

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

<b>TA No., Country, and Name</b> TA 4290-VIE: Capacity Building for the Financial Sector and Capital Markets			<b>Amount Approved:</b> US\$780,000 <b>Revised Amount:</b> n/a																			
<b>Executing Agency:</b> State Bank of Vietnam (SBV)	<b>Source of Funding</b> JSF	<b>TA Amount Undisbursed:</b> US\$56,371.53	<b>TA Amount Utilized:</b> US\$723,628.47																			
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"><b>Approval</b></td> <td style="width: 15%;"><b>Date Signing</b></td> <td style="width: 50%;"><b>Fielding of Consultants</b></td> </tr> <tr> <td>18 December 2003</td> <td>15 March 2004</td> <td>was initially implemented by a team of 5 international and 4 domestic consultants engaged through GMA Capital Markets Ltd., UK. Two individual consultants were additionally engaged between June and December 2006</td> </tr> </table>			<b>Approval</b>	<b>Date Signing</b>	<b>Fielding of Consultants</b>	18 December 2003	15 March 2004	was initially implemented by a team of 5 international and 4 domestic consultants engaged through GMA Capital Markets Ltd., UK. Two individual consultants were additionally engaged between June and December 2006	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;"><b>Completion Date</b></td> </tr> <tr> <td style="width: 50%;"><b>Original</b></td> <td style="width: 50%;"><b>Actual</b></td> </tr> <tr> <td>31 May 2005</td> <td>31 December 2006</td> </tr> <tr> <td colspan="2" style="text-align: center;"><b>Closing Date</b></td> </tr> <tr> <td><b>Original</b></td> <td><b>Actual</b></td> </tr> <tr> <td>31 May 2005</td> <td>31 October 2007</td> </tr> </table>		<b>Completion Date</b>		<b>Original</b>	<b>Actual</b>	31 May 2005	31 December 2006	<b>Closing Date</b>		<b>Original</b>	<b>Actual</b>	31 May 2005	31 October 2007
<b>Approval</b>	<b>Date Signing</b>	<b>Fielding of Consultants</b>																				
18 December 2003	15 March 2004	was initially implemented by a team of 5 international and 4 domestic consultants engaged through GMA Capital Markets Ltd., UK. Two individual consultants were additionally engaged between June and December 2006																				
<b>Completion Date</b>																						
<b>Original</b>	<b>Actual</b>																					
31 May 2005	31 December 2006																					
<b>Closing Date</b>																						
<b>Original</b>	<b>Actual</b>																					
31 May 2005	31 October 2007																					
<b>Description</b> The Asian Development Bank (ADB) Board of Directors approved the cluster approach for FSPL II comprising Subprogram I for \$50 million on 20 November 2002 and Subprogram II for \$35 million, on 3 December 2004 (both from the Asian Development Fund (ADF)). FSPL II Subprogram II, building on the achievements of Subprogram I, aims to support the Government's effort to develop alternative channels of financial intermediation such as money and capital markets, insurance, leasing, and financial infrastructure to enhance public confidence. FSPL II Subprogram II declared effective on 15 March 2005 was to be released in three tranches. In implementing policy reforms under FSPL II, the Government showed strong commitment to carry the Program forward and initiated multiple processes to meet policy actions under Subprograms II. However, as many reform measures included concepts and frameworks new to Viet Nam, additional technical inputs were required for full implementation of Subprogram II. Thus, ADB technical assistance (TA) 4290 supported the Government in undertaking some of the policy conditions proposed under Subprogram II of FSPL II covering principally the nonbanking and money/capital markets sector. The TA became effective on 15 March 2004 and implementation commenced in June 2004. It was originally expected to be completed on 31 May 2005 however, the completion date was extended to 31 December 2006 as certain components of the TA required more time for completion than what was originally envisaged. The actual closing date took place on 31 October 2007.																						
<b>Expected Impact, Outcome and Outputs</b> The TA facilitated the development of a financial system with higher levels of financial intermediation, efficiency and accessibility. In parallel with the objective of FSPL II, the TA aimed to develop alternative channels of market-based financial intermediation. It had five main components: (i) finalization of the negotiable instruments (NI) law for submission to the National Assembly (NA); (ii) establishing the financial intelligence unit (FIU) as an effective agency under the Vietnamese Anti-Money Laundering (AML) regime; (iii) drafting the securities law for interministerial consultation; (iv) strengthening the Vietnamese Accounting Association (VAA); and (v) enhancing the legal framework of the Deposit Insurance Corporation of Vietnam (DIV). Activities under the TA included (i) workshops/roundtable discussions for the purpose of consultation with relevant stakeholders; and (ii) study tours for officials involved in drafting and implementing the negotiable instruments law, and study tours for the FIU officials to learn the procedural requirements for effective FIU operation. The objectives of the TA were appropriate and the terms of reference were well designed and highly relevant to the needs of the Executing Agency (EA). The TA budget was more than adequate though the implementation schedule needed some flexibility.																						
<b>Delivery of Inputs and Conduct of Activities</b> A consulting firm was contracted to implement the TA comprising of 5 international and 4 domestic consultants who were experts in negotiable instruments law, banking, capital markets, anti-money laundering, securities law, accounting/auditing policies, and deposit insurance. Their services commenced in June 2004. The consultants completed their contractual obligations by May 2006, and with the concurrence of ADB, the remaining study tour that they were not able to originally conduct in March 2006 in Australia due to delays in the establishment and staffing of the FIU (AML Information Center or AMLIC) had to be carried out outside their contract. A resource person in an earlier seminar on AML under the TA and part of the earlier team of consultants was directly engaged in June 2006 to coordinate this study tour which was finally conducted in August 2006. In July 2006, a minor change in scope of the TA was approved for utilizing the savings under the TA to fund some follow-up work required to facilitate compliance with a couple of outstanding policy actions under FSPL Subprogram II. The additional activities related to the following: (i) support of a leasing industry association to be established by leasing companies; (ii) strengthening regulatory and supervisory frameworks for the insurance business; and (iii) formulation of a feasibility study to determine an appropriate model for depositor protection in people's credit funds. Leasing seminars were held in Ho Chi Minh and Hanoi, Viet Nam to create industry awareness of the benefits of leasing and encourage the formation of an association of the leasing industry. Additional individual consultants were engaged for item (iii) and (iv) of the additional activities stated above.																						

