

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON A
PROPOSED LOAN
TO THE
SOCIALIST REPUBLIC OF VIET NAM
FOR THE
HOUSING FINANCE PROJECT**

November 2002

CURRENCY EQUIVALENTS

(as of 15 November 2002)

Currency Unit	–	dong (D)
D1.00	=	\$0.00007
\$1.00	=	D15,369.5

For the purpose of calculations in this report, a rate of \$1.00 = D15,000 is used. This was the rate generally prevailing at the time of the feasibility study.

ABBREVIATIONS

AusAid	–	Australian Agency for International Development
ADB	–	Asian Development Bank
BOLUC	–	building ownership and land use certificate
CFI	–	community-based financial institution
CSP	–	country strategy and program
DLA	–	Department of Land Administration
DLAH	–	Department of Land Administration and Housing
EA	–	executing agency
HCMC	–	Ho Chi Minh City
HFC	–	housing finance credit
HFCG	–	housing finance consultative group
HFF	–	housing finance facility
ICPMU	–	international credit projects management unit
LOS	–	lists of subloans
LUR	–	land use right
LURC	–	land use rights certificate
m ²	–	square meter
MIS	–	management information system
MNRE	–	Ministry of Natural Resources and Environment
MOC	–	Ministry of Construction
MOF	–	Ministry of Finance
MOJ	–	Ministry of Justice
MOLISA	–	Ministry of Labor, Invalids and Social Affairs
MPI	–	Ministry of Planning and Investment
MRA	–	mortgage refinance agency
NGO	–	nongovernment organization
NPL	–	nonperforming loan
PC	–	people's committee
PCB	–	participating commercial bank
PFI	–	participating financial institution
PIU	–	project implementation unit
PMU	–	project management unit
PPC	–	provincial people's committee
PPMS	–	project performance monitoring system
PSC	–	project steering committee
ROSCA	–	rotating savings and credit association
Sida	–	Swedish International Development Cooperation Agency
SBV	–	State Bank of Viet Nam
SDR	–	special drawing rights

SMF	–	secondary market facility
SOCB	–	State-owned commercial bank
SOE	–	statement of expenditure
SOEN	–	state-owned enterprise
ULIH	–	urban low-income household
ULIPH	–	urban low-income and poor household
UPH	–	urban poor household
VLSS	–	Viet Nam living standard survey

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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LOAN AND PROJECT SUMMARY

Borrower	The Socialist Republic of Viet Nam
Classification	Poverty classification: Poverty intervention Thematic: Human development
Environment Assessment	Category C. Environmental implications were reviewed and no significant environmental impact was identified.
Project Description	<p>The Project will support the establishment of a sustainable housing finance market in Viet Nam, which would ultimately mobilize substantial capital for housing finance and facilitate the long-term establishment of a strong mortgage-based collateral market to provide housing loans to all sections of the population. The loan will be used as a line of credit to the State Bank of Viet Nam (SBV) for refinancing housing loans originated by participating financial institutions (PFIs) for urban low-income and poor households (ULIPHs) through a newly established housing finance facility (HFF). The Project will assist approximately 137,000 urban low-income and poor persons improve their housing, health standards, and economic well-being by giving them access to affordable housing finance. For the poor households that cannot afford to buy a new house, the Project will provide market-based lending for housing improvement and own-build options through community-based financial institutions (CFIs).</p>
Rationale	<p>Rapid population growth and rural-urban migration have created serious problems in access to housing in the urban centers of Viet Nam. Almost 40% of households in urban areas occupy a usable housing area of less than 36 square meters (m²), with 16% of households occupying an area of less than 24 m². The majority of the population live in semipermanent houses. Only 26% of urban households have permanent housing types and 20% have temporary, unstable structures. The problem affects particularly ULIPHs who lack access to affordable options to finance their house improvements or new housing in the absence of an efficient housing finance system.</p> <p>The lack of access to long-term credit funds prevents financial institutions from providing long-term loans for housing. The lack of long-term loans makes access to housing finance unaffordable for almost 65% of the urban population. Short-term loans require high debt service repayment. To make housing loans affordable to ULIPHs, it is necessary to establish an efficient housing finance system that can provide long-term financing for purchase of housing and financing options for the poor to upgrade or build their own house.</p>

The development of an efficient housing mortgage market in Viet Nam requires the establishment of a HFF that will refinance housing loans originated by qualified PFIs. HFF will be initially established within SBV and would become the apex institution for housing finance in Viet Nam. In the long term, HFF will become an independent mortgage refinance agency (MRA) that would act as a conduit to attract additional funds to the sector through the issue of bonds or securities. All loans to PFIs will be channeled through HFF, which will act as a refinance facility (revolving fund) in charge of disbursement to the PFIs and repayments on a regular basis. The establishment of a HFF is justified to (i) promote common standards, procedures, documentation, and good practices among PFIs for the development of an efficient and transparent primary mortgage market accessible to ULIPHs; and (ii) build up basic requirements for the emergence of a secondary mortgage market. The Asian Development Bank (ADB) loan is needed to (i) provide initial resources to HFF to start its operations on a pilot basis; and (ii) provide capacity-building activities for HFF and PFIs, with the objective of developing human resources in the national housing finance sector. The establishment of HFF will provide an opportunity to test mechanisms for loan disbursement to ULIPH, and act as a catalyst to facilitate the progress of policy and legal reforms in the sector.

ADB's involvement in housing finance is justified to (i) develop the institutional and policy framework for a housing finance system that integrates housing and finance issues; (ii) make housing loans affordable to ULIPHs and so reduce poverty and enhance the quality of their life; and (iii) create employment and business opportunities in the construction, and banking sectors.

Objectives

The Project's goal is to improve the quality of life for ULIPHs through improved housing. The specific objective of the Project is to promote the establishment in Viet Nam of a sustainable housing finance market accessible to ULIPHs. The Project will provide approximately 27,500 housing finance loans for over 137,000 people, disbursed through PFIs, in the first round of lending. The Project consists of three parts: (i) mortgage lending to urban low-income households through participating commercial banks (PCBs), (ii) housing microfinance to urban poor households through CFIs, and (iii) institutional strengthening and capacity building. The Project will support the establishment of a HFF that will become the apex institution for the housing finance sector, and the implementation of a policy and institutional reform action plan that will facilitate the development of the housing finance system.

Cost Estimates

The total cost of the Project is estimated at \$51.8 million equivalent, including all the investments in new and improved housing expected to be generated through the catalytic effect of the ADB-financed subloans. The cost estimates assume that the ULIPs receiving housing loans through the Project will invest an amount equal to at least 30% of the value of the total housing expenditure. This beneficiary contribution is conservative and was based on information from commercial banks currently providing housing loans and on results of household surveys and focus group discussions conducted during project preparation.

Financing Plan

It is proposed that ADB provide a loan of \$30 million equivalent to finance about 57.9% of the total project cost. ADB will finance the entire foreign exchange cost of \$8.5 million and \$21.5 million equivalent (49.7%) of the local currency cost. The balance will be borne by the PFIs and the Government as well as by the beneficiary households from their own resources. The PFIs contribution represents 12.3% of the total project cost. This contribution is regarded as important, as it means the PFIs share some of the risks associated with lending to the target group. Beneficiaries will contribute some 28.8% of the project cost. The government contribution arises from incremental administration costs associated with project management and operation of HFF.

(\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	Percent
ADB	8.5	21.5	30.0	57.9
PFIs		6.4	6.4	12.3
Government		0.5	0.5	1.0
Beneficiaries		14.9	14.9	28.8
Total	8.5	43.3	51.8	100.0

ADB = Asian Development Bank, PFIs = participating financial institutions.

Loan Amount and Terms

The equivalent of SDR22.438 million (\$30.0 million) will be provided in various currencies from the Special Funds resources of the Asian Development Bank (ADB), for a term of 32 years, including a grace period of 8 years, and with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter.

Allocation and Relending Terms	The Ministry of Finance (MOF) will enter into a financing agreement with SBV with a loan term of 20 years and a grace period of 5 years. Funds will flow from MOF to HFF established in SBV in dong, which will be the currency for all subsequent fund flows. The funds for the institutional strengthening and capacity building component will be provided by MOF to HFF as a grant. Each PFI will sign a housing finance credit (HFC) loan agreement with HFF. HFF will refinance loans from PFIs at a reference rate defined as the weighted average of all time deposits in the banking system of Viet Nam. HFF will have a fixed management fee for handling the housing loan funds, agreed at 1% annually on the outstanding subloans and payable quarterly from PFI subloan repayments to HFF. MOF will bear the foreign exchange risk from the remaining interest payments from PFIs to HFF, after deducting of the HFF management fee. PFIs will be free to set the onlend interest rate to the final subborrower. PFIs will be required to provide from their own resources capital equal to 20% of all subloans to borrowers from PCBs and 10% of all subloans to borrowers from CFIs.
Period of Utilization	Until June 2008
Estimated Project Completion Date	31 December 2007
Implementation Arrangements	A project steering committee (PSC) will be established to oversee overall project implementation. The PSC, to be chaired by a deputy governor of SBV, will consist of representatives from the Ministry of Construction, MOF, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, and Ministry of Justice. The PSC will meet at least quarterly to review the progress of the Project. These arrangements are expected to establish more effective links between government agencies for developing the housing finance system and implementing the policy and institutional reform action plan. A housing finance consultative group (HFCG) will assist HFF in coordinating the Project. Members of the HFCG will initially be HFF and the PFIs.
Executing Agency	State Bank of Viet Nam
Procurement	Goods and works to be financed by ADB will be procured in accordance with ADB's <i>Guidelines for Procurement</i> .

Consulting Services

A total of 38 person-months of international and 26 person-months of domestic consulting services will support capacity building and project implementation. HFF will select and engage all consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for selecting and engaging domestic consultants. Consultants will guide on-the-job training to HFF officials involved in implementing the Project.

Project Benefits and Beneficiaries

ULIPs will improve their houses with the available affordable long-term funding. It will (i) reduce their vulnerability to natural disasters by providing a safer space to live, (ii) increase the residential and household stability due to the possession of a valuable asset, (iii) provide an alternative source of income in emergencies when the house is used as collateral to obtain additional credit, and (iv) reduce rent costs. Improved housing will create a healthier environment, particularly for women, children, and students who spend much of their time in the house. The health of family members and the education performance of students will in turn improve. Work productivity can also increase for those households that use their own house as their workplace, as is common in Viet Nam.

The project beneficiaries will be ULIPs willing to take loans from PFIs for purchasing, constructing, or improving their houses, and with the capacity to repay subloans by installments. Approximately 32% of the total project beneficiaries are expected to be poor. The Project will benefit more than 137,000 urban low-income and poor persons including about 44,000 urban poor. Under the Project, PFIs will refinance housing and house upgrading loans to ULIPs with monthly incomes of D0.35 million-3.5 million (\$20-233 equivalent). The PCBs will focus on urban low-income households (ULIHs) in the D0.75 million-3.5 million (\$50-233 equivalent) monthly household income range who can afford to finance a new or existing housing unit at a cost of D100 million (\$6,666 equivalent) at 70% financing or could upgrade housing for a cost up to D20 million (\$1,333 equivalent), at commercial interest rates and a maturity of up to 20 years. The CFIs will focus on urban poor households (UPHs) under the poverty line in the D350,000–750,000 (\$23-50 equivalent) monthly income range. Affordable options for the poor consist of (i) a building materials loan for self-help housing, and, (ii) smaller housing improvement for a cost up to D15 million (\$1,000 equivalent) at commercial interest rates but at maturities of 5–10 years.

Risks and Assumptions

Several risks associated with project implementation and sustainability were identified and assessed during project preparation: (i) the leakage of project subloans to income groups above the target ULIPs; (ii) PFI unwillingness to lend to ULIPs because they are considered risky; (iii) ULIPs' unwillingness to borrow from PFIs; (iv) HFF's inefficient management and monitoring systems; (v) ULIPs' nonrepayment of the subloans from PFIs; (vi) PFIs nonrepayment of the loans from; (vii) slow issue of land use rights certificates (LURCs); and (viii) slow implementation of the policy and institutional action plan. Each risk was carefully assessed, taking due account of past lessons from similar projects in developing countries, and risk mitigation measures identified and built into project implementation procedures.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam for the Housing Finance Project.

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

A. Performance Indicators and Analysis

2. The urban population in Viet Nam has increased by about 6 million over the last 10 years at an average annual increase of 3.8%. By 2000 the urban population had reached 19 million and accounted for 23% of the total population. The Government estimates that the rate of urbanization will increase to 45% of the population, with 46 million people living in urban areas by 2020. With the growing pressure on urban land due to population growth and rural-urban migration, access to housing has become increasingly problematic in the major urban centers, particularly in Ho Chi Minh City (HCMC), Hanoi, and other large cities. Making land and finance for housing available to the urban population, especially the low-income and poor, at affordable rates is a challenge for the Government.

3. In the last decade, the total housing area increased considerably by 739 million square meters (m^2) throughout Viet Nam, of which about 185 million m^2 is in the urban areas. Upgraded and newly built housing by owners accounted for 75% of total housing, while housing generated by construction companies accounted for 25%. Per capita living space in the urban areas increased from 8.2 m^2 to 10.4 m^2 . Notwithstanding this significant progress, housing conditions for a growing segment of the population have deteriorated despite the Government effort to provide low-income houses through housing projects. The housing shortage is serious in urban areas, and low-income groups live in narrow and poor-quality accommodations. Almost 40% of households in urban areas occupy a usable housing area of less than 36 m^2 , including 16% of households that occupy an area of less than 24 m^2 . The majority of the population live in semipermanent houses. Only 26% of urban households have permanent housing types and 20% live in temporary, unstable structures.

4. The units constructed by the Government were insufficient to satisfy the huge need and demand for housing in urban areas, particularly for the lower-income groups, given the relatively large units provided – which are attractive to middle-income groups – and inappropriate locations of the units. With the expected rapid growth of the population and increased urbanization and rural-urban migration, the imbalance in demand and supply of the housing stock in urban areas will increase. The Ministry of Construction (MOC) targets the construction of some 60 million m^2 of housing in urban areas nationwide (24 million m^2 to be built through projects and 36 million m^2 to be built by the people themselves) by 2005. After 2005, the average housing area per capita is expected to reach 12 m^2 , with housing unit averaging 50 m^2 . MOC has not clearly identified the source for financing house construction on this scale.

5. The lack of appropriate financing mechanisms has denied urban low-income and poor households (ULIPHs) access to affordable options for housing construction or improvement. Appraisal forecasts indicated the potential ULIPH requirements to upgrade and replace current housing to be 65 million m^2 , involving a cost of D59 trillion (\$3.9 billion equivalent) and current latent housing demand is assessed at 8.1 million m^2 , involving a cost of D16.3 trillion (\$1.1 billion equivalent). The average annual ULIPH new space demand is estimated at 5.6 million m^2 , involving a cost of D11.2 trillion (\$750 million equivalent) during 2000–2010, rising to 6.5 million m^2 , involving a cost of D13.0 trillion (\$900 million equivalent), during 2010–2020. A detailed analysis of low-income housing demand projections is in Supplementary Appendix A.

6. About 80% of housing finance credit (HFC) in Viet Nam comes from the informal sector. That includes moneylenders, friends, relatives, and informal rotating savings and credit associations (ROSCAs). Friends and relatives provide loans without charging interest, while moneylenders will charge 5–20% monthly. Less than 20% of HFC comes from the formal banking or Government sectors. Government finance has declined dramatically since 1986, as the Government shifted housing ownership from the State to individual households. However, the Government is still actively involved with providing direct housing finance, particularly to the poor and low-income groups. The Government share of housing finance mobilization is around 10% of the total, but is declining rapidly due to lack of funds. Formal housing finance is still relatively underdeveloped, but is increasing rapidly. Commercial retail banks providing housing loans to house owners represent about 10% of the total housing finance market. The more successful commercial banks have experienced rapid growth in housing loan origination and seen the housing loan share of their loan portfolio increase steadily over the last 3 years. The seven commercial banks most involved in retail housing finance loans increased their total housing finance loan portfolio from D1.3 trillion (\$95 million equivalent) in 1998 to D3.0 trillion (\$197.7 million equivalent) in 2001, recording an average annual growth rate of 32%. For some commercial banks, housing finance loans are the fastest growing segment of their loan portfolio.

7. Most banks giving housing loans lack significant access to long-term credit funds for long-term loans, an important prerequisite for developing a strong housing finance market. At present, less than 10% of the total funding of these organizations is long-term credit. Consequently, most housing loans originating from these institutions have a relatively short duration – no longer than 5 years – and are available only to medium and high-income groups. ULIPs cannot afford the high debt service required to repay short-term loans. Average housing loan sizes from the banks suggest the loans are made predominantly to medium and higher-income groups.

B. Analysis of Key Problems and Opportunities

8. The comprehensive poverty reduction and growth strategy that the Government approved in May 2002 recognizes the multifaceted nature of poverty and poverty reduction. In the strategy, urban housing programs and housing finance for the poor and low-income groups are referred to in the context of efforts and programs to reduce urban poverty. Considerable emphasis is placed on upgrading urban poor areas, providing land and infrastructure, formulating small-scale credit and savings programs, and mobilizing the community. The ADB country strategy and program for Viet Nam identifies housing finance for low-income households as one of the priority sectors for ADB interventions in the urban sector.

9. It is recognized that the housing sector has the potential to enhance the quality of life and reduce poverty and vulnerability. Lack of access to credit has prevented ULIPs from breaking out of poverty by developing the household's asset base. Lack of medium- and long-term finance has barred ULIPs from access to affordable credit for their priority housing improvement and new housing. Except beneficiaries of limited Government housing projects, ULIPs below the mean income level do not have access to any housing credit beyond very short-term finance, often at exorbitant terms and conditions.

10. MOC prepared a broad policy, planning and program document for housing development and management in Viet Nam during 2001,¹ paying more attention to housing for urban people, especially low-income and poor people. The document formed the basis for two major housing sector papers delivered at the third national housing conference in Hanoi during March 2002² that

¹ *Orientation for Housing Development 2001–2010*, prepared by the Ministry of Construction, presents the orientation, objectives, and detailed solutions for housing development.

² Housing Development and Management Action Plan for 2001–2005, Report on Housing Development and Management during 1991–2000, and Major Objectives and Measures for the Period 2001–2010.

outlined the current housing sector policies, plans, and programs in Viet Nam. Government housing policy initiatives have involved the sale of state housing to residents; access to state land for housing developments; subsidies for the costs of infrastructure for land development; subsidized housing for sale or rent to low-income and priority groups; land, house, and rental price regulation; land and other property tax exemptions; and property management and maintenance support. Government housing policy initiatives on the demand side have been limited to providing subsidized housing credit, at zero or less than market interest rates, to poor and low-income households. Access to such credit has been limited to a small proportion of total urban households in that category, and is generally associated with resettlement projects in major cities and replacement of flood-prone housing in the Mekong Delta and other regions. Supplementary Appendix B describes the housing finance system in Viet Nam.

11. Although these reforms have had a significant impact on the housing sector, many constraints still remain, including lack of (i) a national housing finance policy that is integrated with overall financial and housing policies; (ii) an institutional and regulatory framework for the housing finance sector; (iii) long-term capital financing for housing; (iv) savings schemes linked to housing improvements and development; (v) a system of transparent, well-justified, and targeted subsidies for poor households; and (vi) a well-functioning legal system for mortgages and valuation of properties.

12. The financial system is in poor health. Profitability is low, the capital base is low, and non-performing loans (NPLs) are a major problem. In the last few years, the Government has prepared a 3-year reform program with the assistance of the International Monetary Fund and World Bank,³ under the poverty reduction and growth facility and poverty reduction support credit. The Government's reform program for the banking sector consists of the following elements: (i) phasing out policy and noncommercial directed lending by state owned commercial banks (SOCBs), except for a few cases in the transition where explicit Ministry of Finance (MOF) guarantees are provided; (ii) phasing the recapitalization of each SOCB over a 3-year period, conditional on the SOCB's satisfactory annual performance on key actions and key operational targets specified in their individual restructuring plans; (iii) resolving NPLs of SOCBs through their own asset management companies and loan workout units; (iv) international auditors conducting annual independent international account audits; and (v) raising the share of credit to the private sector. ADB under two finance sector program loans,⁴ supported the Government efforts to develop alternative channels of financial intermediation through money/capital markets, insurance and leasing subsectors, and financial infrastructure to enhance public confidence in the system. Improvements in the nonbanking subsector and capital market will provide long-term funds and investment capital, largely lacking in Viet Nam, which could fund mortgage refinancing. The Project has taken into consideration all these interventions and is consistent with them.

13. The housing finance problem in Viet Nam can be defined in several ways: (i) from the point of view of a household the problem is the possibility of obtaining a loan at affordable terms; (ii) for MOC, the problem is the lack of resources to carry out public housing projects; and (iii) for MOF and State Bank of Viet Nam (SBV) the problem is to prevent financial instability and to increase confidence in the financial system. The Project will support the establishment of a sustainable housing finance system that will reconcile three partially conflicting objectives (i) affordability to households, (ii) viability of financial institutions, and (iii) resource mobilization to expand the sector.

³ The International Monetary Fund approved a poverty reduction and growth facility for SDR290 million (\$368 million equivalent) on 6 April 2001 and the World Bank approved a poverty reduction support credit for \$250 million on 4 June 2001. The areas of reform are comprehensive, covering the private sector, state-owned enterprises, banking, trade, and public expenditure management.

