had no major impact on CIS administration because development of CIS version 2 had begun before version 1 had reached the stage of full use at branches.

Online is being operated with no problems, in line with various applicable manuals and procedures.

According to interviews with VDB at the time of the ex-post evaluation, VDB personnel understood the theoretical principles of the ALM training implemented by the project under Output 3 and intended to put them to practical use in the future. Currently, VDB manages the profitability of investments on a case-by-case basis, but the ALM framework calls for management of profitability on a portfolio basis rather than one of individual investments, and this is expected to lead to a higher degree of financial soundness for VDB as a whole. However, VDB demonstrated interest in ALM because at the time of the ex-post evaluation it had not yet been adopted in practical VDB operations. With regard to Output 4, despite budget limitations and the fact that some content prepared in the project was not being put to use fully, VDB's Center for Training and Research does prepare annual training plans and manages the implementation of training with stability, so that the technical capability for maintaining training practice can be said to have been established firmly.

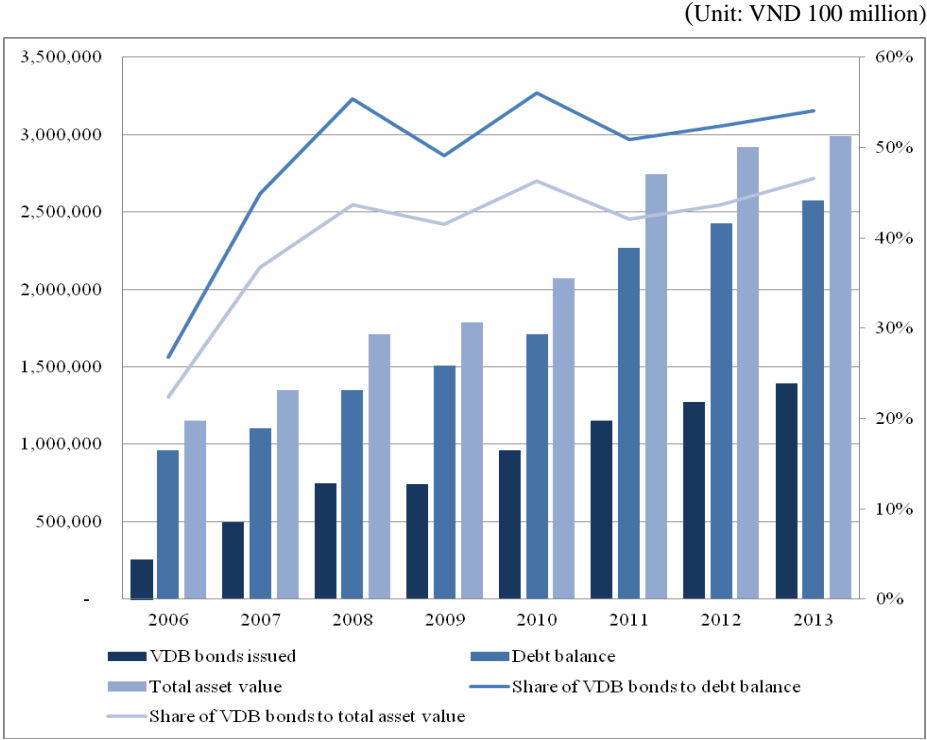
While technical support between the head office and branches is not conducted on a regular basis, it appears that efforts are made to correct any CIS problems at branches by contacting the head office's Customer Center directly, and that branches seem to receive adequate support. The CIS is operated through a method in which information provided from branches in Excel file format is entered and administered at the head office Customer Center. While this is efficient because data are administered centrally, at present there are some delays in updating data as a result of the centralization of operations at the head office. It would be preferable for support to be provided to improve the data administration capacity of branches so that data entry could be done, even if only in part, at the branches themselves.

At the same time, it is appreciated that efforts are being made to make CIS data more reliable and better suited to practical operations through maintaining such information controls, and to predict non-performing loans (NPLs) more effectively. Furthermore, it can be verified that VDB is acquiring the abilities needed for a financial institution as well as the ability to identify problems, through steps including shifting from branch to head-office approvals of loan procedures in response to changes in Vietnam's financial conditions including the 2009 financial crisis, the 2012 financial tightening, and problems with NPLs. With these as a foundation, CIS version 2 and VDB Online may enable data to be used in greater detail fund-mobilization plan, including issue of VDB bonds in future, and VDB can aim to increase its financial autonomy. Accordingly, it is fair to say that VDB is setting up the necessary knowledge and technical foundations for establishing stable and sustained investment lending in accordance with future development scenarios.