ADB's continuous support for the development of capital markets in Viet Nam has been highly appreciated by the Government. The EA's performance was satisfactory, providing the necessary logistical support to the consultants in implementing the TA and participating in discussions with stakeholders. It has coordinated well with ADB HQ and in the field during the TA implementation period. The Government feedback was positive on the work carried out by the consultants under components (ii), (iii) and (iv) of the TA; however, there were some reservations about the quality of the TA outputs under components (i) and (v) which were due to the consultants' not taking into consideration the local trade practices in Viet Nam while drafting the NI law and the lack of adequate expertise in cooperative credit institutions. No major problems were encountered in disbursements of expenses incurred under the TA and there were savings incurred in the amount of \$56,372 in workshops, conferences and overseas training.

#### **Evaluation of Outputs and Achievement of Outcome**

Component (i) NI Law - Although the international expert was involved in all discussions in the drafting of the law, his inputs according to SBV was quite limited and not very useful in the finalization of the draft law as it did not take into consideration the local trade practices prevailing in Viet Nam. On the other hand, the expert was of the view that the draft contained many problematic provisions. The 11<sup>th</sup> draft of the law was finally approved by the National Assembly on 16 November 2005 which became effective from June 2006. The consultant was unsuccessful in convincing the SBV legal department on the need for issuing regulations and guidelines for the development of the money market in Viet Nam, a need that was strongly emphasized by the SBV Credit Department. A study tour organized to South Korea was very useful in the preparation of the NI Law. After the passage of the law, two seminars were held which disseminated the main features of the law. Component (ii) Anti-Money Laundering - Assistance of the consultant was well received as it facilitated the issuance of the AML Decree on 7 June 2005. AMLIC, the equivalent of a FIU in Viet Nam, was formally established by an order of the Governor of SBV on 8 July 2005 and its power and functions came into effect on 1 August 2005. The first study tour to China was held in May 2005; the one to Australia scheduled to take place in March 2006 was deferred due to the delay in establishing and staffing of the FIU. Component (iii) Securities Law - The State Securities Commission (SSC) of Viet Nam acknowledged the assistance provided by the consultant in drafting the securities law. The 4<sup>th</sup> version of the draft was approved by the National Assembly in July 2006 and became effective in January 2007. Component (iv) Accounting and Auditing - Assistance was given for the establishment of the Viet Nam Association of Certified Public Accountants (VACPA) in April 2005. The Ministry of Finance (MOF) issued a decision in July 2005 to transfer some accounting and audit management tasks to the VAA and VACPA. The code of ethics for the accounting and auditing profession was issued in December 2005. MOF acknowledged the assistance provided under this component. Component (v) Deposit Insurance - The Deposit Insurance Corporation of Viet Nam (DIV) acknowledged the assistance provided to amend the Decree on DIV but considered the recommended framework to charge differential premiums unsuitable to apply in Viet Nam. There were divergent views between SBV and DIV on the role of DIV in establishing the safety fund and as a result, there was very little coordination under the TA between the two institutions on the subject matter. The consultant was required to improve on his initial submissions on the above component. The SBV Cooperative Credit Department did not find the consultant to possess the required expertise in the area of cooperative credit institutions. This requirement was later satisfied through the engagement of a separate individual consultant where a feasibility study/plan for the establishment and operation of the safety fund for the People's Credit Fund System was formulated. The draft plan for establishing a safety fund was developed and finalized by mid-August 2007 and circulated for comments within SBV. A seminar was held on 7 September 2007 to invite public comments on the plan. The Deputy Governor of SBV approved the plan to establish a safety fund on 30 September 2007. The plan specifies the organizational and governance structure of the fund and its intervention policies. The reports submitted by the consultants for the two additional activities were considered satisfactory. ADB's TA supported seminars organized by SBV to increase public awareness on the benefits of leasing. The leasing association coordinates with SBV in conducting seminars and workshops to improve public awareness of leasing products and operations, mainly targeting SMEs. Two such workshops were conducted in 2004 and November 2006.

The consultants' contracts expired in 2006 but the closing date for the TA had to be extended until October 2007 to enable additional tasks to be undertaken for fulfilling some of the policy actions under FSPL II Subprogram II. The PER of the consultants were not carried out by the time the PER got categorized as "non-rated."

#### **Overall Assessment and Rating**

Having met its objectives, the TA was considered successful.

#### **Major Lessons Learned**

The implementation period for the TA took more time than envisaged as some elements of the TA remained to be completed recognizing the need for flexibility while designing the TA. The TA also brought the need to be sensitive to local requirements while engaging experts in very specialized fields as evidenced by the inadequacy of the experts initially chosen to carry out the NI Law and deposit insurance components under the TA.

#### **Recommendations and Follow-Up Actions**

ADB's continuous intervention and support will be required for the development of Vietnam's financial sector. Follow-up programs under FSPL III and associated TA are under implementation. .

Prepared by: V.V. Subramanian

Designation: Principal Financial Sector Specialist (Capital Markets)