⁴ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Viet Nam for the Financial Sector Program Loan I*. Manila; and ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Viet Nam for the Finance Sector Program Loan II*, currently under preparation.

14. **Housing Finance Orientation Policy (Document).** Satisfying the requirements for low-income HFC is beyond the reach of Government funding or international external assistance. The solution lies in mobilizing domestic capital finance by facilitating the development of the primary housing finance market and the longer term development of a secondary mortgage market. Housing finance needs to be viewed as a key component of both housing sector and financial sector policies. The Government needs to increase housing policy initiatives to the demand side through a strategy that includes (i) establishing an efficient institutional framework, and improving regulations and practices for the housing finance market; (ii) creating new savings products linked to housing loans; (iii) developing the primary mortgage market and establishing the basis for a future secondary market; and (iv) establishing specific measures to support the poor, particularly through urban upgrading and own-build options, and transparent targeted subsidies. The Project will support the Government in developing a housing finance orientation (policy document) that will have those elements and promote housing finance as a main element in the national housing and finance policies.

15. **Institutional Framework for Housing Finance.** No particular institution in Viet Nam has the mandate to develop the demand side of the housing finance market. The development of an efficient housing mortgage market in Viet Nam requires the establishment of a housing finance facility (HFF) that will be placed initially within SBV and will refinance housing loans from qualified participating financial institutions (PFI). The HFF would become an independent mortgage refinance agency (MRA) and apex institution for housing finance. The Project will provide (i) initial resources to HFF to start its operations on a pilot basis; and (ii) capacity building and training activities for HFF and participating financial institutions (PFIs), with the objective of developing the national housing finance system. The establishment of HFF will be an opportunity to test the mechanisms for loan disbursement to ULIPHS, and act as a catalyst to facilitate reforms in the housing finance sector. HFF will lead to (i) the development of an efficient primary mortgage market accessible to ULIPHS by institutionalizing standards, procedures, and good practices among PFIs; and (ii) building up of basic requirements for the emergence of a secondary mortgage market.

16. Establishing HFF within an existing commercial bank was considered during project preparation; however, international experience has shown that this option would prevent the development of a sustainable housing loan refinancing market because of (i) the conflict of interest between that bank's apex wholesale banking function and its retail housing finance function; and (ii) the inhibiting influence of competitive retail banks disclosing retail housing finance activities to a competitor. Once the primary mortgage market has been developed, and HFF has acquired a reputation as an efficient, low-risk, and stable facility, HFF would become an independent MRA. Initially, however, it is more appropriate to establish HFF inside SBV, as the implicit authority of SBV will ensure sound principles of effective governance and prompt PFIs to accept prudential operating standards. Relocating HFF will be examined in the project midterm review, and ADB and the Government will agree on a timetable for establishing it as an independent MRA, at the latest, at the end of the Project implementation period.

17. **Long-Term Finance and Expansion of the Housing Finance System.** A key constraint to developing an effective housing finance market is the absence of long-term credit funds in the Viet Nam banking system. This disproportionately affects ULIPHS. To expand ULIPH's access to housing loans, the Project will provide a long-term HFC line to HFF to refinance housing loans originated by PFIs. Providing medium- and long-term loans for housing will catalyze the development of the housing finance market. Furthermore, as capital markets and institutional investors such as insurance companies and pension funds develop in Viet Nam, a sustainable domestic capital flow into HFF/MRA could develop. This will require transforming HFF into a completely independent MRA that would act as a secondary market facility (SMF) with its own capital, efficient management, and transparent procedures, and able to attract long-term capital to the housing sector. The MRA/SMF could purchase performing housing mortgage loans from PFIs, thus providing new capital to create

further housing loans and enlarge the housing finance market in Viet Nam. The Project will support the Government to conceive and design features for mortgage bonds to be issued by a potential SMF for long-term institutional investors, and to establish the basis for the long-term objective of developing a secondary mortgage market.

18. **Savings Schemes Linked to Housing Improvement and Development.** No particular products in the banking system link formal savings with mortgage lending for housing. Access to the formal housing finance sector can be enhanced through the development of contractual housing-saving schemes, where a ULIPH undertakes to save a given amount over a prescribed period of time and the housing finance institution agrees to provide a housing loan at the end of the saving period for an amount and term dependent on the accumulated savings amount. Such schemes reduce the element of uncertainty for both the ULIPH and the bank. The Project will promote the establishment of these long-term savings instruments linked to housing in the participating commercial banks (PCBs). In the CFIs, microcredit deposit saving schemes would help poor households to access the formal housing finance sector through a group savings and lending mechanism. Such schemes will be developed and administered under the Project by sustainable microfinance organizations, generally working through mass organizations such as the Women's Union and nongovernment organizations (NGOs). This mechanism will involve microcredit organizations lending for home improvement to groups of poor households on the strength of prior collective group savings, with the groups being responsible for dealing with individual savings collection, lending, and loan repayments themselves.

19. **Housing Finance Awareness and Marketing Campaign.** ULIPHS have limited knowledge of and access to the formal housing finance sector. Survey data collected during project preparation indicated that ULIPHS were interested to learn more about housing loans from financial lending institutions and would consider sourcing housing finance from the formal sector rather than from the informal market sources, particularly moneylenders. To ensure that ULIPHS better understand and utilize the project subloans, the Project will enable an awareness and marketing program specifically targeted ULIPHS.

20. **Database of Housing Finance Demand.** There is a large demand for new and improved housing for ULIPHS in resettlement areas, shanty housing improvement projects, industrial estate employee housing projects, as well as government employees. However, commercial banks have difficulties identifying these opportunities for lending to ULIPHS. The Project will help PFIs assess the housing demand of ULIPHS by gathering information on opportunities from particular social groups. Under the Project, HFF will establish a database of ULIPHS. The database will include national registers of resettlement, shanty housing improvement, and industrial estate employee housing projects, as well as government employees requiring housing finance.

21. **Legal Improvements of Mortgage System.** The right to grant a mortgage to secure a loan using land use right (LUR) is one of the rights established under the Land Law. There is no legal bar to mortgages being used in all cases where land use rights certificates (LURCs) or building ownership and land use certificates (BOLUCs), have been granted or existing historical rights have been or are entitled to be recognized. However, commercial banks are reluctant to use mortgages due to the uncertainty in calling up property in case of default. While the Land Law and Civil Code permit mortgages and the right to sell land in case of loan default, this right is seldom exercised because the spread and confusion of legislation on mortgages make it difficult for judges to interpret and implement the law. To make it easier for both credit institutions and borrowers to understand, accept and use mortgages over LUR and houses, the laws relating to mortgages of LURs and buildings attached to land should be revised and consolidated to (i) remove all constraints imposed by Government or local authorities on the unrestricted transfer, exchange, or lease of residential land, with or without buildings; and (ii) more clearly define the procedures to be followed when calling up a mortgage in default, selling the mortgaged LUR and house, and defining the extent of

the court's jurisdiction in such cases. An interministerial committee chaired by SBV will be established with senior representatives from MOC, Ministry of Natural Resources and Environment (MNRE), and Ministry of Justice (MOJ) to prepare legal reforms required to ensure the establishment of a transparent and efficient legal framework for mortgages. The Project will support this process and the preparation of appropriate legislation on mortgages.

22. **Valuation of Housing Mortgage Collateral.** Decree 178/1999 requires credit organizations to use frame prices when valuing land used as collateral for housing mortgage loans. The land frame prices in urban areas are outdated, arbitrary, and inaccurate, as they had been set by provincial people's committees (PPC) based on the national frame price set by the Government in 1994. Frame prices for urban land are generally significantly lower than the actual market value. This decree requirement restricts credit institutions from making their own value and risk assessments and frequently disadvantages borrowers, as it limits the size of the loan. For ULIPHs this requirement is particularly onerous as it increases the proportion of deposit they are required to meet from savings or additional borrowings. While the credit organization obtains better collateral due to the small loan size relative to the actual land value, the borrower's access to appropriate loan levels is restricted. When they borrow from more than one source to meet the high deposit requirement, the additional repayment requirements are onerous and in some cases lead to loan defaults. In addition, some ULIPHs are unable to access such credit facility, as they cannot meet the high deposit and/or repayment requirements. The Project will address this issue in the policy and institutional action plan by eliminating the use of frame prices by credit organizations valuing land collateral, and providing support for the establishment of a market-based valuation system for properties.

23. **Issue of Land and Building Title Certificates.** The slow grant of LURCs and BOLUCs has been a serious problem in the urban areas in Viet Nam. It is estimated that approximately 18% of the urban population have a title certificate for their properties although in particular areas almost half of the population do. Without a BOLUC or LURC, landholders cannot use their land and building assets as security under a mortgage. This issue arises from the lack of sufficient numbers of suitably trained and experienced cadastral, administration, and legal staff in the Department of Land Administration (DLA) or Department of Land Administration and Housing (DLAH) in each city, province, district, and town, and from the complexity of the mechanism required to obtain the title. As a result, the land and housing registers maintained by DLAs and DLAHs are incomplete and have limited use as the basis for registering mortgages. MNRE is actively engaged in improving the system for issuing LURC and BOLUC in cooperation with DLAs and DLAHs of the major cities and provinces. The Government has assured that issuing of titles will continue with the support of several development partners.

24. **External Assistance to the Sector.** External assistance to housing finance related sectors has been extensive and has advanced the legal and institutional framework for developing the housing finance market in the last 10 years. External assistance has focused on (i) land administration reform, (ii) housing sector, (iii) urban development, and (iv) financial and banking sectors. The external assistance to the urban, housing and financial sector is presented in Appendix 1.

25. **Lessons Learned.** Key lessons from past developing country experience with low-income housing loan projects include (i) subsidized interest rates on subloans to ULIPHs invariably leak to higher income groups, regardless of the criteria on income qualification criteria; (ii) supply-side approaches involving the provision of sites, services, and housing for ULIPH borrowers generally result in high cost and inappropriate housing unaffordable to the target beneficiaries; (iii) housing subloan origination and repayment management practices frequently lead to leakage of subloans to nontarget beneficiaries and high subborrower repayment delinquency and loan default, unless sustainable capacity building technical assistance is provided and monitoring systems are

established; and (iv) secondary mortgage markets are unsustainable unless a primary mortgage market has developed based on sound land titling and, valuation, and legal provisions for mortgage loan recovery. These lessons have been factored into the design of the Project.

III. THE PROPOSED PROJECT

A. Objective

26. The Project's goal is to improve the quality of life for ULIPs through improved housing. The specific objective is to promote the establishment of a sustainable housing finance market in Viet Nam accessible to ULIPs. The Project will provide approximately 27,500 housing finance loans disbursed through qualified PFIs, and will benefit over 137,000 people in the first round of lending.⁵ The Project will support the establishment of a HFF that would become the apex institution for the housing finance sector. All loans to PFIs will be channeled through HFF, which will become a refinance facility (revolving fund) in charge of disbursement to the PFIs and repayments on a regular basis. The Project will have an institutional strengthening and capacity building program and a policy and institutional reform action plan. The Project framework is in Appendix 2. A policy and institutional action plan is presented in Appendix 3.

B. Components and Outputs

27. The Project consists of three parts: (i) mortgage lending to urban low-income households (ULIHs); (ii) housing microfinance to urban poor households (UPHs); and (iii) institutional strengthening and capacity building.

1. Mortgage Lending to Urban Low-Income Households

28. Housing mortgage loans to ULIHs through PCBs will be provided through two subprojects: (i) mortgage loans for housing purchase (up to D100 million per housing unit cost); and (ii) mortgage loans for housing upgrade (up to D20 million per housing project cost). Approximately 4,100 ULIHs will obtain loans to buy or build houses and about 14,600 will obtain loans to upgrade/improve existing houses.

2. Housing Microfinance to Urban Poor Households

29. Through established microfinance community-based financial institutions (CFIs), housing microfinance loans to UPHs existing depositors will be provided through two subprojects: (i) loans for small home improvement (up to D15 million per housing project cost); and (ii) loans for own-build housing (up to D15 million housing project materials cost). At least 6,700 UPHs will obtain loans to upgrade/improve existing houses, and 2,100 will obtain loans to own-build new houses.

3. Institutional Strengthening and Capacity Building

30. The Project will support institutional strengthening and capacity building to develop the housing finance system in Viet Nam. The subcomponents follow: (i) support for establishing an HFF that would become the apex institution for the housing finance sector, (ii) a training and capacity building for HFF and PFIs, (iii) a housing finance awareness and marketing program, and (iv) establishment of a housing demand database for ULIPs.

31. The Project will include a significant institutional strengthening and capacity building program to facilitate the development of a sustainable and effective housing finance market in Viet Nam. All

⁵ It is possible that the number of beneficiaries over the loan term will increase 2-3 times with housing loan rollovers, depending on the experienced average length of the loan term.

stakeholders will benefit from capacity building activities to develop and enhance management procedures and staff technical capabilities. The Project will (i) train PFIs to attract new customers (savers and borrowers) by designing new savings and lending instruments for housing; (ii) train PFIs to reinforce their capacity in marketing strategy for housing finance, particularly for ULIPH target groups; (iii) provide advisory services to SBV and PFIs for standardizing mortgage instruments, underwriting, and servicing procedures; (iv) assist SBV and the Government in designing an adequate housing-savings scheme that will increase the long-term domestic savings available for the housing sector; (v) assist the financial authorities in developing new instruments based on housing mortgages to be offered in the capital market; (vi) establish the basis for issuing mortgage bonds and developing a sustainable secondary mortgage market; (vii) support MNRE, MOC, MOJ, and SBV in consolidating and improving the laws, regulations, and practices relating to mortgages and valuation of LURs and houses; and (viii) support the Government in preparing a housing finance orientation (policy document).

32. Some key characteristics of the Project are that (i) housing loans will be demand-driven, in contrast to the supply-driven approach of sponsored housing development programs involving very limited housing option choices; (ii) the interest rate structure will be at full market rates, without any subsidies, subject to competitive market influences; (iii) Government subsidies through free or subsidized land, infrastructure services, tax rebates, or direct cash advances to UPHs, given through transparent procedures, could complement the Project, but are not required; (iv) housing loans will be available for flexible terms of 5-20 years at levels affordable to ULIPH; and (v) housing finance for new and existing houses and house upgrading, will be provided only for urban areas.

33. The four key outputs of the Project are (i) the establishment of HFF to monitor project funds, establish procedures and documentation, and act as a think-tank in developing the housing finance sector; (ii) refinancing through HFF to PFIs originating ULIPH housing loans; (iii) establishment of linkages between CFIs and NGOs and people's committees (PCs) to facilitate small loans to UPH for own-build and house improvement; and (iv) capacity building and institutional strengthening through HFF, resulting in effective project management systems in PFIs, a housing finance orientation (policy document), and improvements in legislation on mortgages and valuation.

34. A wide range of potential PFIs (PCBs and CFIs) have been identified and assessed. Recent financial statements and operating data, experience in housing finance, and commitment to develop their housing finance portfolio for low-income households were reviewed. Six PCBs and two CFIs were prequalified as PFIs that could participate in the Project, provided they comply with all the conditions established to qualify. The selection of the prequalified PFIs was based on their past experience in housing finance, commitment to participate in the Project and financial indicators. The prequalified PCBs are the Bank of Investment and Development of Viet Nam, Industrial and Commercial Bank of Viet Nam, Housing Development Bank of Mekong Delta, Asia Commercial Bank, Ho Chi Minh City Housing Bank, and Sacombank. The pre-qualified CFIs are the People's Credit Funds network, and Viet Nam Bank for Agriculture and Rural Development. Other CFIs could be prequalified after the Government completes the legal framework for microfinance institutions. Independent auditors will prepare a detailed due diligence analysis of the PFIs before they are fully qualified and can access project funds. A summary of the key PFI financial performance and financial forecasts for 10 PCBs and 2 CFIs are in Supplementary Appendix C.

35. PFIs must sign a HFC loan agreement with HFF before they can access housing loan refinancing for beneficiary subloans. The HFC loan agreement will outline (i) eligible housing subborrowers; (ii) subloan terms and conditions; (iii) subloan management; and (iv) audit, supervision, and reporting requirements. The HFC loan agreement will have these key features (i) eligible housing subborrowers have a monthly income in the range of D0.35 million-3.5 million; (ii) the maximum subloan for house purchase and home improvement/upgrade is equal to 70% of the value of house or house upgrade cost, requiring a 30% subborrower equity contribution; (iii) the

maximum price of the house eligible for a subloan is D100 million; (iv) maximum subloan term is 20 years; (v) subborrower provides LURC or, where appropriate, BOLUC as collateral for all subloans from PCBs, while for housing microfinance from CFI, other forms of collateral will be allowed (e.g., individual or group guarantees); (vi) HFC loans from HFF to PFIs will be for the term of the subloans; (vii) HFC loans from the HFF to PFIs will be at a variable interest rate adjusted quarterly and set at the weighted average of all time deposits in the banking system; (viii) interest rates for subloans will be in accordance with the interest rate policy of each PFI; subborrowers can choose a fixed rate (prevailing variable rate as defined above plus a premium) for the term of the subloan, or a variable rate periodically adjusted; (ix) PCBs will be required to lend 20% of each subloan from their own funds, while CFIs due to their lower equity base will be required to contribute only 10% of each subloan from their own funds; (x) when PFI fails to repay the principal and/or interest due on a HFC loan from HFF, the HFF has the right to call either the outstanding balance of the PFI's entire HFC loan portfolio or the specific HFC loan(s) in default (based on the circumstances of that default and the financial condition of the PFI) and suspend the right of the PFI to obtain further HFC loans; and (xi) all risks inherent to subloans by PFIs will be borne by PFIs.

36. Loan terms and conditions for loans to PFIs and subloans to individual households under the Project have been developed after extensive consultation with potential PCBs and CFIs currently engaged in housing finance lending to ULIPHS as well as survey and focus group discussions with ULIPHS. A summary of survey findings during project preparation is in Appendix 4.

C. Special Features

1. Institutional Development

37. The establishment of HFF will be the basis for developing institutions and organizing the housing finance sector in Viet Nam. HFF will carry out the following responsibilities: (i) coordinate institutional support and technical assistance to PFIs; (ii) be the think-tank for conceiving new financial instruments and developing the primary and secondary markets for housing finance; (iii) refinance housing loans from qualified PFIs; and (iv) advise SBV and the Government on housing finance strategy and policy matters. Initially HFF would (i) establish assessment and monitoring procedures for PFIs; (ii) complete the process of qualification of PFI, selected among the prequalified PFIs; and (iii) monitor the qualified PFIs and ensure that onlending terms to ULIPHS are applied. HFF will be an autonomous unit within SBV. In the medium-term, HFF will ideally become an independent MRA that could act as a commercial wholesale facility for refinancing mortgage loans. In the long-term, it could become a SMF, with its own capital, able to attract additional long-term funds to the housing sector through the issuance of bonds and mortgage-backed securities.

2. Policy Dialogue

38. Policy dialogue has centered on issues that will facilitate the development of a sustainable housing finance market: (i) a national housing finance orientation (policy document) that integrates housing and finance policy concerns and objectives and establishes the framework for developing a sustainable housing finance market will be prepared and approved by the Government; (ii) consolidating and rationalizing mortgage legislation and preparing regulations for effective implementation; (iii) releasing organizations from the requirement to use or be influenced by frame prices when assessing the value of LURC, and promoting international, market-based valuation techniques and best practices; (iv) continuing the policy reform agenda of the Government in areas that affect housing finance such as the increased issuance of LURCs and BOLUCs, and banking sector reform; (v) preparing the basis and assessing options for the long-term expansion of the housing finance system by developing contractual savings schemes linked to mortgages, a mortgage insurance scheme, and issuance of bonds by a SMF. In many of these areas, policy and legal reform has been an ongoing process and significant positive changes have occurred in recent

years. In the banking sector, for example, interest rate controls were completely liberalized from 1 June 2002, when the interest rate for lending and deposit rates were deregulated. The project policy reforms are in line with the Government's national policy objective of moving from Government subsidized and control policies to an open market economy.

3. Poverty Intervention

39. The Project has been classified as a poverty intervention. Approximately 32% of the total project beneficiaries are expected to be poor. Approximately 43,700 urban poor will benefit from the Project directly through the microfinance component. Official estimates indicate 9% of urban households were below the poverty line in 1997/98 Viet Nam Living Standards Survey (VLSS), but this is believed to be an underestimate, as participatory poverty assessments showed that the VLSS did not cover unregistered migrants (whose number is significant in the larger urban areas). The proportion of urban households below the poverty line is estimated to be around 15%. Such households are classified as poor, while households with incomes above the poverty line, but below the average income are classified as low-income for the purpose of the Project. Nationally, two poverty lines are in use – one based on the VLSS analysis, and one used by the Ministry of Labor, Invalids and Social Affairs (MOLISA). For urban areas these poverty lines were estimated at D873,000 (\$58 equivalent) and D750,000 (\$50 equivalent) per household per month, while the average household income was D3,550,000 (\$237 equivalent) per month. The Project has used the MOLISA poverty line to classify the beneficiaries as poor. A poverty reduction and social strategy is presented in Appendix 5.

