

Viet Nam

Capital Market Roadmap

Challenges and Policy Options

Byoung-Jo Chun
Shigeko Hattori
Xuechun Zhang
Jin W. Cyhn
Bui Trong Nghia

ASIAN DEVELOPMENT BANK
Governance, Finance, and Trade Division
Mekong Department
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ABBREVIATIONS

ADB	Asian Development Bank
CB	convertible bond
CD	certificate of deposit
CMDC	Capital Market Development Committee
CP	commercial paper
ESOP	employee stock ownership plan
ETF	exchange-traded fund
GDP	gross domestic product
HCMC	Ho Chi Minh City
IFMC	investment fund management company
IOSCO	International Organization of Securities Commission
IPO	initial public offering
ISIN	international securities identification number
IR	investors relations
IT	information technology
JSC	joint stock company
LLC	limited liability company
MMF	money market fund
MOF	Ministry of Finance
MOJ	Ministry of Justice
MPI	Ministry of Planning and Investment
NAV	net assets value
OTC	over-the-counter
PRC	People's Republic of China
PSP	people's stock plan
SBV	State Bank of Viet Nam
SCERD	Steering Committee of Enterprise Reform and Development

SIA	Securities Industry Association
SME	small- and medium-sized enterprise
SOCB	state-owned commercial bank
SOE	state-owned enterprise
SRC	self-regulatory committee
SRO	self-regulatory organization
SSC	State Securities Commission
SSP	securities savings plan
SSRTC	Securities Science Research and Training Center
STC	Securities Trading Center
VLCA	Viet Nam listed companies association

NOTE

In this report, "D" refers to Vietnamese dong, and "\$" refers to US dollars.

CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

SUPPLY OF SECURITIES

- Current Status
- Policy Measures for Increasing Securities Supply in Stock Markets
- Policy Measures for Increasing Securities Supply in Bond Markets
- Sequencing Strategy

DEMAND FOR SECURITIES

- Current Status
- Policy Measures for Promoting Institutional Investment
- Sequencing Strategy

MARKET INTERMEDIARIES - THE SECURITIES COMPANIES

- Current Status
- Policy Measures for Building Financial Capacity
- Policy Measures for Building Operational Capacity
- Sequencing Strategy

LEGAL AND REGULATORY FRAMEWORK

- Current Status
- Policy Measures for Strengthening the Legal and Regulatory Framework
- Sequencing Strategy

MARKET INFRASTRUCTURE

- Current Status
- Policy Measures for Improving Market Infrastructure
- Sequencing Strategy

HUMAN RESOURCE AND CAPACITY

Current Status

Policy Measures for Developing Human Resource and Capacity

Sequencing Strategy

IMPLEMENTATION FRAMEWORK

APPENDIXES

Developing Securities Investment Funds in Viet Nam

Establishing SME Securities Trading Center

Transforming Securities Trading Centers

Developing Information Technology Infrastructure

FOREWORD

Since Viet Nam embarked upon an economic transformation less than 20 years ago, steady efforts have been made to reduce poverty and enhance our country's competitiveness. In addition to the strong growth rates in recent years, important progress was seen on the reform of the state-owned enterprise sector, and during the last few years, over 20,000 private enterprises have entered the formal economy annually. The financial sector used to be dominated by a small number of banks, but now various instruments for financial resources are available to boost our economy. Based on the Government's partnership with the Asian Development Bank (ADB), the Capital Market Roadmap is one important indication that we will continue to work to become more actively integrated into the globalized world economy.

In this effort, the capital market has a critical role for Viet Nam. Its development symbolizes the transformation from a traditional financial sector, and brings new resources for economic growth. The capital market not only presents an alternative financial channel for the private sector, but also facilitates reform of the state-owned enterprises. Viet Nam's capital market will continue to develop new products to induce a more efficient accumulation and allocation of resources. This will encourage investor's confidence and thereby contribute to sustainable development of Viet Nam.

To assume these critical tasks, the Government has established the State Securities Commission in 1997 as the main regulator and promoter of the capital market in Viet Nam. Starting with a few listed companies in 2000, it now has over 20 listed companies, with plans to open another trading center in Hanoi. In addition to inviting more companies to list in the securities trading center, the Commission has also been improving its regulatory functions to enhance the confidence of investors and reputation of the market.

Despite our efforts and recent progress, there are still many challenges ahead. The capital market is still relatively new in Viet Nam, and there are clear needs to modernize operations and continue building confidence in our market. Specifically, our main tasks include: (i) inducing more high-quality securities into the market; (ii) augmenting more technically advanced system for the trading centers; (iii) enhancing market intermediaries and related institutions; (iv) improving market regulatory functions and related legal framework; and (v) establishing a trading center targeting small and medium-sized enterprises. These tasks may be common in many capital markets, but Viet Nam is still at a nascent stage of development, and they will need to be addressed systematically with a long-term perspective.