#### 3.4.4 Financial Aspects of the Implementing Agency for the Sustainability of Project Effects

Although VDB was asked to provide financial information for the ex-post evaluation, it provided only a portion of it because information related to finances cannot be disclosed externally apart from those shown in the annual reports. Here VDB's financial status was confirmed based mainly on information contained in its annual reports.

Since they were established in 2006, VDB bonds have undergone massive increases in amounts, share to total assets, and share to total lending. Accordingly, it can be said that funds are being raised proportionate to the growth in lending balances. For reference, trends in VDB’s total assets, debt balance, value of VDB bonds issued, and shares of VDB bonds to total assets and debt balances are shown below.



Source: VDB annual report

Figure 2: Trends in VDB Total Assets, Debt Balances, and Value of VDB Bonds Issued

For VDB to achieve sustainable growth, it will need to improve its management of VDB bonds, the balance of which is likely to increase in the future, to a more detailed method of management. Also, a policy of achieving financial autonomy for VDB in the future has been confirmed and it has become possible for VDB to consult with the MOF on matters such as loss compensation and interest rate compensation. Such efforts related to achieving financial independence are included in VDB’s medium-term strategy and have been approved. Thus it is fair to say that an environment toward securing financial independence over the medium to long term has been developed.

On NPLs, in accordance with Prime Minister Decision No. 369, a policy is in place to reduce their share of total debt by 7% by the end of FY 2015. According to interviews with VDB at the time of the ex-post evaluation, VDB expects to meet this target. However, as described under Output 2 for Effectiveness, although provision of loans (risk reserves under Prime Minister Decision No. 44) is being accumulated at a rate of 0.5% of the average balance of debt each period, as of the end of FY 2013 this accounted for only 1.28% of total assets, which seems low compared to the target of 7% of



total NPL assets by the end of FY 2015 as specified in Prime Minister Decision No. 369.

At the same time, in addition to its existing policy-related long-term loans, VDB is exploring the possibility of actively expanding its lines of business to higher-risk transactions for which it cannot obtain guarantees for risks from the MOF, while also striving to improve its balance of revenues and expenditures through broadening its offerings to include ones such as short-term investment, small loans, and short-term refinancing in small transactions for long-term borrowers. In such circumstances, there seems to be room for further consideration of the appropriate level of provision of loans (risk reserves).

While SBV is applying Basel II<sup>12</sup> first to 10 financial institutions in Vietnam, it does not yet apply to VDB, where its application is planned to begin in 2018 or later. Because application of the Basel regulations would demand an even higher degree of financial soundness, the start of such efforts can be expected to further improve VDB's financial sustainability.

Because there have been no major changes to decrees concerning VDB and its medium-term strategy was approved in 2013, it can be said that an environment is in place that enables VDB to continue playing a role as a policy financial institution and there are no problems with regard to policy and systemic sustainability. While reorganization of branch offices is underway based on VDB's medium-term strategy, at the time of the ex-post evaluation no effect on business operations had been confirmed. There also are no problems with division of responsibilities, coordination and communication systems between the head office and branches, and the institutional sustainability of the implementing agency is strong. Since the completion of the project, VDB has made progress on developing an improved version of the CIS on its own, shifted its loan appraisal system to one based on head-office approval, and acquired basic knowledge of ALM. Considering these, it is fair to say that VDB has acquired the knowledge and technical skills needed to improve its lending operations in the future. Thus its technical sustainability is also strong. While there appears to be room for improvement in some areas with regard to finances, fund mobilization through VDB bonds shows steady growth and a system is in place that enables consultation with the MOF on adjustment of interest rates for lending or compensation for losses from differences in rates. Thus, a number of factors have been confirmed that should increase financial sustainability.

In the light of above, no major problems have been observed in the policy background and the organizational, technical and financial aspects. Therefore, sustainability of the project effects is high.

## **4. Conclusion, Lessons Learned and Recommendations**

### **4.1 Conclusion**

The purpose of this project is to enhance the investment lending operations of VDB as a financial institution for development, to ensure that VDB functions in a self-regulated and effective manner. It was expected that doing so would enhance the sustainability of VDB's investment lending in

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<sup>12</sup> New rules on calculating capital adequacy ratios announced in 2006 by the Bank for International Settlement's Basel Committee on Banking Supervision.