40. Particular groups of UPHs with stable income could especially benefit from the Project including (i) resettlement households associated with infrastructure development projects; (ii) canal and shanty area households designated for rehabilitation; and (iii) housing projects for selected government and major employer worker groups. Resettlement projects have the advantage that land (including the grant of LURC) and infrastructure service costs for resettlement housing are generally included in the project or contributed by the relevant people's committee (PC) from their own funds. Additionally, the compensation package, provided to affected households at replacement cost, provides the households with enough funds to pay for a significant part of an improved house unit, if they decide to use the opportunity for a larger or better house. Resettlement projects also have the advantage that they usually have a choice of appropriate housing options for target UPHs. Finally, some resettlement projects have social survey inputs, community consultation, and savings credit schemes to prepare households for relocation. In all, resettlement projects offer an opportunity for the Project to provide the vital, and usually lacking, long-term housing credit facility to resettlement and rehabilitation projects, without the need to develop an entire housing and infrastructure project. Access to housing loans for resettlement households would be in addition to the house compensation entitlements to which resettlement-affected people are already eligible.

4. Affordability

41. Affordability analyses were carried out to ensure that project loans will not create an undue financial burden on the ultimate beneficiaries. Loan repayments for different average loan sizes for each component were calculated on a monthly basis and the minimum household income required to service the loan amount was estimated for each case. The Project provides a wide array of housing options for ULIPHs wishing to improve their current housing standards, including house purchase, own-build housing, and house upgrading. These options provide access to affordable housing credit for all low-income households and even households with a relatively steady income stream who are below the poverty line. Households with monthly incomes at the top of the low-income housing range (between D1.8 million-3.5 million per month) can readily afford housing finance to buy a new house or apartment at commercial bank rates (around 10% per annum). Households with monthly household incomes below D1.8 million can readily afford to upgrade their

existing houses or take the own-build option. Households at the bottom of the low-income band (less than D1 million per month) and poor households (above D350,000 per month) will be able to afford the existing house improvement or own-build options. The affordability of different loan products is presented in Appendix 6, and a detailed sensitivity analysis is in Supplementary Appendix D.

5. Flow of Funds and Onlending Arrangements

42. MOF will enter into a financing agreement with SBV, which will establish a HFF-project management unit (PMU). Funds will flow from MOF to SBV/HFF in dong, which will be the currency of all subsequent fund flows. Qualified PFIs will be required to sign a HFC loan agreement with HFF before they can access housing loan refinancing for beneficiary subloans. HFF will provide credit lines for each HFC of a maximum of \$2 million for PCBs and \$1 million for CFIs. The maximum total accumulated HFC amount for any PFI will be \$7 million. PFIs will provide from their own resources capital equal to 20% of all subloans to borrowers from PCBs and 10% of all subloans to borrowers from CFIs. Subborrowers will contribute some 30% of their housing costs, ensuring they have significant equity in their housing project.

43. MOF and SBV will sign a financing agreement acceptable to ADB providing for (i) the transfer of the funds for the institutional strengthening and capacity building component as a grant; (ii) the transfer of the loan from MOF to SBV/HFF for purposes of the Project with a loan term of 20 years and a grace period of 5 years; and (iii) SBV/HFF to pay MOF all interest rate funds on the loan disbursed except 1% for a management fee to be retained by HFF. HFF will use this management fee (i) to cover the cost of operating HFF-PMU (including training and capacity building for HFF-PMU and PFIs), (ii) to cover the cost of conducting marketing campaigns to ULIPs to advise them of the Project, (iii) to accumulate reserves for working capital when HFF becomes an independent MRA, and (iv) to relend to project beneficiaries. The management fee will be calculated at 1% annually on the outstanding subloans, and payable quarterly to HFF from PFI subloan repayments to HFF. MOF will bear the foreign exchange risk from the remaining interest payments from PFIs to HFF, after deducting the HFF management fee. The financial arrangements for the Project are presented in Appendix 7.

6. Sustainability

44. The Project will initiate the process to develop a sustainable market-based facility to provide housing finance to ULIPs. The use of market-based interest rates will lead to sustainability of the Project. The establishment of a revolving fund at HFF for refinancing mortgage loans from PFIs will ensure the sustainability and reuse of the funds. The commitment from PCBs and CFIs to provide 20% and 10%, respectively of the total loan value will also ensure sustainability. In the medium-term, standardizing the housing loan underwriting procedures, practices, and documentation will facilitate the establishment of appropriate control mechanisms, and in the long-term attract capital to the sector for the development of a secondary market. The long-term sustainability of the housing finance sector will be strengthened.

7. Project Beneficiaries

45. The beneficiaries will be ULIPs, who are willing to take loans from PFIs for purchasing, constructing, or improving their houses, and have the capacity to repay the subloan proceeds by installments. The Project will benefit more than 137,000 urban low-income and poor persons including more than 43,000 urban poor. Under the Project, PFIs will refinance housing and housing upgrade loans to ULIPs with monthly incomes of D0.35 million-3.5 million. The PCBs will primarily focus on ULIPs in the D0.75 million-3.5 million monthly household income range who can afford to finance a new or existing housing unit at a cost of D100 million at 70% financing, or could upgrade the house for a cost up to D20 million, at commercial interest rates and a maturity of up to 20 years.

The CFIs will focus on UPHs below the poverty line in the D350,000–750,000 monthly income range. Affordable options for this household segment follow: (i) a building materials loan for own-build housing; and (ii) smaller home-improvement loans. PFIs will also benefit directly from the Project, while construction companies will benefit indirectly.

8. Involvement of NGOs and Local Community Groups

46. The loan delivery mechanism for smaller own-build and house improvement loans will be implemented through CFI-managed credit schemes administered with the assistance of PCs, local community groups, and NGOs. These intermediaries will facilitate scaling of UPHs' individual small savings and lending activities to a larger group scale more attractive to CFIs. NGOs could also participate by preparing and implementing a social intermediation program that will be part of the awareness and marketing program to promote housing finance. The role of the NGOs will be particularly important in implementing the housing microfinance component and will enhance the sustainability of group-based long-term lending schemes. The role and contributions of these intermediary organizations and the community group support mechanism are described in Supplementary Appendix E.

9. Qualifying Criteria for PFIs

47. The qualifying criteria for PFIs are outlined in Appendix 7. The prequalified PFIs should comply with all the required criteria to become qualified PFIs including: (i) legality standards that require PFIs to be established, organized, and operate in compliance with regulations of SBV; (ii) solvency standards that assess PFIs in terms of loan portfolio quality and capital adequacy; (iii) liquidity standards that assess the capacity of PFIs in converting assets into cash or liquid assets to cover short-term liabilities; (iv) profitability and efficiency standards that assess the capacity of PFIs in utilizing resources; and (v) standards on management quality of staff that address whether PFIs have staff with managerial and professional skills in accordance with SBV-stipulated regulations.

D. Cost Estimates

48. The total cost of the Project is estimated at \$51.8 million equivalent, including all the investments in new and improved housing expected to be generated through the catalytic effect of the ADB-financed subloans. The cost estimates assume that the ULIPHs receiving housing loans through the Project will invest an amount equal to at least 30% of the value of the total housing expenditure. This beneficiary contribution is conservative and was based on information from commercial banks currently providing housing loans and on results of household surveys and focus group discussions conducted during project preparation. Project cost and impact by number of beneficiaries is presented in Appendix 8.

E. Financing Plan

49. It is proposed that ADB provide a loan of \$30 million equivalent to finance about 57.9% of the total project cost. ADB will finance the entire foreign exchange cost of \$8.5 million and \$21.5 million equivalent (49.7%) of the local currency cost. The balance will be borne by the PFIs and the Government as well as by the beneficiary households from their own resources. The PFIs contribution represents 12.3% of the total project cost. This contribution is regarded as important, as it means the PFIs share some of the risks associated with lending to the target group. Beneficiaries will contribute some 28.8% of the project cost. The government contribution arises from incremental administration costs associated with project management and operation of HFF.

Table 1: Project Cost Estimates

(\$ million)

Item	Foreign Exchange	Local Currency	Total Cost
A. Mortgage Lending to ULIH through PCBs			
1. House Purchase	3.3	16.7	20.0
2. House Upgrading	2.1	18.7	20.8
Subtotal A	5.4	35.4	41.7
B. Housing Microfinance to UPH through CFIs			
1. Small Home Improvements	0.6	5.7	6.3
2. Own-Build Housing	0.2	1.4	1.6
Subtotal B	0.8	7.1	7.9
C. Institutional Strengthening and Capacity Building			
1. Consulting Services ^a and training	1.4	0.2	1.6
2. Equipment and Vehicle	0.1		0.1
Subtotal C	1.5	0.2	1.7
D. Government Incremental Administration		0.5	0.5
E. Interest on ADB Loan	0.9		0.9
Total	8.6	43.2	51.8
Percent	17%	83%	100%

ADB = Asian Development Bank, CFI= community based financial institution, PCB = participating commercial bank, ULIH = urban low-income household, UPH = urban poor household.

^a Includes the portion of the initial grant PPTA that exceeds \$250,000 equivalent, and is estimated at \$150,000 approximately.

50. The Socialist Republic of Viet Nam will be the Borrower of the ADB loan. The proposed loan will be from ADB's Special Funds resources and will have a term of 32 years, including a grace period of 8 years. A service charge of 1% will be levied on the loan during the grace period and 1.5% during the amortization period. Table 2 shows the financing plan.

Table 2: Financing Plan

(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percent
ADB	8.6	21.4	30.0	57.9
PFI		6.4	6.4	12.3
Government		0.5	0.5	1.0
Beneficiaries		14.9	14.9	28.8
Total	8.6	43.2	51.8	100.0

ADB = Asian Development Bank, PFI = participating financial institution.

51. The provision for financing local currency costs is considered justified under ADB's local currency financing policy.⁶ The Project is expected to have a high demonstration and catalytic value in reforming the housing finance sector to make it more efficient and effective in improving access of ULIPHs to sources of finance for shelter. The relatively high level of local currency support is justified, as there is insufficient opportunity for ADB to achieve its objectives by foreign currency lending alone. The local currency component of the Project is high because most housing construction materials are produced locally, particularly for the upgrading and own-build components for UPHs.

⁶ R1-95: Review for Local Foreign Exchange for Local Currency Expenditures on Projects.

52. A project preparatory technical assistance to the Government of the Socialist Republic of Viet Nam in an amount not exceeding the equivalent of \$400,000 was provided for preparing the Housing Finance Project.⁷ The portion of the initial grant that exceeds \$250,000 equivalent will be charged against the project loan (part C), and recovered from it.

F. Implementation Arrangements

1. Project Management

53. The Executing Agency (EA) for the Project will be SBV. A project steering committee (PSC) will be established within 3 months of loan effectiveness to oversee overall project implementation. The PSC, to be chaired by a deputy governor of SBV, will comprise representatives from MOC, MOF, Ministry of Planning and Investment (MPI), MNRE, and Ministry of Justice (MOJ). The PSC will meet at least quarterly to review progress of the Project, particularly the institutional, policy, and legal aspects. These arrangements are to establish effective links between government agencies for collaboration in developing the housing finance system and implementing the policy and institutional reform action plan.

54. HFF will be the PMU established within the international credit projects management unit (ICPMU) in SBV, to be headed by a project director, who has already been selected. HFF-PMU will be in charge of (i) monitoring the channeling of funds and recovery of the ADB loan; (ii) coordinating the institutional support and capacity building program, including recruiting and supervising consultants; (iii) developing new financial and savings instruments to attract additional funds to the housing sector; and (iv) advising SBV and the Government on a housing finance strategy and policy matters. HFF-PMU will be responsible for day-to-day management, and monitoring of all project activities, including coordination with SBV departments, government ministries, and agencies, and PFIs. HFF-PMU will have a staff of at least 15 professionals, including a project director and a full-time project manager, and supported by international and domestic consultants. A solid financial management system for HFF-PMU including internal financial and accounting controls will be established before the first disbursement to refinance the subloans under the Project.

55. To facilitate implementation, and ensure the credibility and standardization of the mortgage financing facility in the marketplace, a Housing Finance Consultative Group (HFCG) will assist in coordinating the Project. Members of the HFCG will initially consist of HFF and the PFIs.

56. Project implementation units (PIUs) as separate housing finance units will also be established in each PFI to manage the loans provided under the Project. The HFF role and responsibilities, and organizational structure are described in Appendix 9. A project organization chart is presented in Appendix 10.

2. Implementation Period

57. The Project will be implemented over 5 years and is expected to be completed by December 2007. To ensure timely implementation and in line with the Government's emphasis on the disbursement readiness of approved loans, HFF will prepare a detailed disbursement plan for the first year of the Project, and thereafter annually, based on disbursement plans submitted by PFIs. Within 9 months of loan effectiveness, HFF will develop appropriate lending, monitoring, and reporting procedures for PFIs, and finalize HFC loan agreements with individual PFIs. New housing loans are expected to come from qualified PFIs within 12 months of loan effectiveness. During this period, the consultants will be recruited, will provide capacity building services to HFF, and will

⁷ This technical assistance was financed initially as a grant, but was subject to the reimbursement arrangements set forth in the Board papers on *Technical Assistance Operations* (Doc. R51-77, dated 20 May 1977) and *Streamlining Technical Assistance Operations* (Doc. R44-88, dated 21 March 1988).

design and implement training programs for HFF and PFI personnel. Within 2 years of loan effectiveness, the consultants will review the operations of HFF and analyze the feasibility of developing a plan and timetable for the evolution of HFF into an independent MRA. The status of HFF and the creation of an independent MRA will be evaluated during the midterm project review. The project implementation schedule is in Appendix 11.

3. Procurement

58. Goods and works to be financed by ADB will be procured in accordance with ADB's *Guidelines for Procurement*. In procuring goods and services to be financed out from the loan proceeds, the borrowers will satisfy ADB that the procurement procedures they applied are appropriate in the circumstances. Moreover, they will ensure, and certify to ADB if requested, that the goods and services to be financed are purchased at reasonable prices, account being taken of relevant factors such as time of delivery, efficiency, and reliability of goods; their suitability; the availability of maintenance facilities and spare parts; and, in the case of services, their quality and the competence of the parties rendering them. Equipment items that are locally available and cost less than \$100,000 equivalent may be procured through direct purchase in accordance with procedures satisfactory to ADB. Indicative contract packaging for equipment and a vehicle for HFF is presented in Supplementary Appendix F.

4. Consulting Services

59. A total of 38 person-months of international and 26 person-months of domestic consulting services will be required for capacity building and project implementation support. HFF will select and engage all consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for selecting and engaging domestic consultants. A consulting firm will be engaged by HFF to provide all services required using the ADB quality-and-cost-based selection method. Individual consultants may be engaged to provide specific services if approved by ADB. Consultants will provide on-the-job training to HFF officials implementing the Project. Appendix 12 presents the outline terms of reference for consulting services.

5. Disbursement Arrangements

60. The Borrower will disburse funds under the Project through two imprest accounts (one for consulting services and equipment, and the other for subloans refinancing), to be established at a commercial bank acceptable to ADB immediately after loan effectiveness. The imprest accounts will receive an initial advance equivalent to the Borrower's anticipated disbursements to HFF and to subborrowers over a 6 month period. The imprest accounts will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2001), as amended from time to time. ADB's statement of expenditures (SOE) procedure will be used to liquidate advances into the imprest accounts or for reimbursements. However, each individual payment reimbursed or liquidated using the SOE procedure will not exceed \$100,000 equivalent; otherwise, HFF needs to submit supporting documents. To monitor the subloan repayments by PFIs to HFF, the PFIs and HFF need to attach a copy of the subloan repayment account statement as a support document for further uses of the ADB loan proceeds.

61. Each PFI will submit the first 10 subloans to be refinanced by HFC loans individually with all relevant loan appraisal documentation to be reviewed by HFF. Subsequently, HFF will disburse HFC loans to PFIs on the basis of lists of subloans (LOS) of not less than D500 million (\$33,333 equivalent). Initially, the LOS will be accompanied by relevant loan appraisal documentation, and HFF will review and approve the documentation for 5 subloans included in the LOS before approving the disbursement of HFC loans. After the submission of the third LOS by any individual PFI, HFF, with the concurrence of ADB, may suspend submission by that PFI of loan appraisal documentation

for that PFI and rely on monitoring the appraisal documentation during the 6 monthly review sessions.

6. Accounting, Auditing, and Reporting

62. HFF-PMU will maintain records and accounts in accordance with sound accounting principles, with sufficient details to identify the type and number of subloans financed by the loan proceeds. Auditors acceptable to ADB will audit annually all the accounts, financial statements and statements of expenditures and revenues. Audited project accounts, together with the report of the auditor, will be submitted to ADB within 6 months of the close of the fiscal year. In addition to the audited project accounts, HFF-PMU will submit audited annual financial statements throughout the life of the loan. HFF-PMU will also submit to ADB, not later than 6 months after the loan closing date, a completion report on loan utilization, subproject implementation, and the performance of PFIs and subborrowers with respect to onlending funds to ULIPHS for housing purchase, improvement, and own-build housing. In addition, under the HFC loan agreements between HFF and each PFI, the PFIs will be required to maintain full records on the subloans. HFF and ADB may review and audit these records on a random basis.

63. An administration and reporting division to be established within HFF-PMU will be responsible for project supervision, monitoring, and reporting. HFF-PMU, on behalf of MOF and SBV, will submit to ADB a quarterly progress report on commitments and disbursements, problems encountered during the quarter under review including any material or adverse change in the Project's activities, actions taken or proposed to be taken to remedy the problems, and expected progress during the following quarter. HFF-PMU will keep records of all onlending activities under the Project, identifying the subborrower or intermediary; the purpose and use of loans to the beneficiaries; the size, term, and interest rate of the subloans to subborrowers; and the estimated number and income levels of ULIPH beneficiaries. The PFI will maintain adequate records to show that ADB funds were used to finance 80% of total lending through PCBs, and 90% of total lending through CFIs.

7. Project Performance Monitoring and Evaluation

64. The Project includes a project performance monitoring system (PPMS) to be undertaken by HFF with the help of consultants. The Government will ensure that a PPMS is implemented to monitor and evaluate the technical performance and social and economic benefits of the Project, especially to the ULIPHS, and to ensure the target beneficiaries realize the anticipated benefits. The PPMS will (i) monitor the Project's implementation performance, dealing mainly with the efficiency and effectiveness of the subloan lending arrangements; (ii) monitor the Project's operational performance, mainly in relation to the PFIs performance in meeting their respective lending targets; and (iii) evaluate the Government's performance during and after project implementation. The key monitoring indices, in addition to targets and actions outlined in the project framework and the policy and institutional action plan, will be (i) internal efficiency of sublending operations, (ii) satisfaction of ULIPHS' demand for housing finance; (iii) level of beneficiary contribution; (iv) sustainability of microcredit CFIs and associated linkages with supporting mass organizations (Women's Union, Workers' Union, Veterans Union) and NGOs; and (v) socio-economic impact on the ULIPH beneficiaries. In the first quarterly report for each calendar year, the Government will provide ADB with information produced under the PPMS.

65. Within 3 months of loan effectiveness, HFF, assisted by the consultants, will finalize and refine the project performance indicators and establish baseline conditions in consultation with PFIs and other stakeholders for the purpose of project monitoring and evaluation. This will include socio-economic data to monitor and measure project impacts. SBV and HFF will refine the PPMS framework, confirm achievable goals, firm up monitoring and recording arrangements, and establish

systems and procedures within 6 months of loan effectiveness. Baseline and annual data will be reported at regular intervals by HFF, which will be responsible for analyzing and consolidating the data through its management information system. The PPMS will be designed to permit adequate flexibility to adopt remedial action related to project design, schedule, activity, and development impacts.

8. Project Review

66. ADB will conduct reviews every 6 months from the date of loan effectiveness during the first 2 years. The reviews will assess matters relating to the implementation of the subloan refinancing credit line to PFIs, including percentage of loan proceeds disbursed; the type of subborrowers (particularly household income levels) and category of subprojects (house purchase, house upgrade, and own build house); interest rates charged to PFIs and subborrowers; loan repayment performance; and appropriateness of the eligibility criteria for qualified PFIs. The findings of the reviews will be taken into account in further implementation of the Project. PFIs will be required to provide subborrower socioeconomic data on income, type of housing activity financed, lending terms, and other aspects determined by HFF. In addition to regular reviews to be undertaken during the project implementation period, the Government and ADB will jointly carry out a comprehensive midterm review approximately 2 years and half after loan effectiveness, to monitor progress and achievements, and particularly to agree with the Government on a program and timetable for creating an independent MRA as the first step in moving HFF along the path to a fully functioning SMF. Outline terms of reference for the midterm review mission are in Appendix 13.

IV. PROJECT BENEFITS, IMPACTS, AND RISKS

67. This Project will support the establishment of a sustainable housing finance market in Viet Nam that would ultimately mobilize substantial capital for housing finance and facilitate the long-term establishment of a strong mortgage-based collateral market to provide housing loans to all sections of the population. The Project will directly assist 137,000 urban low-income and poor persons to improve their housing, health standards, and economic well-being by giving them access to long-term housing finance. ULIPH housing financing mechanisms are expected to develop through the formal financial sector, leading to a gradual shift in housing finance from the constrained and, sometimes expensive, informal finance sector to formal housing finance institutions. The Government's high-level targets for the number of housing units and space upgrade standards may prove more reachable as the formal housing finance market develops. A strong housing finance market will create demand for more appropriate housing – in terms of size, standards, and quality – which will, in turn, lead to more demand-driven housing development activities and the emergence of market-driven housing development companies.