The Commission, on behalf of the Government, has been working with ADB from the beginning of the capital market in Viet Nam. In recognition of the need to take a long-term perspective, the Commission has prepared a Capital Market Roadmap. It presents a 10-year plan aimed at creating sophisticated capital markets in Viet Nam. Its overall vision can be described as developing sound, efficient, and integrated capital markets to support sustainable economic growth and structural reforms.

In concluding, the Commission would like to express its gratitude to the ADB and the Global Financial Markets Research, the consulting firm that drafted the first version of the Roadmap, for their tireless efforts and goodwill towards the capital market development of Viet Nam. Although many tasks remain, the current progress that have been achieved would not have been possible without this fruitful partnership. The Commission looks forward to continued support in achieving the goals set out in this document.

Hanoi, 28 August 2003



Nguyen Duc Quang
Chairman
State Securities Commission

PREFACE

Since the advent of *Doi Moi* in 1986, the Vietnamese financial system has been transforming into a market-based system. Despite its fast growth in a relatively short period, the banking system has suffered from excessive concentration on lending to state-owned enterprises (SOEs) and inadequate supervision. Moreover, the banking sector has been hampered by high transaction costs related to uncertainties in law/contract enforcement, and lack of human and institutional capacity. As a result, public confidence in the banking system remains weak and immature. During the 1990s, nonbanking financial institutions started to emerge. Since 1993, a total of 17 insurance firms have been established. Since the first leasing company was established in 1996, eight more companies were established in the form of joint ventures or subsidiaries of state-owned commercial banks or insurance companies. The first stock market was opened in July 2000 after more than five years of preparation. Despite the vigorous effort and desire of the authorities, the stock market is still in its early stage of development.

Capital market development has a strategic importance in the economic growth and structural reform of Viet Nam. First of all, the economy needs to develop alternative financial channels to sustain growth momentum, complimenting the banking sector that has been under stress due to structural problems. Second, an efficient capital market could facilitate the needed structural reforms, in particular SOE reform. Thus, the development of capital market can be the strategic policy agenda to help the Vietnamese economy maintain economic momentum while resolving endemic structural problems.

Cognizant of the importance of capital market development, the State Securities Commission (SSC) of the Socialist Republic of Viet Nam has requested the ADB for technical assistance in formulating a long-term plan for capital market development in line with ADB's second financial sector program loan for Viet Nam in 2002. In response, ADB provided technical assistance to draft a *Capital Market Roadmap* to help SSC formulate a long-term development strategy.


The results of this technical assistance are presented in this publication *Viet Nam Capital Market Roadmap: Challenges and Policy Options*. The roadmap outlines a long-term vision and strategy for sequencing policy reforms to develop capital markets in Viet Nam over the next 10 years, identifies key policy issues, and recommends necessary actions in developing the supply and demand base for capital markets, legal and regulatory framework, capital market institutions and intermediaries, supporting infrastructure, and human resource development. In

addition, a series of policy reforms in each priority area based on in-depth analyses of the current Vietnamese capital markets are presented.

The proposals put forward in the roadmap can serve as a basis for government decisions in capital market development, for formulating future ADB assistance programs, and for external assistance coordination.

The policy actions outlined in this publication have been developed with close collaboration between the Government and ADB. The Government, especially SSC, has reviewed various versions of the draft and provided valuable insights and feedback. The draft was also the subject of a consensus-building seminar with the stakeholders from the private and public sectors held on 27 August 2002 in Hanoi. In August 2003, the Prime Minister signed the Long-Term Strategy for Securities Markets Development for 2002-2010 based on the roadmap.

We would like to extend special gratitude to Vice Chairman Ha of SSC, for his leadership and support. For their support and coordination, we would also like to thank the following: Nguyen Van Dzung, First Deputy Director, International Relations Department of SSC; Nguyen Thuc Anh, Head, Policy Development Division of SSC; Nguyen Vu Quang Trung, Deputy Manager, International Cooperation Division of SSC; Duong Thi Phuong, Deputy Manager, Multilateral Relations Division of SSC; Duong Thi Hai, Deputy Director, Hanoi Securities Trading Center; and Dao Le Minh, Director, Securities Science Research and Training Center. Equally important, we would like to acknowledge the essential technical inputs and enthusiasm of the consultant team of Dr. Oh, Gutaeg and Dr. Park, Dae-Keun from the Global Financial Market Research of the Republic of Korea. The solid work done by the Viet Nam financial sector team consisting of Byoung-Jo Chun, Shigeiko Hattori, Xuechun Zhang, Jin Cyhn, and Bui Trong Nghia has enabled the publication of the roadmap.



Rajat M. Nag
Director General
Mekong Department