accordance with its medium-term strategies and socio-economic development goals. The policy position of VDB basically remained unchanged from the start through the end of this project, and its consistency with development policies has been confirmed. By contrast, based on analysis of readiness of VDB, it would be hard to say that its planning, including target setting, was appropriate, and relevance is evaluated to be fair. Results are apparent to some degree on three of the four outputs identified for this project. However, the CIS required for the most important of these outputs, “improving credit risk management capacity”, was not completed in a desirable form and thus the project purpose has been achieved to only a limited degree. As a result, it is hard to consider that the project has contributed to the development impacts identified in the indicators of the overall goal, and it has been determined that the overall goal has not been achieved and the effectiveness and impact of the project are fair. While the project began with the expectation that the information for the customer information database essential to development of the CIS would be ready, the information available in the database as of the project commencement was limited. Since VDB had to spent time preparing the database prior to development of the CIS, it resulted the project period and project costs to exceed the plan, therefore, efficiency of the project is fair. With regard to sustainability of the project, there are no problems in policy systems, institution, or technical aspect. While there appears to be room for improvement in with regard to finances, fund mobilization through VDB bonds shows steady growth. Several improvements have been confirmed including a system in place that enables consultation with the MOF on adjustment of interest rates for lending or compensation for losses from differences in rates, and it has been determined that there are no problems.

From the above, the project is evaluated to be partially satisfactory.

## 4.2 Recommendations

### 4.2.1 Recommendations to the Implementing Agency and Others

#### (1) Recommendations to the MOF

##### **Preparation of Guidelines to Maintain the Financial Autonomy of VDB**

In the future, VDB will continue to be responsible for lending to projects based on government policies, as a governmental financial institution. At the same time, it is hoped that VDB will achieve financial independence, and for this reason it seems necessary to share views between the government and VDB on how to balance the public interest and profitability in appraisal of loans. In particular, guidelines should be prepared indicating the perspective on public interest and profitability in appraisal of large-scale projects implemented based on policies, with the MOF, which is responsible for policy, playing a leading role in consultation with VDB.

#### (2) Recommendations to VDB

##### (i) **Improving Data Entry to the CIS**

Entry of customer data to CIS is done by the head-office Customer Center based on information sent from branches in Excel file format. While this is efficient because it involves centralized data

administration, at the same time, delays in updating of data have resulted from the concentration of operations at the head office. Consideration should be given to change the method to data, even if only in part, is entered at branches with the CIS Customer Center providing support for improving the data administration capacities of branches. One possible recommendation would be to have branches continue sending data in Excel file format, to verify the reliability of data while incorporating practice such as inspection of data samples as needed.

(ii) **Preparation of Guidelines on Use of CIS for Improved Risk Management**

At the time of the ex-post evaluation, CIS data are used as reference information in practical operations such as loan execution. However, to put the CIS information to more effective use in areas such as appraisal and loan execution, it would be more effective to document use of CIS in guidelines and share among VDB's head and all branch offices for standard use of CIS. Department of Investment Credits in head office and Customer Center should play core roles in preparation of these guidelines.

4.2.2 Recommendations to JICA

**Technical Support on Application of ALM Principles to VDB**

Once CIS improvements have reached a certain point and use of version 2 begins at the head office and branches, full-fledged loan execution and risk management through use of CIS (internal rating system) and VDB Online (classification of loans) will begin. The next step will be to improve and strengthen financial management including VDB asset management. It is fair to say that Japan, which has provided knowledge of ALM through the project and was involved in joint development of version 1 of CIS, is the most preferable donor to support practical adoption of ALM at VDB. Adoption of CIS is merely the first step in improving the capacity of VDB as a financial institution, and for purposes including ensuring that the project results are not wasted, consideration should be given to the possibility of supporting practical adoption of ALM as well.

On the other hand, the situation is such that the decrees are not sufficiently developed to incorporate ALM into VDB's practice. Thus, it needs to be kept in mind that further promotion of improving the system by institution other than VDB would be a prerequisite for producing output from ALM technical assistance.

4.3 Lessons Learned

**Closely Examining and Addressing Killer Assumptions (Preconditions and External Factors Highly Unlikely to Be Satisfied Despite their Importance)**

The project involved two important conditions. One was the precondition that VDB Online customer database be available for use, while the other was the external factor that a system of classification of loans would be prepared in a desirable form. With regard to the former, the incomplete state of the database required a lengthy preparatory period before the development of CIS

could begin. With regard to the latter, it was not possible to implement independent classification of loans because of the need to comply with existing decrees. Such important preconditions and external factors should be checked fully in the project formation stage. Also, when conditions that could become such killer assumptions have been confirmed to be in a state that differs from initial expectations, flexible responses should be employed, including changing of PDM instead of simply revising the schedule, based on sufficient consultation with the recipient institution.