68. A sustainable housing finance market will be a source of small- and medium-sized development finance and will unlock underutilized capital currently tied up in residential property that is inaccessible because there is no established instrument for property mortgage as collateral. The Project will also have an impact on the construction industry and stimulate the production of local construction materials. This activity will, in turn, increase employment in the construction sector, one of the most labor-intensive industries. Employment could also increase in the banking sector.

69. The development of the housing finance subsector will facilitate linkages between the housing and the finance sectors. This linkage will create a flow of long-term credit funds into the subsector that will allow the creation of outflows of long-term mortgage loans to householders. The Project will provide initial long-term credit funds to test long-term mortgage lending mechanisms that will in turn attract additional long-term credit funds into the subsector. The impacts of the housing finance subsector on the housing and finance sectors will foster a strengthened and more market-driven approach to housing creation in both sectors, particularly for ULIPHS.

70. The Project will help mobilize private savings and channel them toward the housing sector. The limited public resources raised by the Government could then be used as leverage for expanding private savings. The Project will assist the Vietnamese banking sector in raising long-term resources, implementing sound working methods, and offering adequate savings products and long-term mortgage instruments to their customers. In the medium term, the Project will contribute to the development of the conditions for the creation of efficient housing finance primary and secondary markets comprising (i) a well- functioning titling and mortgage registration system; (ii) standardized mortgages; (iii) proper housing loan and mortgage origination techniques; (iv) proper housing loan servicing techniques; and (v) existence of a conduit (MRA) that will make housing mortgages attractive to potential investors.

71. With the availability of affordable long-term funding, ULIPs will (i) reduce their vulnerability to natural disasters by having a safer space to live in, (ii) increase the residential and household stability due to the possession of a valuable asset, (iii) have an alternative source of income in emergencies by using the house as collateral to obtain additional credit, and (iv) reduce their rent costs. Improved housing will create a healthier environment, particularly for women, children, and students who spend much of their time in the house. The health of family members and the education performance of students could improve. Work productivity can also increase for people that use their own house as the work place, as is common in Viet Nam.

72. **Risks.** Several risks associated with project implementation and sustainability were identified and assessed during project preparation. They include the following: (i) project subloans may go to households in income groups above the target ULIPs; (ii) PFIs are unwilling to lend to ULIPs because the latter are considered credit risky; (iii) ULIPs do not want to borrow from PFIs; (iv) HFF does not establish efficient management and monitoring systems; (v) ULIPs do not repay the subloans to PFIs; (vi) PFIs do not repay the loans to HFF; (vii) the issuance of LURCs is slow; and (viii) implementation of the policy and institutional action plan is slow. Each risk was carefully assessed, taking due account of lessons learned from similar projects in developing countries. Risk mitigation measures were identified and built into the project implementation procedures. The Project will not trigger ADB's policies on involuntary resettlement and indigenous peoples since it will focus on mortgage lending to individual ULIPH and strengthening and capacity building for housing finance in urban areas.

73. **Risk Mitigation.** A number of mechanisms will be incorporated in the Project to ensure that subloans are initiated by PFIs in accordance with the proposed project components, and reach the target ULIPs. (i) Household income eligibility criteria for subloan borrowers are incorporated in the HFC loan agreements between HFF and PFIs. As household incomes of ULIPs are difficult to assess and validate, this criterion is supplemented by limiting the maximum subloan size and the total cost of the house to individual ULIPH borrowers. These measures will make it very unlikely that such subloans will attract higher-income borrowers. (ii) Subloan interest rates will be at financial market interest rates without any subsidy. This criterion will ensure that higher income borrowers gain no financial advantage, even if they try to finance a small part of their housing finance needs from project subloans. (iii) The housing finance awareness and marketing campaign will explain the advantages of mortgage lending and clarify procedures so as to reduce ULIPs' reluctance to borrow and to manage risks. (iv) The potential establishment of a Government-backed mortgage guarantee fund or a mortgage insurance scheme will correct commercial banks' perception of ULIPs as risks. (v) The development of housing deposit-loan products will assist PFIs to assess more objectively the credit value of ULIPH customers and will reduce the risk of lending to them. (vi) The establishment of an effective management information system by HFF will mitigate risks associated with nonpayment of subloans by ULIPH borrowers and repayment of the HFC loans by PFIs. The HFC loans and ULIPH subloans will be monitored monthly and recovery procedures outlined in the HFC loan agreement between HFF and PFIs. Consultants will be recruited to assist in

establishing the system. PFIs will bear the credit risks of ULIPH subloans and will partially contribute with their own funds. (vii) Risks associated with any slowing of policy and institutional reforms will be monitored through the activities of the PSC, regular EA reports required by the Project and project review missions.

V. ASSURANCES

A. Specific Assurances

74. In addition to the standard assurances, the Government and SBV will be requested to give the following assurances, which will be incorporated in the legal documents:

- (i) The Government will undertake the actions described in the policy and institutional action plan (Appendix 3) within the agreed upon time frame, and will advise ADB of its progress through the quarterly reports. Lack of sufficient progress in complying with the plan in a timely manner, in the opinion of ADB, will lead to suspension of disbursement of the funds.
- (ii) The Government will ensure that the qualified PFIs will comply with the eligibility criteria agreed upon by the Government and ADB, including the prudential norms issued by SBV. The Government will ensure that no ADB loan proceeds will be re-lent to a PFI until (a) the opinion of an independent auditor acceptable to ADB has been issued, to the effect that such PFI is in proper financial condition, and (b) the PFI establishes a housing finance PIU and separate accounts for Project-related housing lending, and formulates loan underwriting, services, and field audit procedures to ensure that subloans are made only to ULIPHS.
- (iii) The Government will cause the PFIs to ensure that (a) subloans are made available only to eligible subborrowers, including those who are not in default, individually or collectively, on any prior loan; and (b) the subloans will be used only for house purchase, upgrading, or own-build housing.
- (iv) The Government will ensure that quarterly subloan capital repayments to HFF from PFIs, net of ADB loan repayments, are re-lent through HFF to the beneficiary income group specified in the Project.
- (v) Each PFI will observe subloan financing criteria that include maximum ADB financing of 80% of the subloans provided by PCBs for ULIHs and 90% of the subloans provided by CFIs for UPHs.
- (vi) The Government will ensure that subloans will not entail any involuntary resettlement arising from land acquisition or changes in land use.
- (vii) The relocation of HFF will be examined in the midterm review, and ADB and the Government will agree on a timetable to establish it as a separate independent MRA, at the latest, at the end of the project implementation period, except otherwise agreed by ADB.

B. Condition for Loan Effectiveness

75. The following actions will be required prior to loan effectiveness:

- (i) A HFF-PMU will be specifically established within SBV to ensure the implementation of the Housing Finance Project and promote the development of the housing finance sector in Viet Nam. HFF-PMU will have at least 15 qualified professional staff and additional supporting staff, including a project director and a full-time project manager. SBV will have issued a Decision of the SBV governor to empower the ICPMU under the Regulation on the Organization and Operation of the ICPMU, to establish and undertake the responsibilities of HFF, and for HFF to maintain separate Project accounts for loan disbursements, payment of interest and repayment of principal to MOF and to hold the HFF fee.
- (ii) MOF and SBV will sign a financing agreement, in form and substance acceptable to ADB, providing for the transfer of the loan from MOF to SBV/HFF for purposes of the Project.

C. Conditions for Disbursement

76. No disbursement will be permitted from the loan (except for consulting services and equipment for HFF-PMU) unless the following conditions are satisfied:

- (i) HFF-PMU will have established a financial management system acceptable to ADB, including internal financial and accounting controls.
- (ii) HFF-PMU will have prepared draft HFC agreements between HFF and PFIs, with terms and conditions acceptable to ADB.

VI. RECOMMENDATION

77. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 22,438,000 to the Socialist Republic of Viet Nam for the Housing Finance Project from ADB's Special Funds resources with an interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

TADA0 CHINO
President

27 November 2002

EXTERNAL ASSISTANCE TO THE HOUSING, URBAN, AND FINANCE SECTORS

1. External assistance to housing finance-related sectors has been extensive and has created the legal and institutional framework for the development of the housing finance market in the last 10 years. External assistance has focused on four areas: (i) land administration reform, (ii) housing sector, (iii) urban development, and (iv) financial and banking sector.

2. In land administration reform, the Australian Agency for International Development has been assisting the Government in legal reform in the housing sector. The Swedish International Development Assistance (Sida) has been assisting General Department of Land Administration (GDLA) through the Viet Nam-Sweden Cooperation Program on Land Administration Reform (CPLAR). The first phase of CPLAR, which started in 1997 and was completed in 2001, focused on land registration, cadastral mapping, land-use planning, land-use mapping, land valuation, and land information systems. It has implemented training activities in those areas in nine provinces. Sida is currently discussing the second phase of the project with the Government. New Zealand Asian Development Aid Facility has been assisting GDLA in assessing and recommending improvements to the Land Law and its administration and developing a pilot land and property valuation system with greater emphasis on rural areas.

3. The World Bank funded a project for implementation of land policies during 1998-1999 that focused on (i) registration procedures and implementation of a simple land policy reflected in a stable land law, (ii) implementation of a unified registry of real estate property transactions, and (iii) creation of an effective mortgage system. The World Bank is currently considering a cadastral mapping systems project component for the cities participating in its future Viet Nam Urban Upgrading Project (VUUP) under preparation. This project component would support the project cities (Ho Chi Minh City, Haiphong, Can Tho and Nam Dinh). Such interventions will be instrumental in accelerating the grant of land use right (LUR) and the issuance of land use rights certificates (LURC) and building ownership and land use certificates, as one of the major impediments to the grant of LUR is the large amount of work needed for a detailed survey of each parcel of land.

4. In the housing sector, the Japan Bank for International Cooperation produced a report on the evolution of and recommendations for the sector in 1999, including a component on housing finance. The Japan International Cooperation Agency has been assisting the Ministry of Construction on housing policies since 1999 providing a seconded full-time housing policy specialist. The World Bank, under a 2001 Cities Alliance project to enhance access of the urban poor and vulnerable groups in Viet Nam to basic infrastructure and housing, included such tasks in the housing sector as: (i) assessing constraints faced by the urban poor in housing and infrastructure; (ii) reviewing recent and ongoing urban upgrading programs; (iii) developing national strategy on scaling up programs and providing better housing and services for the urban poor; and (iv) developing a detailed action plan for a selected city. The proposed VUUP under preparation has two proposed housing sector components: (i) microfinance capital for low-income housing upgrading credits – a credit line will be set up in each project city to provide medium-term financing to house upgrading in the project areas; and (ii) appropriate resettlement housing for low-income households and/or serviced sites for self-build housing. Financing will also be made available to prepare sites serviced with basic infrastructure so that relocated households can build housing themselves. The Asian Development Bank (ADB), World Bank, United Nations Development Programme, and most bilateral sources are extensively involved in urban infrastructure projects, and many of which have resettlement housing components that may provide prospective home loan borrowers for the Project.

5. External assistance in the banking and financial sector has been predominantly through ADB, World Bank, and International Monetary Fund. Assistance is focused on creating a sound banking system in Viet Nam. The key elements of the banking sector reform program: (i) State Bank of Viet Nam (SBV) is leading a D30 trillion (\$2 billion equivalent) reform and restructuring program over the next 5 years; (ii) D7 trillion (\$0.47 billion equivalent) will be spent on settling bad debts of state-owned enterprises (SOENs); (iii) SBV is to strengthen the risk protection fund and set up an asset management company to buy bad bank loans; first step is for the banks to establish their own asset management units; (iv) the above capital is to come from commercial banks, nonconvertible Government bonds, public bills, and foreign aid; (v) the average capital of commercial banks will be increased from the current \$70 million to \$200 million in a 3-year program involving independent auditing of the banks; (vi) SBV was to shut down or merge the less viable of 48 mainly small joint-stock banks; (vii) the Government will halt politically motivated lending to SOENs, except when a Government guarantee is provided in special cases; and (viii) the restructure or closure of 5,500 inefficient SOENs that consume more than half of all available bank credit but employ only 10% of the workforce. The external assistance projects related to the housing finance sector are described in Table A1.

**Table A1: External Assistance to Housing, Urban, and Finance Sectors
(\$ million)**

Project	Year Approved	Source	Amount
A. Land Administration – TA Grant			
Land Use and Land Management Project	1991	Sida	1.2
Feasibility Study on the Land Administration System in Viet Nam	1992	UNDP AusAid	0.7 0.5
Land Information and Taxation System Study	1995	ADB	0.6
Remote Sensing for Map Establishment	1996	France	3.0
Modernisation of Cadastral Mapping and Land Records	1997	WB	0.3
Vietnam-Sweden Cooperation Program on Land Administration Reform	1997	Sida	8.0
Land Policy Implementation	1998	WB	0.3
Land Law and Property Valuation in Rural Areas	2000	NZADAF	0.2
Subtotal (A)			14.8
B. Urban Infrastructure – TA Grant			
Five Towns Provincial Water Supply Project	1995	AusAid	30.0
Danang Water Supply and Sanitation Project	1995	AusAid	3.5
Support for Provincial Cities - Urban Development	1999	UNDP	0.5
Third Provincial Towns Water Supply and Sanitation	1999	ADB	1.0
Central Region Urban Development Project	2001	ADB	1.0
Subtotal (B)			36.0
C. Urban Infrastructure – Loan			
Three Cities Sanitation	1999	IDA	80.0
Urban Water Supply and Sanitation	2000	Danida	47.2
Third Provincial Towns Water Supply and Sanitation	2001	ADB	60.0
Urban Water Supply	2002	IDA	100.0
Subtotal (C)			287.2
D. Housing Sector – TA Grants and Loans			
National Construction Law Project	1994	AusAid	1.1
Cities Alliance Project	1994	WB	0.3
Urban and Housing Sector Research	1998	JBIC	0.4
Low Income Housing and Secondary Towns Urban Development Needs Assessment Study	2000	ADB	0.6
Technical Assistance to the MOC	2000	JICA	0.8
Viet Nam Urban Upgrading Project (loan)	^a	IDA	150.0
Subtotal (D)			153.2
E. Banking and Finance Sector – TA Grant			
Support for Reform of the Banking System	1994	GTZ	5.6
Financial Market Development	1998	ADB	1.0
Support for the Establishment of a PCF System	2000	GTZ	1.8
TA for Preparing Framework for Microfinance Development	2001	ADB	0.3
Subtotal (E)			8.7
F. Banking and Finance Sector – Loan			
Banking Payment Systems and Modernisation	1995	IDA	49.0
Structural Adjustment Credit I	1995	Danida	150.0
Financial Sector Program Loan	1996	ADB	90.0
Structural Adjustment Credit II	2000	Danida	250.0
Rural Enterprise Finance Project	2000	ADB	80.0
Financial Sector Adjustment Credit	2001	IDA	200.0
Second Financial Sector Program Loan	2002	ADB	50.0
Subtotal (F)			869.0
Total			1,368.9

ADB = Asian Development Bank, AusAid = Australian Agency for International Development, Danida = Danish International Development Agency, GTZ = German Agency for Technical Cooperation, IDA = International Development Association, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, MOC = Ministry of Construction, NZADAF = New Zealand Asian Development Aid Facility, PCF = Sida = Swedish International Development Cooperation Agency, TA = technical assistance, UNDP = United Nations Development Programme, WB = The World Bank.

^a This project is under preparation.

PROJECT FRAMEWORK

Design Summary	Targets	Monitoring Mechanisms	Risks/Assumptions
<p>Goal Improve the quality of life for urban low income and poor households (ULIPH) through improved housing.</p>	<p>Better housing conditions create improved health, and income for ULIPH and higher employment in construction and related sectors.</p>	<p>Quarterly reports, annual reports and evaluations, and review missions</p>	<p>Continued Government commitment to priority of addressing the housing finance needs of ULIPHs and on promoting sectoral policy reforms</p>
<p>Purpose Establish a sustainable housing finance market in Viet Nam accessible to ULIPHs</p>	<p>A housing finance facility (HFF) within State Bank of Vietnam (SBV), which will become the apex institution for the housing finance sector in Viet Nam and will become an independent mortgage refinance agency, will be established.</p> <p>Provide approximately 27,500 new housing finance loans benefiting over 137,000 people living in urban areas, disbursed through qualified participatory financial institutions (PFIs)</p>	<p>Project completion report</p> <p>Midterm review</p> <p>Progress reports</p> <p>Review missions</p>	<p>HFF-project management unit (HFF-PMU) is able to effectively monitor and manage efficiently refinancing of housing loans.</p> <p>PFIs achieve and maintain HFF-PMU qualification standards.</p> <p>Participating commercial banks (PCB) effectively originate and manage housing loans with target urban low income households (ULIH).</p> <p>Microfinance community-based financial institutions (CFI) establish effective linkages with nongovernment organizations (NGO) and people's committees (PC) to initiate loan funds to urban poor households (UPH).</p>
<p>Outputs Established HFF within SBV to refinance housing loans from qualified PFIs, monitor project funds, and establish procedures and documentation for the development of the housing finance sector</p> <p>Refinancing through HFF to PFIs originating housing loans for ULIPH</p>	<p>HFF to establish assessment and monitoring procedures for PFIs</p> <p>HFF to develop documentation and procedures for refinancing of housing finance loans</p> <p>HFF to monitor PFIs and ensure onlending terms to ULIPHs are applied</p> <p>PFIs to establish loan application procedures to ensure housing credit fund facility is directed to ULIPHs and loans are within household capacity to repay</p> <p>At least 4,000 ULIHs obtain loans from PCBs to buy or build new houses by Dec 2007</p>	<p>HFF monitoring records for PFIs, quarterly project reports, ADB disbursement requests, review missions and midterm review</p> <p>Quarterly project reports to HFF, review missions and midterm review</p>	<p>Capacity of HFF to effectively manage the monitoring process</p> <p>PFIs interest in accessing long-term housing credit funds for ULIPH lending and their ability to meet and maintain qualification standards</p> <p>Capacity of PFIs to effectively handle the monitoring process</p> <p>PFIs loan originating capacity for long-term housing credit funds for ULIH lending</p> <p>ULIHs are to utilize long-term housing loans through formal finance sector</p>

Design Summary	Targets	Monitoring Mechanisms	Risks/Assumptions
	<p>At least 14,500 ULIHs obtain loans from PCBs to upgrade/ improve existing houses by Dec 2007.</p> <p>At least 6,600 UPHs obtain loans from CFIs to upgrade/ improve existing houses by Dec 2007</p> <p>At least 2,000 UPHs obtain loans from CFIs to own-build new houses by Dec 2007</p>		<p>Appropriate screening criteria and lending procedures are in place to ensure the housing loans are taken up by target ULIHs without leakage to higher income households.</p> <p>NGOs and PCs facilitate CFI origination and management of small home improvement or self-build new housing with UPHs.</p>
<p>Linkages between CFIs, and NGOs and PCs to facilitate small loans to UPH for own-build and house improvement</p> <p>Capacity building and institutional strengthening through HFF, resulting in effective project management systems in the PFIs, a housing finance orientation policy (document), and consolidate legislation on mortgages and valuation</p>	<p>NGOs/PCs to facilitate establishment of sustainable small long-term credit fund from CFIs for UPHs</p> <p>CFIs to monitor and manage long-term credit funds and ensure on-lending terms to UPHs are applied</p> <p>Training and institutional strengthening program for HFF, PFIs, and NGOs/PCs prepared and implemented</p> <p>Housing finance awareness program prepared and implemented</p> <p>Housing demand database established and updated regularly</p> <p>Draft housing finance orientation approved by the Prime Minister by Dec 2004</p> <p>Mortgage legislation consolidated and improved by Dec 2004</p> <p>Improved system of valuation of land use rights certificates (LURC) used by PFI by Dec 2004</p> <p>Design of a system to promote savings products linked to housing by Jun 2004</p>	<p>CFI monitoring records for long-term credit funds for UPHs, quarterly project reports to HFF, and review missions</p> <p>Progress reports</p> <p>Review missions</p> <p>Midterm review</p>	<p>CFIs can effectively develop sustainable medium - and long-term credit funds</p> <p>CFIs can originate small long-term UPH loans for own-build and house improvement.</p> <p>Consultants fielded and counterpart staff provided on time</p> <p>Turnover of staff minimized</p> <p>All ministries and government agencies involved cooperate and reach agreement on policy and legal reforms.</p>
<p>Inputs</p> <p>ADB Loan PFI contribution Government Beneficiary contribution Total</p>	<p>\$30.0 million \$6.4 million \$0.5 million \$14.9 million \$51.8 million</p>	<p>PFI lending record, quarterly project reports to HFF-PMU, ADB loan disbursement</p>	<p>Delays in implementation of Project</p>

POLICY AND INSTITUTIONAL ACTION PLAN

Policy Objective	Present Situation	Action Needed	Agencies Involved	Time Frame
Develop national housing finance orientation (policy document)	Orientation for Housing Development 2001-2010 approved by Ministry of Construction (MOC) presents the orientation, objectives, and solutions for housing development. The Housing Development and Management Action Plan for 2001–2005 and Major Objectives and Measures for 2001–2010 contain short sections on financial and economic policies, listing financial resources to mobilize for housing development. However, the Government has not adopted a formal housing finance orientation (policy document).	<p>Prepare a National Housing Finance Orientation (policy document) that includes principles, objectives, roles, and responsibilities of Government agencies, commercial banks, and micro-finance institutions and special measures to reach low-income and poor households. It will also include measures to ensure sustainability, efficiency, affordability, and equity of the housing finance system.</p> <ol style="list-style-type: none"> 1. Form interministerial committee chaired by SBV with senior representatives of MOF, MOC, and Ministry of Natural Resources and Environment (MNRE) 2. Submit to Asian Development Bank (ADB) for concurrence 3. Submit to Government for adoption 4. Approval by Government 	State Bank of Vietnam (SBV), Ministry of Finance (MOF), MOC	<p>April 2003</p> <p>December 2003</p> <p>April 2004</p> <p>December 2004</p>
Improve legal procedures for calling up defaulting mortgages and selling mortgaged land and houses	Jurisdictional rules regulating loan and security components of mortgage finance are not clearly defined in Viet Nam. While the Land Law and Civil Code permit mortgages and right to sell land in case of loan default, this right is seldom exercised due to the confusion of legislation on mortgages, which allows too much flexibility for the judges to interpret and apply the law in a manner that can effectively defeat the value of the security.	<p>Consolidate and rationalize provisions about mortgages in the different existing laws and regulations following the recommendations of a newly established interministerial committee. Implement the mortgaging system to facilitate collection of loans and interest from defaulting borrowers and clarify the jurisdiction of the courts.</p> <ol style="list-style-type: none"> 1. Form inter-ministerial Committee 2. Submit the recommendation report to ADB for concurrence 3. Submit this report to Government for adoption 4. Approval by Government 5. Issue of appropriate legislation on mortgages 	MNRE, Ministry of Justice (MOJ), MOC, SBV	<p>April 2003</p> <p>December 2003</p> <p>April 2004</p> <p>September 2004</p> <p>December 2004</p>

Policy Objective	Present Situation	Action Needed	Agencies Involved	Time Frame
Improve valuation system of land and houses to facilitate the development of the primary mortgage market	Values of land assessed on the basis of outdated, arbitrary, inaccurate prices set by provincial people's committees, based on the national frame price set by the Government, restricts credit institutions from making their own value and risk assessments and frequently disadvantages borrowers.	Abolish the need for credit organizations to use or be influenced by frame prices. Widely publish the MNRE land valuation manual and improve training of officers of Departments of Land Administration (DLAHs) in international valuation techniques and best practices.	SBV, MNRE, DLAHs, MOF	December 2004
Promote household savings in commercial banks and micro-finance institutions for housing purchase and improvement	No particular products in the banking system, link formal savings with mortgage lending for housing.	Assess feasibility of a contractual housing savings scheme and potential government support for the scheme	SBV, MOF, participating financial institutions (PFI)	June 2004
Improve banking sector performance	Banking sector is relatively under developed, dominated by government ownership and influence, has significant non-performing loans and in need of continuing reform.	Deepen policy reforms in banking sector under existing programs to create a sound banking system, involving a 3-year agenda of reform measures to restructure the banking sector and individual banks; strengthen the regulatory and supervisory legal framework; and provide a level playing field for all banks.	MOF, SBV, PFIs	June 2005
Increase number of urban land use rights certificates (LURCs) issued and improve registration procedures	Approximately 18% of urban LURCs/ building ownership and land use certificate (BOLUCs) have been issued due to lack of sufficient suitably qualified staff, complexities of Land Law requirements, and procedures prescribed.	Expedite general issue of urban LURCs/ BOLUCs by improving numbers and quality of staff resources of DLAHs. Approximately 50% of the urban households should have LURC.	MNRE, DLAHs	December 2005
Attract additional funds to the housing sector through the development of a secondary mortgage market	Institutional investors, such as insurance companies and pension funds, are progressively being established. These institutions will have long-term funds that could be redirected to the housing sector through the development of a secondary mortgage market.	Conceive and design features for mortgage bonds to be issued by a potential secondary mortgage facility for long-term institutional investors.	Housing finance facility (HFF), SBV	December 2005
Facilitate introduction of mortgage insurance scheme	There is no mortgage insurance scheme to assist low-income borrowers make loan repayments when household income is lost due to job loss, illness, or incapacity to work.	Conceive and design features of a mortgage insurance scheme targeting low-income households	HFF, SBV	December 2005

SUMMARY OF SURVEY FINDINGS

A. Source of Information

1. A considerable volume of information on the housing and housing finance needs of urban low income and poor households (ULIPHS) was collected during the Project from surveys and secondary sources. Household surveys were conducted in Hanoi and eight other urban centers, covering 1,000 households with 5,100 household members. Twelve focus group discussion sessions were conducted in five urban centers with participants including (i) low-income housing experts of Government agencies, nongovernment organizations (NGOs), and mass organizations (e.g., Youth, Women's and Trade Unions); (ii) project management unit (PMU) members of savings-credit group projects; (iii) ULIPHS with member experience of microcredit deposit savings and lending groups; (iv) ULIPHS who have previously participated in resettlement or slum upgrading schemes (e.g., Binh Trung Dong Ward Ho Chin Minh City (HCMC) residents, HCMC canal relocation schemes, Hanoi housing redevelopment schemes); (v) ULIPHS currently involved with resettlement or slum upgrading processes, but not yet relocated; and (vi) ULIPH people with a stable income base. The main secondary information sources were official statistics from the Population Census and Vietnam Living Standard Survey (VLSS).

B. Survey Objectives

2. The primary objective of the surveys was to profile ULIPHS to establish their willingness to invest in housing and affordability of the investment. The surveys involved (i) assessing ULIPH socioeconomic characteristics, their housing needs, and their potential demand for housing finance; (ii) developing an understanding of ULIPH capacity to absorb housing finance; (iii) identifying existing sources and constraints related to housing finance for ULIPHS; (iv) investigating forms of collateral for ULIPH housing finance subloans; (v) assessing technical and capacity-building support required for loan-financed housing improvements; and (vi) assessing the impact of improved housing on poverty reduction and the empowerment of women.

3. The objectives of the focused group discussions, based on experiences of savings and credit group projects and resettlement projects, aimed to obtain the following information: (i) saving capacity and housing expenditure of ULIPHS; (ii) affordability of housing to ULIPHS; (iii) commercial bank accessibility for ULIPH housing finance; (iv) advantage, disadvantage, demand, and needs of ULIPHS related to housing issues; and (v) experiences of savings and credit group activities.

C. Key Survey Findings

1. Household Demographics

4. The ULIPHS showed demographic characteristics similar to those reported in the Population Census and VLSS statistics. The average household size was 5.4 persons, with 66% of households having 5 or more resident members. Some 60% of ULIPH residents had finished high school and an additional 10% had progressed to graduate or postgraduate level. More than one half of ULIPHS were income earners slightly. More than 30% were in nonprofessional jobs and just less than 25% were professionals. Some 20% were retired and one-fourth were less than 15 years of age. Some 90% of ULIPHS had resided in their existing housing for more than 10 years. The monthly household income profile was concentrated in the

D1 million-2 million band, accounting for almost 70% of ULIPHS surveyed. Only 2% had monthly household incomes above D3.5 million and 20% had incomes below D1 million per month. Expenditure levels tended to be lower, indicating that savings does occur, with some 35% of ULIPHS surveyed reporting monthly expenditures below D1 million.

2. Existing Housing Characteristics

5. Housing occupied by the surveyed ULIPHS was significantly concentrated in the small size range, with some 65% occupying housing units with less than 50 square meters (m²) of living space, mostly less than 35 m² (45% of ULIPHS interviewed). Most housing had little land area outside the house; slightly less than 70% of ULIPHS had a land area less than 50 m². The results were validated by other surveys. A survey of ULIPHS in the Tan Hoa-Lo Gom area of Ho Chi Min City (2000) revealed that some 60% of ULIPHS were living in housing less than 35 m². More than 90% of ULIPHS housing units were older than 10 years, predominantly of semi permanent materials, and without LURC. While access to social services (kindergarten, school, health care, market, shops) was regarded as satisfactory, some 60% of ULIPHS surveyed regarded the public water supply and drainage and wastewater system services as poor.

3. Housing Demand and Preferences

6. There is a significant demand for new housing, with some 75% of ULIPHS requiring new housing or housing improvements, predominantly in attached houses (60% of ULIPHS), and generally in the same area (40% of ULIPHS) or district of city (additional 20% of ULIPHS). The lower down the income scale, the higher is the preference for home improvements rather than new house purchase. Around 80% of ULIPHS indicated their existing house structures were bad and 75% had undertaken some form of dwelling improvement in the past (40% once, 20% twice, and 15% more than twice). The majority of ULIPHS (55%) preferred housing units in the size range 30-50 m², while 35% preferred units larger than 50 m².

7. Focus group ULIPHS indicated a past experience and a strong interest to invest in housing as an asset to generate income through at-home work and to use capital gains from landholdings purchased and their existing small houses to purchase and/or build larger and improved housing. There was clear evidence that, through the informal real estate and housing finance market segments, some ULIPHS are actively engaged in buying and selling land and their houses to upgrade to improved housing. If ULIPHS had improved access to long-term housing finance loans, they would use this source to accelerate their current slow progress with improving their housing circumstances. The resultant spin-off would be that the existing housing stock would be released to ULIPHS lower down the chain, inducing the generally lower income level ULIPHS to purchase their own house or upgrade from housing of poorer condition.

4. Housing Finance Sources and Accessibility

8. Sources for housing finance come from savings (30-60%), loans without interest from relatives and friends, and a maximum one third from bank loans. Some households spend more money than their capacity and estimated budget for a new house and need to borrow from moneylenders (D2 million-5 million) at high interest rates (5-20% per month). Where there are no savings-credit groups, ULIPHS in the lower income levels find it difficult to save and repay (at level of D2 million-3 million per year). Few ULIPHS have experience with commercial banks and think they are difficult to access for both deposit and borrowing purposes. The reasons for not using bank loans were nonavailability of collateral (55% of ULIPHS) and the complicated procedures (30% of ULIPHS). There was significant interest from ULIPHS in obtaining more

information on bank lending for housing and a strong desire for public information programs outlining housing finance loan opportunities and procedures.

5. Willingness to Borrow Using Housing Loans

9. Some one third of ULIPHS interviewed expressed a current interest to access bank housing finance for loans in the range D5 million-200 million, with an average loan level at D47 million, for a new house and D20 million for house upgrading. Because repayment capacity is limited, most ULIPHS do house upgrading step by step. Many ULIPHS prefer 3-5 year loan terms for housing upgrading and 5-10 years for new houses. Poor households prefer a loan size of D5 million-10 million for step-by-step house upgrading. ULIPHS supported a one-third deposit condition for a housing finance loan.

6. Capacity to Repay Loans

10. ULIPHS prefer to repay housing loans as soon as they can, as there is a strong culturally ingrained obligation to repay debt in Viet Nam. This preference has been influenced by the lack of long-term loan availability for housing finance. Repayments of 30% of income are generally considered to leave sufficient income for food and other necessities, and with the current short-term financing for housing in Viet Nam, much higher percentages ? up to 50% of income ? are common. Currently, typical loan sizes of D40 million-50 million are serviced by ULIPHS, and those with a salary or stable income can easily repay a D15 million loan over 3 years, but it is less easy for those who have a small business without stable income. Preferred monthly repayment levels indicated by ULIPHS interviewed were an average level up to D1.2 million in some areas and an overall average of D780,000.

7. Gender Issues

11. Traditionally, a husband is the household head, though, some 32% of all households in Viet Nam have a female head. Women are the ones who manage household expenditure and savings, while men earn money and are responsible for housing. Women play the role of saving and repaying, but have not been able to obtain loans. Most ULIPHS thought it is better if loans are issued in both husband and wife's names to prevent the husband from improperly using and, sometimes, transferring land use rights certificates (LURCs) without the consent of the wife or other members of the household. At present, women are more involved in savings-credit groups and improve their knowledge and skills. Women have lower levels of education and communication skill, so they feel inadequate in discussing business matters with banks, especially if their names do not appear on the LURC or building ownership and land use certificate (BOLUC). Savings-credit programs supported by the Women's Union (WU) and nongovernmental organizations (NGOs) have strongly encouraged the role of women in loan activities. Such programs have helped residents, especially women, to improve their knowledge and skills in savings and repayment management.

POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to Country Poverty Analysis

1. The Comprehensive Poverty Reduction and Growth Strategy recognizes the multifaceted nature of poverty and poverty reduction. Urban housing programs and housing finance for the poor and low-income groups are referred to in the context of efforts and programs to reduce urban poverty. Emphasis is on (i) upgrading urban poor areas, (ii) providing land and infrastructure, (iii) formulating small-scale credit and savings programs; and (iv) mobilizing communities.

2. It is recognized that the housing sector has the potential to bring the efforts together in urban upgrading programs, building on individual household efforts. The Government's role is an enabling one ? facilitating the provision of land and land tenure, neighborhood infrastructure and access to credit. Lack of credit ? directly income-generating activities, as well as credit to develop the household's asset base ? has prevented urban low income and poor households (ULIPs) from breaking out of poverty. Lack of finance at terms of more than 1-2 years has hindered ULIPs from undertaking priority housing improvement and affordable new housing. Except for beneficiaries of limited Government housing projects, ULIPs do not have access to any housing credit beyond very short-term finance, often at exorbitant terms and conditions.

3. Housing finance currently exists in rudimentary form, with some banks and microcredit institutions providing a limited volume of short-term housing loans. The Project will support the development of the housing finance subsector by providing participating financial institutions (PFIs) housing subloans to refinance house and housing upgrade to ULIPs with monthly incomes of D0.3 million-3.5 million. ULIPs in this range comprise about 50% of all urban households in Viet Nam.

B. Poverty Analysis – Proposed Classification: Poverty Reduction

4. In 1999, Viet Nam's urban population was estimated at 17.9 million (4.0 million households and 23.5% of national population). Urban population growth is expected to be 3.0% per year for the period 2000-2010. Viet Nam living standard survey (VLSS) indicate 9% of urban households were below the poverty line in 1997/98, but the figure is believed to be an underestimate, as the survey did not cover unregistered migrants (of which there are significant numbers in the larger urban areas), as indicated by participatory poverty assessments carried out. By these assessments, the proportion of urban households below the poverty line is around 15%. Such households are classified as poor, while households with incomes above the poverty line, but below the average income, are classified as low-income for the purpose of this project. Nationally, there are two poverty lines in use, one based on the above VLSS analysis, and one used by Ministry of Labor, Invalids and Social Affairs (MOLISA). For urban areas, these poverty lines were estimated at D873,000 and D750,000 per household per month in early 2002, while the average household income was estimated at D3,500,000 per month, for the purpose of the Project.

5. Government's achievements in reducing poverty are very significant, with poverty levels in both urban and rural areas now reduced significantly (according to VLSS data, from 25% in 1992/93 to 9% in 1997/98 for urban areas, and from 66% to 45% in rural areas in the same years ? But as noted above, urban poverty incidence is underestimated). Still, some elements of poverty reduction have lagged, while some dimensions of poverty have become more acute. With the continuing significant difference in population growth between urban and rural areas (national annual average population growth rate projected at 1.1% per year for 2000-2001 and at 3.0-3.2% in urban areas), poverty is becoming urbanized along with these demographic changes.

6. Poverty related to housing in urban areas has not been reduced; urban poor households (UPHs) still face significant bottlenecks in access to (i) land use rights (LURs), (ii) community-level infrastructure, and (iii) medium- to long-term finance for shelter. Insufficiently serviced urban land for buildings has come on the market but issuing the land use rights certificates (LURCs) and building ownership and land use certificates (BOLUCs) has lagged behind the demand spurred by urban population growth.

7. With growing pressure on urban land and the absence of comprehensible and enforceable planning regulations, access to minimum infrastructure has increasingly become problematic in the major urban centers, particularly in HCMC and Hanoi. The lack of appropriate financing mechanisms has denied UPHs access to affordable housing. Housing conditions for a growing segment of the population have deteriorated despite Government efforts to provide low-income housing through the Ministry of Construction (MOC) project-based housing development model. The units produced by this model were insufficient to make a difference, particularly since the relatively large unit sizes make them attractive to both middle-income groups and ULIPHs, and there are problems with inappropriate locations of the units. Private sector developer housing is limited and out of reach for ULIPHs. Thus, the overwhelming majority of ULIPHs continue to rely on their own efforts to provide shelter.

8. A critical challenge is to overcome the indicated bottlenecks in access to land, local infrastructure, and services,¹ and to appropriate housing finance loans. The Project will support the initial stages of development of a targeted housing finance system, and will provide housing finance credit (HFC) loans to PFIs to refinance house and house upgrading subloans to ULIPHs with monthly incomes of D0.3 million-3.5 million. A variety of housing options are affordable to households in this income range, as demonstrated by the affordability analysis in Appendix 6.

9. The participating commercial banks (PCBs) will focus primarily on ULIHs in the D0.75 million-D3.5 million monthly household income range who can afford to finance a new or existing housing unit at a cost up to D190 million at 70% financing, or could upgrade their house for a cost up to D20 million, at commercial interest rates and maturity of up to 20 years. The microfinance community-based financial institutions (CFIs) will focus on UPHs below the poverty line in the D300,000-D750,000 monthly income range. Affordable options for this household segment are (i) a building materials loan up to D15 million subproject cost; and (ii) smaller home-improvement loans up to D15 million subproject cost, at commercial interest rates and terms of 5-10 years. The Project will benefit approximately 137,000 urban low-income and poor people. Around 32% of the beneficiaries (43,700) will be below the poverty line.

10. The Project will focus on the major urban areas. It is likely that the impact of the Project will be felt particularly in HCMC and Hanoi where (i) urban poverty is highly significant, (ii) local authorities have already started to address land and infrastructure issues, and (iii) which have the only exclusively urban-based and well-developed CFIs.

11. For the UPH, reliance will be placed on group-supported or group-based savings and loans strategies, in line with the current practice of already active CFIs. A major support mechanism to ensure adequate participation of eligible groups (and particularly women heads of households) is the involvement of the Women's Union (WU) in forming solidarity groups. Households will generally

¹ Local authorities in urban centers have become increasingly aware of such issues, and recently implemented slum upgrading and began reviewing sites-and-service resettlement schemes. Planning standards are being modified (downward) to make them more responsive to target group requirements and affordable, and to make them less attractive to competing demand from more affluent social groups.

borrow individually, but in solidarity groups of five borrowers, supported by the WU in the ward concerned (through a center leader supporting on average eight such groups in the ward). The WU center leader facilitates initial loan preparation and documentation, and acts as a collection agent for CFI branches. Other mass organizations, such as the Veterans Union, Youth Union, and Labor Union, as well as selected nongovernment organizations, will play similar roles.

12. Where appropriate, this group-supported approach will be supplemented by group-based lending, in which the CFI will lend to groups, with the groups themselves being responsible for dealing with individual savings collection, lending, and loan repayments. In many cases, this means intermediation to existing informal rotating savings and credit associations, which have limited experience in the major urban centers.

13. Such group-based mechanisms will be reinforced by the introduction of a new, largely group-based savings for housing loan programs by the CFIs, in which 2-3 years prior savings will be required to provide guaranteed access to a housing loan of at least four times the built-up savings. Credit terms will be market based, with medium- to long-term repayment periods.

14. Within the housing finance facility, a unit for the microfinance component for UPH through CFIs will be established and will be supported by consultants with experience in microfinance.

Table A5.1: Social Issues

Subject	Significant Degree	Strategy to Address Issues	Output Prepared
Resettlement	None		None
Gender	Not significant	Limited gender action plan	Yes, limited
Affordability	Long-term financing will make access to finance more affordable to urban low income and poor households (ULIPHs), including urban poor households (UPHs).	Appropriate housing options are affordable; different housing finance products will be offered under the project, including affordable options for UPHs such as house upgrading and own-build housing.	No
Labor	None		No
Indigenous People	None		No
Other Risks/Vulnerabilities	ULIPH targeting and UPH targeting in particular	Safeguarding UPH's access through end-use and investment/loan size eligibility criteria to be used by participating financial institutions (PFIs) and particularly in community finance institutions	Yes, lending criteria; project performance monitoring system and capacity-building measures in PFIs

Table A5.2: Outline Gender Action Plan

Issues	Proposed Action Steps
1. While there are no legal impediments to women borrowing on equal terms as men, women lack information on housing credit opportunities.	?? Information campaign requirement in lending guidelines to PFIs ?? Monitoring by housing finance facility (HFF)
2. Participating financial institutions (PFIs) (particularly participating commercial banks) are insufficiently accessible to women, in part because the number of female credit officers in PFIs is limited.	?? PFIs to attract more female credit officers ?? Detailed terms of reference (TORs) for capacity-building of PFIs will incorporate this dimension. ?? Monitoring by HFF
3. PFI staff and support nongovernment organization staff do not always have sufficient understanding of savings and borrowing potentials of women in low-income housing areas.	?? Sensitization training of PFI staff and monitoring by HFF ?? Detailed TORs for capacity-building of PFIs will incorporate this dimension.

AFFORDABILITY ANALYSIS

Item	Average Loan (D million)	Monthly Repayments ^a (D)	Monthly Household Income ^b (D)
A. Mortgage Lending to ULIHs through PCBs			
1. House Purchase			
- 15 years	50.0	537,300	1,791,000
- 10 years	50.0	660,754	2,202,512
2. House Upgrading			
- 10 years	15.0	198,226	660,754
- 5 years	15.0	318,706	1,062,352
B. Housing Microfinance to UPHs through CFIs			
1. Small Home Improvements			
- 10 years	10.0	132,151	440,502
- 5 years	10.0	212,470	708,235
2. Own-build housing			
- 10 years	8.0	105,721	352,402
- 5 years	8.0	169,976	566,588

CFI = community-based financial institution, PCB = participating commercial bank, ULIH = urban low-income household, UPH = urban poor household.

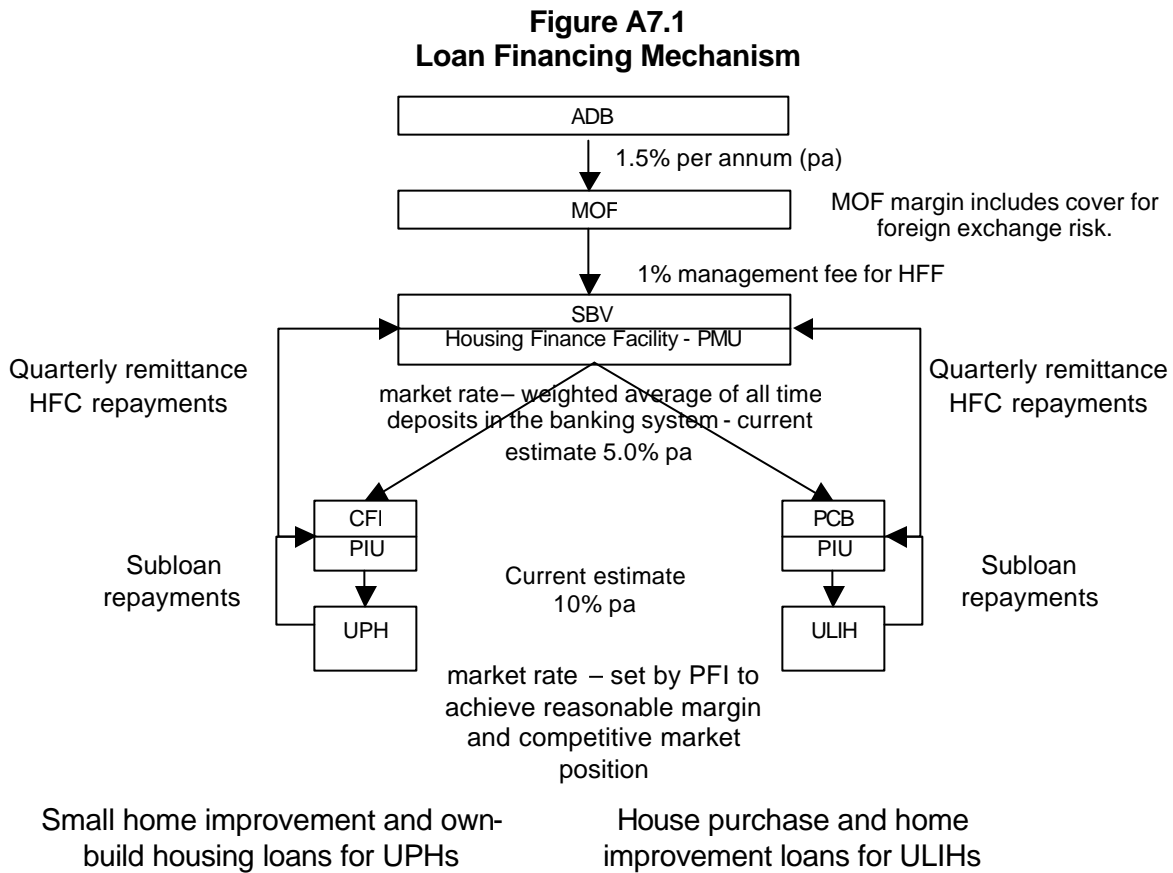
^a Monthly repayments assume 10% interest rate per annum.

^b Monthly household income assumes 30% applied to loan repayment.

FINANCIAL ARRANGEMENTS

A. Funds Flow

1. The Socialist Republic of Viet Nam will be the Borrower of the Asian Development Bank (ADB) loan. The loan will be from ADB's Special Funds resources and will have a term of 32 years, including a grace period of 8 years. A service charge of 1% will be levied on the loan during the grace period and 1.5% during the amortization period. The Ministry of Finance (MOF) will enter into a financing agreement¹ with the State Bank of Viet Nam (SBV) acting as Executing Agency, where the housing finance facility (HFF) will be set up as an independent project management unit. Funds will flow from MOF to SBV/HFF in dong which will be the currency for all subsequent fund flows. The funds for the institutional strengthening and capacity building component will be provided by MOF to HFF as a grant. The fund flow is illustrated in Figure A7. 1.



CFI = community-based financial institution, HFC = housing finance credit, PCB = participating commercial bank, PIU = project implementation unit, PFI = participating financial institution (PCB + CFI), PMU = project management unit, ULIH = urban low-income household, UPH = urban poor household.

2. Interest rates in the structure will be entirely market driven, with only one rate set in the loan documentation. That rate will be at the transfer point from HFF to the participating financial institutions (PFIs). This rate will be set at a reference rate defined as the weighted average of all

¹ The loan term between MOF and SBV will be for 20 years, with a grace period of 5 years.

time deposits in the banking system of Viet Nam. HFF will have a fixed management fee for handling the housing loan funds. PFIs will be free to set the onlend interest rate based on the negotiation between PFIs and their subborrowers.

B. HFF Margin Funds

3. HFF will retain a 1% management fee for handling subloan disbursement to PFIs. This management fee will be retained exclusively for the use of HFF in a special account under its control, to be used (i) to cover the operating costs of HFF-PMU (including training and capacity building for HFF-PMU and PFIs), (ii) to cover the cost of conducting marketing campaigns to urban low-income and poor households (ULIPHS) to advise them of the Project, (iii) to accumulate reserves for working capital when HFF becomes an independent entity, and (iv) to relend to project beneficiaries. The management fee will be calculated at 1% annually on the outstanding subloans, and payable quarterly to HFF from PFI subloan repayments to HFF. MOF will bear the foreign exchange risk, from the remaining interest payments from PFIs to HFF, after deducting the HFF management fee.

C. Accounts, Disbursement, and Payment Procedures

4. HFF will be required to keep at least four separate accounts. Two separate imprest accounts will be opened for (i) loan fund disbursement for consulting services and equipment purchases, and (ii) subloan disbursements. Funds will flow from MOF to these imprest accounts. Payments from the subloan imprest account will flow to PFIs to refinance housing subloan packages approved by HFF. In addition to the two imprest accounts, HFF will also maintain at least two other accounts. One of such accounts will be established to hold quarterly repayments on loans from the PFIs. Payments out of this account will be to PFIs to refinance further subloans, with funds from this account to be disbursed before drawing down funds from the subloans imprest account. The other account will be established to hold quarterly interest payments on HFC loans from the PFIs. HFF will deduct and retain the management fee from this account.

5. MOF will deposit an initial amount from the ADB loan into the imprest accounts. Each PFI will submit the first 10 subloans to be refinanced by HFC loans individually, and all relevant loan appraisal documentation to be reviewed by HFF. Subsequently, HFF will disburse housing finance credit (HFC) loans to PFIs, for subloan refinancing, on the basis of lists of subloans (LOS) of not less than D500 million. Initially, the LOS will be accompanied by relevant loan appraisal documentation, and HFF will review and approve the documentation for 5 subloans included in the LOS before disbursement of HFC loans is approved. After the submission of the third LOS by any individual PFI, HFF, with the concurrence of ADB, may suspend submission by PFI of loan appraisal documentation and rely on monitoring the appraisal documentation during review sessions that will be held at least twice a year.

6. Each PFI will be allocated a guaranteed credit line up to \$2 million for participating commercial banks (PCBs) and up to \$1 million for community-based financial institutions (CFIs) for drawdown over 3 years. There will be a residual HFC loan pool for the balance of loan funds to be available for any PFI after it has used its guaranteed credit line, on a first-come first-served basis. HFF will review individual PFI drawdown of the guaranteed credit line annually, and where drawdown has been less than 30%, HFF may revise the credit line and reallocate it to the HFC loan pool. The maximum total accumulated principal amount for any PFI will be \$7 million. This mechanism will provide some measure of guarantee for PFIs to commit to development and marketing programs and at the same time provide an incentive to originate subloans quickly.

7. The project funds and the subloan repayments will provide a revolving line of credit for housing finance for additional end users. Repayment of funds from HFF to MOF will be made twice a year to correspond with the Government's loan repayments to ADB.

D. Participating Financial Institutions (PFIs)

8. Six PCBs and two CFIs were selected as prequalified PFIs, which can qualify to participate in the Project, provided they comply with all the conditions established. Selection was based on their past experience in housing finance, commitment to participate in the Project, and financial indicators. The prequalified PCBs are the Asia Commercial Bank (ACB), the Bank of Investment and Development of Viet Nam (BIDV), Housing Development Bank of Mekong Delta (MHB), Ho Chi Minh City Housing Bank (HHB), Industrial and Commercial Bank of Viet Nam (ICBV), and Saigon Commercial Joint Stock Bank (Sacombank). Prequalified CFIs are the People's Credit Funds (PCF) network, and Viet Nam Bank for Agriculture and Rural Development (VBARD). Other CFIs could be prequalified after the completion of the legal framework for microfinance institutions that the Government will prepare in the following months. Independent auditors will prepare a detailed due diligence analysis before the PFIs are fully qualified and can access project funds.

E. PFI Qualify Criteria

9. The qualifying criteria to be applied to PFIs are outlined in Table A7.1. Some criteria vary slightly between PCBs and CFIs. The broad qualifying standards follow. (i) Legality standards require PFIs to be established, organized and operate in compliance with regulations of SBV. (ii) Solvency standards assess PFIs in terms of loan portfolio quality and capital adequacy. Two major financial indicators reflect the loan portfolio quality: total overdue balance over total loan portfolio and net bad debts over total loan portfolio. Capital adequacy is reflected by the own capital or net equity over risk assets: the lower the overdue rate and the higher the capital adequacy ratio, the more solvent the PFI will be. (iii) Liquidity standards assess the capacity of PFIs to convert assets into cash or liquid assets to cover short-term liabilities, indicated by the current ratio and the medium- and long-term loan portfolio over medium- and long-term sources. (iv) Profitability and efficiency standards assess the capacity of PFIs in utilizing resources, which are reflected by return on equity (ROE) and return on assets (ROA). (v) Management quality of staff standards address whether PFIs have staff with managerial and professional skills in accordance with SBV-stipulated regulations.

10. The eligibility for qualification of PFIs and rates defined are derived from international standards and the prudential norms issued by SBV (e.g., capital adequacy, liquidity, classification and provisioning for nonperforming loans, and lending concentration). HFF is entitled to consider the refinement of specific qualifying criteria in concurrence with ADB in the process of PFI qualification. When calculating the financial ratios, the results of the last 3 completed financial years will be used, to take account of abnormal annual fluctuations. The criteria were applied to the prequalified PFI during appraisal and the results are in Table A7. 2.

F. PFI Loan Arrangements

11. Qualified PFIs will be required to sign a housing finance credit (HFC) loan agreement with HFF before housing loan refinancing for beneficiary subloans can be accessed. The HFC loan agreement will define (i) eligible housing subborrowers; (ii) subloan terms and conditions; (iii) subloan management; and (iv) audit, supervision, and reporting requirements.

12. Before starting disbursements, each PFI will establish a specially dedicated project implementation unit (PIU) to manage all aspects of the HFC loan and subloan origination and management procedures.

G. PFI Loan Terms

1. Eligible Subborrowers and Subloan Purpose

13. Eligible housing subborrowers will be defined in the loan agreements as households having a monthly income in the range of D350-750,000 for CFIs and D0.75-3.5 million for PCBs. Eligible subloan purposes for PCBs will be housing purchase with a maximum subloan value of D70 million (maximum house price of D100million) and small home improvement with a maximum value of D20 million. For CFIs, eligible loans will be for small home improvement and own-build housing with a maximum cost of D15 million. The maximum subloan for new housing and home improvement/upgrade will be equal to 70% of the house value or house upgrade cost.

14. During project preparation, extensive discussions were undertaken with potential PFIs, housing construction companies, housing development agencies, as well as surveys and focus group discussions with urban low-income and poor households (ULIPHS) to get a cross section of information and views on appropriate ULIPH loan eligibility criteria and maximum levels. The maximum housing component levels were set based on appropriate existing and proposed ULIPH housing projects successfully completed and sold, detailed feasibility studies of planned ULIPH projects and the experience of ULIPHS purchasing such housing. Subloan terms were developed in consultation with potential PFIs, and reflect the experience of existing ULIPH housing loans from banks specializing in this category of borrowers, and the views of ULIPHS surveyed (see Appendix 4 – Summary of Survey Findings, for details).

2. Capital Contribution and Risk

15. PFIs will provide from their own resources capital equal to 20% of the subloans to borrowers from PCBs and 10% of the subloans to borrowers from CFIs, reflecting the lower capital base of most microfinance CFIs. This contribution is regarded as important, as it means PFIs share some of the risk associated with lending to the target group. Subborrowers will contribute some 30% of their housing costs, ensuring they have significant equity in their housing project. In line with the move into a commercially driven domestic market economy, all risks inherent to subloans made by PFIs will be borne by the PFI that originates the subloan. Upon the failure of a PFI to repay the principal and or interest due on a HFC loan, HFF will have the right to call either the outstanding balance of the PFI's entire HFC loan portfolio or the specific HFC loan or loans in default (based on the circumstances of that default and the financial condition of the PFI) and suspend the right of the PFI to obtain further HFC loans.

3. Interest Rates

16. HFC loans from the HFF to PFIs will be at a variable interest rate adjusted quarterly and set at the weighted average of all time deposits in the banking system as computed and informed by SBV at the end of each quarter. Interest rates for subloans will be in accordance with the interest rate policy of each PFI. Subborrowers will be given a choice of fixed rate (prevailing variable rate as defined above plus a premium) for the term of the subloan, or a variable rate periodically adjusted.

4. Collateral

17. Subloans through PCBs will be mortgage based, requiring subborrowers to provide land use rights certificates (LURCs) or, where appropriate, building ownership and land use certificates (BOLUCs) for collateral. Microfinance CFI subborrowers will generally provide individual or group guarantees or similar collateral (both physical and moral guarantees), though the provision of LURC and BOLUC will be encouraged for subloans more than D10 million.

5. Other Subloan Conditions

18. The maximum subloan term would be 20 years. HFC loans from HFF to PFIs will be for the term of the subloans.

Table A7.1: Criteria for Qualification of PFIs

Criteria	Required Standards	
	PCBs	CFIs
A. Organization of PFIs		
A1. Legality		
1. Legally licensed	Yes	Yes
2. Accounting standards used	Viet Nam	Viet Nam
3. Financial statements audited	Yes	Yes
A2. Disclosure		
4. Annual report (AR) produced	Yes	Yes
5. Auditor's report in AR	Yes	Yes
6. Footnotes in AR	Sufficient (fair/or no)	Sufficient (fair/or no)
A3. Management		
7. Years in operation (establishment)	At least 5 years	At least 5 years
8. Internal regulations and management procedures	In place	In place
B. Financial Status of PFIs		
B1. Solvency (overdue)		
9. Total overdue /loan outstanding	<10%	<10%
10. Net bad debt/loan outstanding	<5%	<5%
B2. Solvency (capital adequacy)		
11. Capital + Reserves /Risk assets	>8%	>4%
12. Capital + Reserves /Total assets	>8%	>4%
13. Capital + Reserves /Total assets & off-balance sheet	>8%	>4%
14. Earning assets /Total Assets	>80%	>60%
B3. Liquidity		
15. Current Ratio (Current assets/current liabilities)	>30%	>20%
16. Mid-long loans/Mid-long sources	<100% of mid-long sources and <20% of short-term sources	<100% of mid-long sources and <20% of short-term sources
B4. Profitability		
17. ROE (after-tax profit /average capital and reserves)	Positive	Positive
18. ROA (pretax profit /average earning assets)	Positive	Positive
19. ROA (pretax profit /total assets)	Positive	Positive
B5. Stability		
20. Growth rate of loan outstanding	>15% annually	>10% annually
21. Growth rate of pretax profit	Positive	Positive
C. Credit Analysis and Risk Management Capacity		
C1. Credit analysis capacity		
22. Decision-making process and loan procedures	In place	In place
23. Standardization and dissemination of appraisal methods	In place	In place
24. Experience in mid-long loans (mid-long loan share)	Yes	Preferable
25. Credit officers capable of sound credit analysis	Yes	Yes
C2. Credit risk management		
26. Loan monitoring system	In place	In place
27. Bad loan treatment procedure	In place	In place
C3. Training		
28. Training system	In place and ongoing	In place and ongoing
D. Competency for ADB-funded Housing Finance		
D1. Size and outreach		
29. Housing loan activities	Yes	Preferable
30. Branch network	At least 5 branches	At least 5 branches
31. Marketing methodology and ability	Sufficient	Sufficient
D2. Willingness		
32. Willingness to participate in ADB housing finance project	Yes	Yes
33. Specific unit assigned for ADB housing finance project	Yes	Yes
D3. Credit lines with aid agencies		
34. Experience in aid-funded projects	Preferable	Preferable

ADB = Asian Development Bank, CFI = community-based financial institution, PCB = participating commercial bank, ROA = return on assets, ROE = return on equity.

Table A7.2: Criteria for Qualification Applied to Potential PFIs
(Latest Three-Year Average Figures)

Criteria	Required Standards										Prequalified PFIs									
	PCBs		CFIs		ACB	BIDV	HHB	ICBV	MHB	Sacom	PCF/CCF	VBARD	Habu	Technom	Vietcom	Others		CFIs	CEP	
A. Organization of PFIs																				
A1. Legality																				
35. Legally licensed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	
36. Accounting standard(s) used	Vietnam (pref. IAS)	Vietnam	VN&IAS	VN&IAS	VN	VN	VN&IAS	VN&IAS	VN	VN	IAS	VN	VN	VN	VN&IAS	VN	VN	VN	VN	
37. Financial statements audited	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
A2. Disclosure																				
38. Annual report (AR) produced	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
39. Auditor's report in AR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
40. Footnotes in AR	Sufficient (fair/or No)	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	
A3. Management																				
41. Years in operation (establishment)	At least 5 years	At least 5 years	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	
42. Internal regulations and management procedures	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	
B. Financial Status of PFIs																				
B1. Solvency (overdue)																				
43. Total overdue /loan outstanding	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%	
44. Net bad debt/loan outstanding	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	
B2. Solvency (capital adequacy)																				
45. Capital + Reserves /Risk assets	>8%	>8%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
46. Capital + Reserves /Total assets	>8%	>8%	8.8%	16.9%	14.2%	14.2%	4.1%	52.6%	7.5%	8.6%	4.6%	10.9%	6.1%	3.45%	41.6%	41.6%	41.6%	41.6%	41.6%	
47. Capital + Reserves /Total assets and off-balance sheet	>8%	>8%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
48. Earning assets /Total Assets	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	>80%	
B3. Liquidity																				
Current Ratio (Current assets/current liabilities)	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	>50%	
49. Mid-long loans/Midlong sources	<100% of midlong sources and <20% of short term sources	<100% of midlong sources and <20% of short term sources	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	
B4. Profitability																				
50. ROE (after-tax profit /average capital and reserves)	Positive	Positive	21.5%	4.0%	5.7%	5.7%	6.7%	3.8%	16.4%	20%	Negative	11.1%	6.5%	11.6%	22.3%	22.3%	22.3%	22.3%	22.3%	
51. ROA (pretax profit /average earning assets)	Positive	Positive	4.4%	0.9%	1.2%	1.2%	0.46%	4.1%	1.4%	1.9%	Negative	1.8%	0.76%	1.8%	10.3%	10.3%	10.3%	10.3%	10.3%	
52. ROA (pretax profit /total assets)	Positive	Positive	1.8%	0.66%	0.8%	0.8%	0.26%	2.4%	1.06%	1.7%	Negative	1.1%	0.4%	0.36%	9.3%	9.3%	9.3%	9.3%	9.3%	

Criteria	Required Standards										Prequalified PFIs						Others			
	PCBs		CFIs		ACB		BIDV		HHB		PCBs		CFIs		Commercial Banks		CFIs			
	PCBs	CFIs	ACB	BIDV	HHB	ICBV	MHB	Sacom	PCF/CCF	VBARD	Habu	Techcom	Vietcom	CFIs	CEP					
B5. Stability	>20% annually Positive	>20% annually Positive	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%	>20%		
53. Growth rate of loan outstanding	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
54. Growth rate of pretax profit	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
55. Decision making process and loan procedures	Yes	Preferable	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
56. Standardization and dissemination of appraisal methods	Yes	Yes	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
57. Experience in midlong loans (midlong loan share)	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
58. Credit officers capable of sound credit analysis	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
59. Loan monitoring system	In place	In place	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
60. Bad loan treatment procedure	In place and on-going	In place and on-going	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
61. Training system	In place and on-going	In place and on-going	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
C3. Training																				
D. Competency for ADB-funded Housing Finance																				
D1. Size and outreach	Yes	Preferable	Yes	Negligible	Yes	Negligible	Yes	Yes	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible		
62. Housing loan activities	At least 5 branches	At least 5 branches	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK		
63. Branch network	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient		
64. Marketing methodology and ability	Yes	Yes	Yes	Yes	Yes	Yes, limited	Yes	Yes	Yes	Yes, limited	Yes	Yes, limited	Yes	Yes, limited	Yes	Yes, limited	Yes	Yes		
D2. Willingness	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
65. Willingness to participate in ADB housing finance project	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
66. Specific unit assigned for ADB housing finance project	Preferable	Preferable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
D3. Credit lines with donors	Preferable	Preferable	Yes	Yes	No	Yes	Yes	No	Yes	Yes, abundant	No	No	No	No	No	No	No	No		
67. Experience in donor-funded projects	Preferable	Preferable	Yes	Yes	No	Yes	Yes	No	Yes	Yes, abundant	No	No	No	No	No	No	No	No		

(NA = Data not available to the Appraisal Mission but will be available to HFF.)

ADB = Asian Development Bank, AR = annual report, ACB = Asia Commercial Bank, BIDV = Bank of Investment and Development of Viet Nam, CEP = Capital Aid Fund for Employment of the Poor, CFI = community-based financial institution, Habu = Hanoi Housing Bank, HFF = housing finance facility, HHB = Ho Chi Minh City Housing Bank, IAS = international accounting standard, ICBV = Industrial and Commercial Bank of Vietnam, MHB = Housing Development Bank of Mekong Delta, PCB = participating commercial bank, PCF/CCF = People's Credit Funds Network, PFI = participating financial institution, Sacom = Saigon Commercial Joint Stock Bank, Techcom = Technology and Commerce Bank of Vietnam, VAS = Vietnamese accounting standard, VBARD = Viet Nam Bank for Agriculture and Rural Development, Vietcom = Bank for Foreign Trade of Vietnam.

TOTAL PROJECT COST AND IMPACT

Table A8.1: Total Project Cost by Lending Channel and Leveraging Impact (\$ million)

Project Part	ADB Loan Amount ^a	PFI Contribution ^b	Total Funds for Lending ^c	Beneficiary Contribution ^d	Government Contribution ^e	Project Cost
A. Mortgage Lending to ULIH through PCBs						
1. House purchase	10.7	20%	13.6	30%		20.0
2. House upgrading	11.7	20%	14.6	30%		20.8
Subtotal (A)	22.4		28.2			40.8
B. Housing Microfinance to UPH through CFIs						
1. Small home improvements	4.0	10%	4.4	30%		6.3
2. Own-build housing	1.0	10%	1.1	30%		1.6
Subtotal (B)	5.0		5.5			7.9
C. Capacity Building and Institutional Strengthening	1.7					1.7
D. Incremental Administration					0.5	0.5
E. Interest on Bank Loan	0.9					0.9
Total	30.0		33.7		0.5	51.8

CFI = community-based financial institution, PCB = participating commercial bank, PFI = participating financial institution, ULIH = urban low-income household, UPH = urban poor household.

^a Represents the allocation of ADB loan proceeds to each Project part and lending channel.

^b Accounts for PFI (PCB+CFI) contribution to total lending as percentage of total loan to beneficiary.

^c Represents total funds available for lending through the respective channels.

^d Accounts for additional contributions by individual borrowers/beneficiaries, in cash, kind, and/or labor in their house, expressed as a percentage of the total cost of

^e Accounts for incremental administration provided by Government.

Table A8.2: Total Project Impact by Number of Loans and Beneficiaries

Subproject	Total Funds for Lending ^a (\$ million)	Total Funds for Lending ^b (D billion)	Average Loan Size ^c (D million)	Number of Loans	Number of Beneficiaries ^d
A. Mortgage Lending to ULIH through PCBs					
1. House purchase	13.6	204.3	50.0	4,088	20,438
2. House upgrading	14.6	219.4	15.0	14,625	73,125
Subtotal (A)	28.2	423.7		18,713	93,563
B. Housing Microfinance to UPH through CFIs					
1. Small home improvements	4.4	66.7	10.0	6,667	33,333
2. Own-build housing	1.1	16.7	8.0	2,083	10,417
Subtotal (B)	5.5	83.4		8,750	43,750
Total	33.7	507.1		27,463	137,313

CFI = community-based financial institution, PCB = participating commercial bank, PFI = participating financial institution,

ULIH = urban low-income household, UPH = urban poor household.

^a Accounts for ADB loan, as well as PFI loan.

^b Based on exchange rate of \$1=D15,000.

^c Represents average housing loans through respective PFIs (PCB+CFI).

^d Average household size of 5 persons.

ROLES AND RESPONSIBILITIES OF THE HOUSING FINANCE FACILITY

A. Background and Rationale

1. In Viet Nam, the major funding source of retail banks, deposits, is usually of short term. Consequently, most of the mortgage loans originated have short maturity (1-5 years, with a predominance of 1 year), which has a serious impact on the affordability of housing for urban low-income and poor households (ULIPs). To address this constraint, banks specializing in housing finance have three alternatives: (i) be heavily capitalized, (ii) raise institutional savings on the capital market, or (iii) create long-term saving instruments to offer to their clients. The first option is presently being addressed in the banking sector reform program through individual bank recapitalization plans. The second option will develop with the emergence of pension funds, insurance funds, and long-term institutional investors in Viet Nam. The third option can be immediately implemented should the banks develop innovative loan-savings products and improve their marketing. Vietnamese banks have limited experience in the retail sector and marketing savings products that could satisfy people presently resorting to land purchase or deposits for the purpose of capital appreciation. Banks have to offer their customers new savings products, most likely (i) linked to loan access; (ii) incorporating a higher interest differential for long-term savings accounts; (iii) with multiple interest rate levels; and (iv) more sophisticated than simply based on a single interest rate. The deposits raised by banks are still too short term despite the incentive provided by State Bank of Viet Nam (SBV), which does not impose any reserve requirement on deposits of more than one year.

2. The core of the strategy in Viet Nam's housing finance sector should be to boost the mobilization of private savings and channel them toward the housing sector. The limited public resources raised by the Government should be used only as leverage for expanding private savings, for instance, through the provision of urban infrastructure. The short-term strategic approach should aim at assisting the whole Vietnamese banking sector in raising long-term resources, implementing sound working methods, and offering adequate savings products and long term mortgage instruments to their customers to develop the primary mortgage market. The medium-term strategic approach should aim at creating a secondary market facility (SMF) in housing finance. The creation of a SMF requires the existence of an efficient primary mortgage market whose main prerequisites are (i) a stable macroeconomic environment, (ii) a well-functioning titling and mortgage registration system, (iii) mortgages that are attractive investments, (iv) standardization of mortgages, (v) proper origination techniques, (vi) proper servicing techniques, and (vii) existence of potential investors. Not all these prerequisites are satisfied in Viet Nam and there is a need to prepare both the conditions for a more efficient primary market and the conditions for an emerging secondary mortgage market in the near future.

3. The development of an efficient housing mortgage market in Viet Nam, then, requires the establishment of a specialized agency, the housing finance facility (HFF) that will be initially placed within SBV. The Asian Development Bank (ADB) loan will provide initial resources to HFF to start its operations on a pilot basis with the objective of developing the national housing finance sector. The establishment of HFF with support from an ADB loan will lead to the (i) development of an efficient primary mortgage market accessible to ULIPs by institutionalizing the standards and procedures of the HFF within the participating financial institutions (PFIs); and (ii) building up of basic requirements for the emergence of a secondary mortgage market in the future.

4. This institutional creation and development process provides the primary reason why HFF needs to be an apex institution and distinguishes the revolving fund activities of HFF from a project involving only subloan distribution and recycling activity. Setting up revolving funds in each PFI would diffuse housing finance sector policy and development activity and would not lead to the creation of a sustainable housing loan refinancing market. Establishing an apex HFF within

an existing commercial bank would also inhibit the development of a sustainable housing loan refinancing market because of (i) the conflict of interest between that bank's apex wholesale banking function and its retail housing finance function; and (ii) the inhibiting influence of competitive commercial banks disclosing retail housing finance activities to a competitor. Ideally, HFF should be a separately incorporated and independent agency, but as this is a pilot loan testing mechanism, it is appropriate to initially establish HFF inside SBV, as the implicit authority of SBV will ensure sound principles of effective governance and facilitate the acceptance of prudential operating standards. The relocation of HFF will be examined in the project midterm review, and the necessary steps will be to transform it into an independent mortgage refinance agency (MRA) agreed upon before the end of project implementation.

B. Mandate and Objectives

5. The mandate of HFF is to develop a sound and self-sustaining housing finance system in Viet Nam by establishing a network of housing finance outlets across the country. Its primary objectives will be to (i) promote and assist the housing finance sector, (ii) provide advisory services and technical assistance in operational policies to PFIs, (iii) mobilize new resources for the housing sector, and (iv) address legal and institutional constraints to the development of the housing finance system.

C. Functions

6. HFF will perform the following functions:

- (i) Be a project management unit with responsibilities for managing the ADB loan;
- (ii) Refinance subloans originated by PFIs;
- (iii) Promote prudential techniques and procedures in the housing finance sector;
- (iv) Develop and institutionalize standardized mortgage loan terms and originating and servicing procedures;
- (v) Develop a management information system (MIS) that will allow for a rapid clearance and refinance mechanism;
- (vi) Assist the banking sector to develop (a) short-, medium-, and long-term hedging instruments to facilitate term lending and minimize debt management risk in the mortgage market, (b) industry driven rules and regulations on trading and settlement of bundled mortgage assets between HFF and PFIs; and (c) a MIS that will ensure timely clearance/settlement and monitoring;
- (vii) Monitor the PFIs targeting of ULIPs, particularly in relation to resettlement and other housing projects included in the HFF database;
- (viii) Develop a housing finance consultative group (HFCG) to act as an advisory body—with representatives of the PFIs;
- (ix) Assist PFIs and the government to develop and promote new deposit and loan products to increase access and the affordability of housing finance to ULIPs;
- (x) Assess possibilities for creating a mortgage guarantee fund, or a mortgage insurance scheme that would benefit ULIPs; and

- (xi) Prepare the basis for the future creation of a sustainable secondary housing mortgage market to attract additional capital to the sector, including the future possibility of issuing bonds to be purchased by institutional investors.

D. Status of HFF

7. HFF will be an autonomous operating unit, with its own operational budget, financial accounts, suitable equipment, and permanent staff under the authority of a Project director. The director of HFF will report to the governor of SBV.

E. HFF Tasks as PMU of the Project

8. HFF will be responsible for managing the ADB loan revolving fund, as the apex institution for subloan refinancing and repayments through the PFIs, with the default risk of subloans remaining with the PFIs. HFF will be the focal point for ADB and the local organizations in respect of all matters relating to implementation, management, and coordination of the Project, including (i) qualification of PFIs and monitoring their financial performance; (ii) approving PFIs' subloan applications according to housing finance credit (HFC) loan agreement terms; (iii) monitoring project implementation and preparing reports; (iv) paying principal and interest to the Ministry of Finance (MOF) for repayment of the ADB Loan; (v) carrying out studies and surveys pertaining to housing finance development in the country; (vi) selecting, contracting and supervising capacity building and institutional strengthening consulting and training services; (vii) providing support to SBV and MOF in policy matters relating to housing finance; (viii) carrying out accounting for all project activities, including bookkeeping, disbursement to PFIs, and recording of collections and repayments; and (ix) carrying out procurement activities under the Project. A more detailed outline of selected specific tasks to be undertaken by HFF follows.

1. Contractual Housing-Savings Schemes

9. Such schemes are an effective way to finance housing through a mechanism where an ULIPH undertakes to save a specified amount over a prescribed period of time and the PFI undertakes to grant, at the end of that period, a loan whose amount and term depend on the amount of savings accumulated. The advantage of such a scheme is that it reduces the element of uncertainty, both for the PFI, which can more easily project its financial commitments, and for the ULIPH, who knows for certain that it can obtain a housing loan at the end of the agreed upon period. A specific task of HFF will be to facilitate the development and introduction of such schemes through a consultative and product development support program to PFIs.

2. Microcredit Deposit Savings Schemes

10. The rationale of saving for housing loan products derives from the principles that (i) private deposits are the backbone of any financial institution; (ii) households perceive housing as the first objective worth saving for; (iii) knowing the savings behavior of the future borrowers helps in assessing the personal credit risk; and (iv) by linking prior savings and borrowing by the same household, it is possible to use the savings as collateral for the loan. Applying this rationale, microcredit organizations lend for home improvement to groups of poor households on the strength of prior collective group savings. The groups are responsible for dealing with individual savings collection, lending, and loan repayments themselves. In many cases, this means intermediation, with cost savings for the microcredit intermediary institution, as it has to deal with only one (larger) loan for the group, rather than with a number of smaller loans for individuals. The outreach is better and, even if the net cost of the additional layer as reflected in the interest rate for the end user is higher, credit still reaches the households at more favorable terms than those of informal sources of funds accessible to them. A specific task of HFF will be to facilitate

developing and introducing such schemes through a consultative and product development support program to PFIs. Common features of these products include: (i) 2-3 years prior savings will be required to provide guaranteed access to a housing loan of at least four times the built-up savings; (ii) credit terms will be market based, with a medium- to long-term repayment period; and (iii) the savings-for-loan product will generally be group-based, supported by mass organizations such as the Women's Union and by nongovernment organizations (NGOs.)

3. Awareness and Marketing Campaign

11. ULIPs have limited knowledge of and access to PFIs, particularly participating commercial banks (PCBs). To maximize access to the project subloans at PFIs, it is important to ensure that ULIPs are aware of the Project and the ease of access to such subloans. In addition to the normal loan product marketing that PFIs will undertake at their own expense, HFF needs to provide a generic housing finance awareness and marketing program. This program will specifically target ULIPs and will aim to inform them of the (i) purpose and benefits of long-term housing loans; (ii) cost and affordability of long term loans through PFIs; (iii) ULIP eligibility for subloans; (iv) eligible housing finance subloan purposes, maximum loan levels, and other loan conditions; (v) procedures for obtaining information and applying for such loans; (vi) contact details for obtaining further information; and (vii) a step-by-step checklist for determining their eligibility for a project subloan and obtaining approval for such subloan. Such an awareness and marketing program will emphasize simplicity and ease of access.

4. HFF Housing Finance Demand Database

12. There are a large number of housing development projects to resettle ULIPs, upgrade shanty areas, provide major employee housing, and improve government employee housing in the urban areas of Viet Nam. As no central database of such projects exists, it is essential that HFF develop such a database and assist PFIs to directly target ULIPs associated with such projects. These projects have a number of advantages: (i) land and infrastructure service costs for resettlement housing areas are generally included in the external assistance projects or contributed by the relevant People's Committee agency from their own funds, thus reducing total housing costs if they are passed on to the resettled households; (ii) they usually have designated housing resettlement areas and a choice of appropriate housing options; (iii) most resettled households receive compensation at replacement cost, providing a contribution to the deposit requirements for housing loans if they decide to improve their houses; and (iv) often they have social survey inputs, community consultation, and savings credit schemes to prepare households for relocation. These groups include a significant proportion of the project target ULIPs. Few, if any, belong to higher income groups, thus eliminating a potential leakage of project loan funds to income groups above the low-income band.

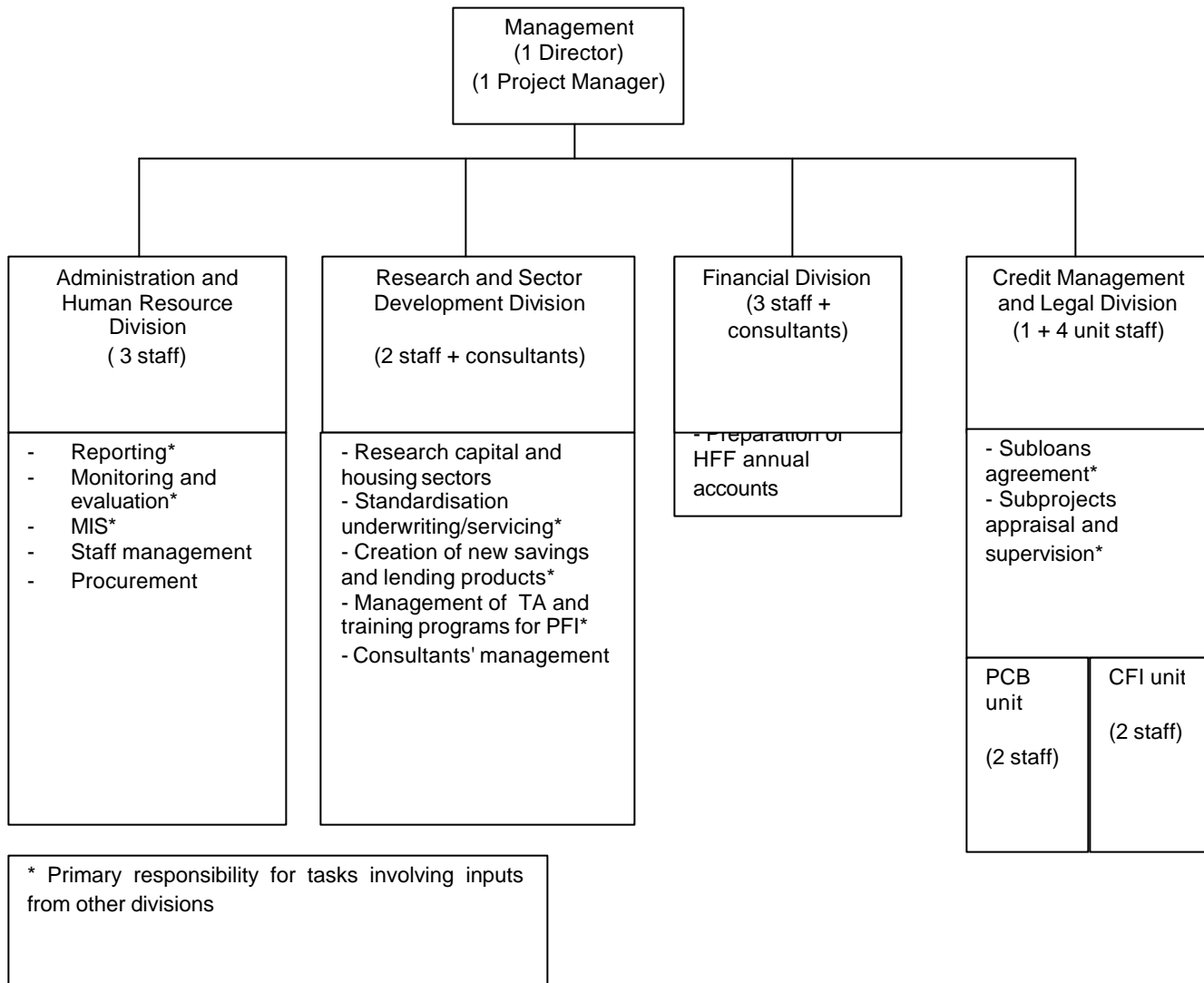
5. Mortgage Guarantee Fund/Mortgage Insurance Scheme

13. PFIs have concerns about the risks of lending to ULIPs, particularly regarding the security of household earnings. This concern could be limited through either a Government-backed mortgage guarantee fund, or through a mortgage insurance scheme. It could involve joint contributions by Government and PFIs to build up a fund that could be accessed to pay part or all of the residual debts arising from defaulting subloans. A mortgage insurance scheme could be established through an insurance company willing to provide a special housing finance protection policy that covers housing subloan payments for subborrowers who experience earning losses due to job loss, temporary or permanent disability, or death as well as property loss due to fire. This is a premium-based insurance product and the monthly premium can be added to a subborrower's subloan repayment schedule. The HFF will conceive and design features of a mortgage insurance scheme targeting low-income households.

F. HFF Organizational Structure and Staff

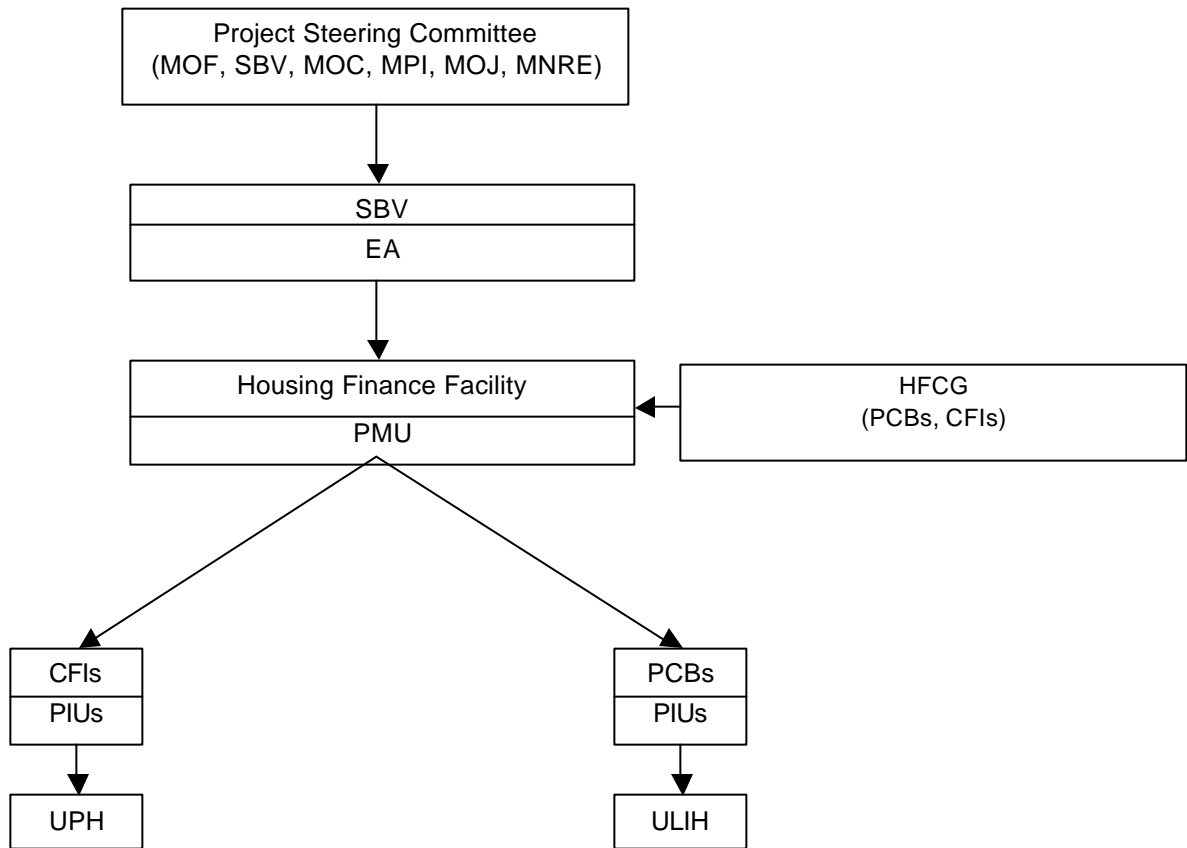
14. HFF will be managed by a project director and a full-time project manager and staffed with at least 15 full-time professional staff including the project director and project manager, and five supporting staff. HFF will have four divisions (Figure A9). Consultants for specific technical tasks will support the permanent staff.

Figure A9: Functional Chart of the Housing Finance Facility (HFF)



CFI = community-based financial institution, MIS = management information system, PCB = participating commercial bank, PFI = participating financial institution, TA = technical assistance.

PROJECT ORGANIZATION CHART



CFI = community-based financial institution, EA = executing agency, HFCG = housing finance consultative group, MNRE = Ministry of Natural Resources and Environment, MOF = Ministry of Finance, MOJ = Ministry of Justice, MPI = Ministry of Planning and Investment, PCB = participating commercial bank, PIU = project implementation unit, PMU = project management unit, SBV = State Bank of Viet Nam, ULIH = urban low-income household, UPH = urban poor household.

IMPLEMENTATION SCHEDULE

Item	Year 1				Year 2				Year 3				Year 4				Year 5			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
A. Mortgage Lending to Urban Low-Income Households (ULIHs) Through PCBs																				
B. Housing Microfinance to Urban Poor Households (UPH) through CFIs																				
C. Institutional Development and Capacity Building																				
C1. Establish Housing Finance Facility (HFF) PMU Sign financial agreement between MOF and SBV Develop lending, monitoring, and reporting procedures for PFIs Develop standard mortgage and loan origination documents for PFIs Develop reporting systems for PFIs Loan agreements signed between HFF and PFIs Housing loan refinancing activity																				
C2. Training and Capacity Building Program for HFF and PFIs Recruit PMU consultant Deliver consulting services Design and implementation training programs Review study for creation of the mortgage refinancing agency (MIRA)																				
C3. Housing Finance Awareness and Marketing Program Prepare housing finance awareness and marketing program Marketing new housing lending program																				
C4. Establishment Housing Demand Database for LIHs and PHs Preparation housing project database																				
D. Policy Reform to Improve Enabling Environment Prepare and approve housing finance orientation (policy document) Consolidate and rationalize of mortgage legislation Improve valuation system of land and houses Deepen policy reforms in banking sector Increase number of urban land use certificates issued and registered																				
E. Monitoring and Evaluation Benchmark survey Midterm survey ADB Midterm Review Mission End-project survey and evaluation Monitoring PFIs by HFF																				

CFI = community-based financial institution, MOF = Ministry of Finance, PCB = participating commercial bank, PMU = project management unit.

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

1. Consulting services to be provided to develop capacity in housing finance and to assist in implementing the Housing Finance Project, within the housing finance facility (HFF) and participating financial institutions (PFIs), will be in three major areas: (i) support to HFF in implementing procedures and mortgage standardization relating to ADB loan management, and in providing technical research and inputs for institutional development of the housing finance sector; (ii) support to PFIs in establishing effective housing loan origination and management processes, including assessment, monitoring, servicing, arrears management and foreclosure, for low-income housing loans; and (iii) support for the implementation of the policy and institutional action plan.

2. HFF will recruit a consulting firm. Individual consultants could be recruited for specific services, if necessary. The scope of the consultants' work is described in the following paragraphs.

A. Support to HFF

3. Initial support will be required to develop a detailed implementation program according to an agreed upon time line, and subject to ADB approval, between HFF and the PFIs. The program will be supported by training and workshops in specific operational activities to both parties, covering (i) mortgage (for participating commercial banks [PCBs]) and housing loan (for community based financial institutions [CFIs]) lending origination and management; (ii) development of a management information system (MIS) for housing finance loans/mortgages; (iii) management and clearance of bundled assets (mortgage housing finance loans); (iv) monitoring mechanisms and review procedures under the MIS; (v) development of hedging instruments to ensure term lending and minimize debt management risk by the PFIs; (vi) assessment of the project under SWOT (strengths, weaknesses, opportunities, threats) analysis – impact on outreach, lending margins, requirements to adjust the project focus; and (vii) phasing of mortgage instruments according to market demand and prudential regulations. Comprehensive manuals on all the above will need to be provided to HFF and PFIs.

4. The main additional support areas incorporated in the implementation program follows:

- (i) Prepare and disseminate lending guidelines and manuals to PFIs.
- (ii) Prepare the qualification of selected PFIs among the pre-qualified PFI.
- (iii) Facilitate the preparation of a national housing finance orientation (policy) working closely with State Bank of Viet Nam (SBV) and the interministerial committee responsible for preparing and submitting this orientation document to the Government for approval.
- (iv) Prepare and implement a housing finance awareness and marketing campaign separately by HFF and in coordination with PFI subloan marketing programs.
- (v) Develop and disseminate to PFIs a housing finance database listing urban low-income and poor household (ULIPH) housing projects.
- (vi) Support SBV and other government agencies on the implementation of policy and institutional reforms impacting on the housing finance sector, particularly in, mortgage system legal improvements, and valuation of housing mortgage

collateral; and monitor, in coordination with other development partners, the improved issuance of land use rights certificates.

- (vii) Assist in designing and implementing contractual housing-saving schemes, and microcredit deposit savings scheme.
- (viii) Assist in designing features for mortgage bonds to be issued by a potential secondary mortgage facility for long-term institutional investors.
- (ix) Assist in designing features of a mortgage insurance scheme targeting low-income households.
- (x) Organize study trips and seminars to exchange experiences in housing finance practices in developing countries.

B. Support to PFI

5. In addition to the training and workshops in specific operational activities outlined above, the main additional support areas incorporated in the implementation program as follows:

- (i) Review PFIs refinancing guidelines and manuals.
- (ii) Assist in designing new savings for housing loan products.
- (iii) Review and assist in upgrading and standardizing PCB loan underwriting and servicing procedures and internal administrative procedures.
- (iv) Review and modify, as appropriate, CFI loan application procedures, loan application/appraisal forms, and internal administrative procedures.
- (v) Develop of a model contract for support from mass organizations or nongovernment organizations (NGOs).
- (vi) Market new savings-for-housing loans products.
- (vii) Train staff on housing lending operational procedures and implementation of the contractual housing-saving scheme.
- (viii) Establish systems for risk management in housing finance/microfinance (interest rate risk, credit risk, and liquidity risk).
- (ix) Organize study trips and seminars to exchange experiences in housing finance practices in developing countries.

C. Consultant Support Positions

6. Consultants with the expertise in housing finance, and related fields are required.

1. Housing Finance and Policy Specialist (international, 18 person months)

7. The housing finance and policy specialist will be a senior expert on financial institutions, mortgage market and housing finance. The specialist must have in-depth experience in housing

finance markets and institutions including (i) a track record in housing bank management and policy advice at a senior level; (ii) consulting engagements or employment with housing finance institutions; (iii) experience in developing countries; and (iv) hands-on experience in savings and loans institutions or building societies. The specialist will (i) assist the HFF director and the project manager in coordinating the Project and the various tasks required by consultants including preparing work plans, budgets, and internal procedures; (ii) develop and lead workshops in technical capacity building for HFF and PFIs, according to the implementation time line, with assistance from team experts; (iii) develop operating manuals for HFF and PFIs with assistance from team experts; (iv) assist SBV and interministerial committee to prepare a national housing finance orientation (policy) document; (v) develop the agenda for housing finance consultative group (HFCG) meetings with the HFF director; (vi) design a manual and marketing course specifically dedicated to promoting savings and lending instruments for the retail household market, and provide direct training initially to PFI staff, and train counterpart PFI trainers; (vii) assist coordination and institutional development; (viii) coordinate the schedules of individual tasks together with the HFF director; (ix) prepare detailed terms of reference (TORs) and monitor the working schedules of consultants; (x) be the main advisor in conceiving new savings and loan instruments; (xi) with assistance from the financial/risk management advisor, assess the feasibility of launching a contractual housing savings scheme and its potential and costs; (xii) with the assistance of the financial/risk management advisor, assess the feasibility of developing mortgage-backed instruments and securities on the capital market; and (xiii) be the lead advisor in preparing for the creation of a secondary mortgage market. The specialist will also work with domestic and international insurance companies fund managers to (i) examine the Viet Nam insurance market and gauge their capacity to underwrite mortgage insurance products for that market; (ii) identify alternative mechanisms to minimize mortgage loan default risks for PFIs lending to ULIPs, including mortgage insurance premium schemes for ULIPs and a government-backed mortgage insurance fund supported by Government and PFI loan provision funding; (iii) assess the affordability of such schemes to both PFIs and ULIPs; and recommend the most cost-effective solution for ULIP subloan default protection against property loss as well as household income loss due to job loss, temporary or permanent incapacity to perform income-generating activity, and death of subloan borrowers.

2. Financial/Risk Management Advisor (international, 8 person months)

8. The financial/risk management advisor will have extensive experience in the design and operations of lines of mortgage finance products as well as in evaluating their impact on the overall financial conditions of the mortgage finance institutions. As a senior expert on financial institutions and mortgage markets, in-depth experience will (i) include consulting engagements or employment with mortgage finance institutions; (ii) have a strong record in housing finance analysis and housing finance instruments in advanced markets and preferably with experience in developing markets; and (iii) be an effective communicator – presenting orally, writing the results of analytical work, and making recommendations to senior financial executives as well as senior public sector officials. This advisor will (i) assist the Financial Division head in designing new financial instruments to be offered by PFIs on the primary savings and lending markets; (ii) train the national financial analyst/researcher; (iii) develop innovative alternatives of savings instruments, loan design, underwriting procedures and relevant forms, servicing techniques, nonperforming loan recovery procedures, and alternatives to mortgage foreclosures and/or asset disposition; (iv) develop hedging instruments and guidelines in line with prevailing prudential regulations; (v) train HFF and PFI's project implementation unit (PIU) staff in savings and hedging instruments; (vi) working with the housing finance and policy specialist, assess the feasibility of launching a contractual housing savings scheme and assess its potential and costs; (vii) working with the housing finance and policy specialist, assess the feasibility of developing mortgage-backed instruments and securities on the capital market; (viii) work with the

MIS/software consultants on the design of appropriate mechanism to facilitate clearance of PFI accounts and ensure appropriate monitoring of settlement; and (ix) work with the MIS/software consultants on a system for risk management in housing finance and microfinance.

3. Microfinance Specialists (international, 4 person-months; domestic, 8 person-months)

9. The microfinance specialist will have significant prior experience with developing and operating sustainable microfinance organizations in developing countries (experience in Viet Nam will be desirable), preferably with housing finance products (if not in microfinance application, at least savings and loan or building society organizations). Experience with resettlement/upgrading programs, dealing with NGOs and other mass organization intermediaries, and income analysis in developing countries, as well as previous consultancy experiences in microfinance projects will be desirable. The specialist will be responsible for developing and implementing that component of the Project dealing with housing microfinance loans to urban poor households (UPHs) through qualified CFIs and will assist the microfinance unit in HFF with main responsibilities for (i) developing operational procedures, and training HFF and CFI staff in implementing these procedures; (ii) develop, in consultation with MIS/Software consultants, a credit scoring system for housing microfinance UPH loan applicants; (iii) assessing the expected interactions between the choice of specific collateral instruments and their affordability to low-income groups; (iv) developing, training, and implementing new microfinance group deposit-savings schemes through CFIs and associated intermediary organizations; (v) designing alternative models of collateral credit and possible insurance coverage for UPHs, jointly with the housing finance and policy specialist; (vi) providing training to CFIs in marketing new deposit-savings housing credit products to UPHs; (vii) assisting the MIS specialist develop MIS management and reporting systems for CFIs; and (viii) evaluating regular CFI reports and general monitoring of the CFI sector performance.

4. MIS/Software Consultants (international, 4 person-months; domestic, 8 person months)

10. The MIS/software consultants will have previous experience developing, implementing and maintaining software-based MIS for housing finance institutions of an appropriate scale, and preferably in developing countries. The specialists will work with the financial/risk management advisor and housing finance and policy specialist to (i) assist HFF and PFIs in subloan document standardization and recording; (ii) develop appropriate reporting and monitoring mechanisms required by ADB, the Government, SBV, HFF and PFIs and incorporate these in a dynamic MIS reporting model; (iii) working with the financial/risk management advisor, design an appropriate mechanism to facilitate clearance of PFI accounts and ensure appropriate monitoring of settlements; (iv) integrate financial reporting requirements of HFF and PFIs into the MIS; (v) integrate benefit monitoring evaluation report requirements in the MIS; (vi) develop appropriate maintenance agreement specifications for the MIS software and hardware system, and evaluate and negotiate with appropriate local outsource facilities; and (vii) train HFF and PFI staff in managing and applying the MIS.

5. Prudential Regulations Specialist (domestic, 4 person-months)

11. The prudential regulations specialist will have practicing legal experience in the banking and public finance sectors, preferably with prior working practice in the housing finance and mortgage law areas. Central banking regulatory experience will be desirable. The specialist will (i) review the existing legal laws, regulations, and other instruments affecting the operation of PFIs specializing in the housing finance sector and housing mortgage refinancing operations;

(ii) examine all laws, regulations and other legal instruments governing the operations of HFF in terms of project loan financing and refinancing mechanism; (iii) identify required changes in existing legal regulations to improve the operations and procedures of HFF so that it can most effectively achieve the objectives set under the Project; (iv) review the laws, regulations, and other legal instruments impacting on the future development of the mortgage-based housing finance sector, specifically with regard to the next stage—establishment of a mortgage refinance agency (MRA); and prepare an outline of a development program designed to facilitate the progressive creation of a legal environment supportive of the creation of a MRA; and (v) work with the State Securities Commission and domestic and international insurance companies and fund managers to review existing regulations and consider the required regulatory frameworks to facilitate the development of the secondary mortgage market based on legal precedence in other transition economies.

6. Mortgage and Valuation Legal Specialists (international, 4 person-months; domestic; 6 person-months)

12. The land management legal experts will consist of one international consultant with experience in the administration of land, the Land Law in Viet Nam, and in the methods of valuing land and buildings in urban areas; and a domestic consultant with knowledge of the structures and operations of Government agencies, experience in the administration of the land law, registration, and valuation practices, as well as urban and rural land-use planning experience. The experts will assist the Ministry of Natural Resources and the Environment (MNRE), SBV, and other concerned agencies to (i) revise and consolidate laws relating to mortgages of LUR and buildings attached to land and assess the possibility of consolidating all the provisions related to mortgages as a single law; and (ii) develop a single decree covering all matters relating to mortgages of LUR and buildings attached to land that are not fully covered in the revised and consolidated law. The specialists will also review all existing legislation and Government instructions relating to land and property valuations to assist the MNRE (i) develop methodologies and practices of land and property assessment and valuation, in various types of markets and levels of market activity, that are consistent with current international practices and norms; (ii) develop methodologies and practices of collecting and recording evidence of market sales, leases, and other land and property transactions so as to establish reliable local empirical databases from which accurate current market values of land and property can be assessed; (iii) conduct training courses in land and property assessment valuation for officials of MNRE, provincial and district departments of natural resources and environment, the Ministry of Finance, provincial and district Departments of Finance and banks; and (iv) make recommendations for developing a land and property valuation profession and future training of officials and interested individuals from the private sector in the methodologies and practices of land and property valuation best suited to the current and near-future situation in Viet Nam.

OUTLINE TERMS OF REFERENCE FOR MIDTERM REVIEW

A. Introduction

1. In addition to regular reviews to be undertaken during the project implementation period, the Government and the Asian Development Bank (ADB) will jointly carry out a comprehensive midterm review approximately 2 ½ and years from the date of loan effectiveness. The objectives are to (i) assess progress in implementing the Project, mainly dealing with the efficiency and effectiveness of the subloan lending arrangements; (ii) monitor the Project's operational performance, mainly in terms of the PFIs performance in meeting their respective lending targets; (iii) assess the development of the primary mortgage market and the suitability of creating an independent mortgage refinance agency (MRA), at the latest, before the end of project implementation; (iv) assess progress in the implementation of the policy and institutional development plan; and (v) formulate, within the updated housing finance sector and related sector policy environment and other changing circumstances at the time of the review, the necessary courses of action for the Government and ADB to ensure successful project implementation.

2. The specific scope of the midterm review may be reexamined and modified as appropriate in light of the actual progress made and issues identified during the first half of project implementation. Prior to the review, the project steering committee (PSC) will, with the assistance of the housing finance facility project management unit (HFF-PMU) and consultants, develop and undertake a preliminary project performance monitoring system (PPMS) benefit monitoring evaluation survey to determine the (i) internal efficiency of sublending operations, (ii) satisfaction of the demand for housing finance from urban low income and poor households (ULIPHs); (iii) level of beneficiary contribution; (iv) sustainability of community-based microcredit financial institutions (CFIs) and associated linkages with supporting mass organizations (Women's Union, Workers' Union, Veterans Union, nongovernment organizations [NGOs], etc.); and (v) socioeconomic impact on the ULIPH beneficiaries. In addition, the survey will include feedback, through focus group discussions or other mechanisms, from beneficiary households, PFIs, and intermediary organizations involved with microfinance mechanisms, on the project benefits as well as specific actions that will enhance the Project's impact. The results of the survey will be incorporated into the midterm review findings

B. Specific Terms of Reference

1. Policy Review

3. The review will carefully examine progress made by the Government in key policy areas impacting on the development of the housing finance sector, namely, (i) developing a national housing finance orientation (policy); (ii) increasing the number of urban land use certificates issued and improvement in registration procedures; (iii); improving in the legal procedures for calling up defaulting mortgages and selling mortgaged land and houses; (iv) improving the mortgage registration system; (v) improving the valuation system for land and houses; (vi) improving banking sector performance; (vii) promoting household savings in PFIs for housing purchase and improvement; (viii) attracting additional funds to the housing sector; and (ix) introducing a mortgage insurance scheme or mortgage guarantee fund. In addition, the review will examine compliance with other conditions and covenants of the Project.

2. Implementation Performance

4. The review will (i) compare the actual implementation performance with the agreed-upon implementation program and will determine the Project's success to date in meeting the

established targets; (ii) critically assess the achievements and limitations of the Project based on the first 2 ½ years' performance and identify existing and possible constraints impeding project performance; and (iii) formulate and recommend appropriate countermeasures and modifications to overcome the identified weaknesses and deficiencies.

3. Performance of PFIs

5. The review will evaluate PFI compliance with the participation criteria, including the beneficiary household income range, lending terms, and use of subloan funds. The effectiveness of these criteria and of the PFIs to increase ULIPH access to housing finance will be assessed, and modifications will be proposed as required. The drawdown rate of the PFIs will be evaluated and, if insufficient, changes will be proposed to increase the funding available to ULIPH borrowers.

4. HFF Evaluation

6. The review will assess the progress of HFF toward a MRA as a first step along the path to a fully functioning secondary market facility (SMF). The review will consider (i) the functioning status of the titling and mortgage registration system; (ii) quality and standardization of mortgage documentation; (iii) procedures and quality of mortgage origination in PFIs; (iv) PFI housing loan management and defaulting loan procedures; (v) level of development of the primary mortgage market; (vi) status and effectiveness of legal procedures for calling up defaulting mortgages and selling mortgaged land and houses; (vii) existence of mortgage market potential investors or long-term finance credit lines; and (viii) stage of mortgage refinancing activity attained by the HFF. The review will examine the merits of keeping HFF as an independent operating unit within SBV, consider alternative locations and the desirability of establishing it as an independent MRA, and recommend a timetable for this evolutionary process. A timetable will be agreed upon by ADB and the Government to establish it as a separate independent MRA, at the latest, at the end of the project implementation period.

5. Review of Implementation Arrangements

a. Consultants' Performance

7. The review will assess (i) the consultant's performance in terms of work output in relation to their terms of reference, and assistance provided to HFF and PFIs among others; (ii) the relationship among the consultants, HFF, government agencies, and PFIs; (iii) the consultant's overall compliance with the agreed-upon terms of reference; and (iv) any further needs for consulting services. The review will recommend appropriate modifications to ensure successful project implementation.

b. Project Monitoring and Evaluation

8. The review will incorporate the findings of the PPMS survey implemented in anticipation of the mission into the midterm review findings; and make recommendations to modify the PPMS, as required, to better capture project impacts.