



Technical Assistance Report

Project Number: 37577
December 2005

Technical Assistance Socialist Republic of Viet Nam: Preparing the Financial Sector Development Program III (Financed by the Japan Special Fund)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 November 2005)

Currency Unit	–	dong (D)
D1.00	=	\$0.000063
\$1.00	=	D15,905

ABBREVIATIONS

ADB	–	Asian Development Bank
DIV	–	Deposit Insurance of Viet Nam
EA	–	executing agency
FSPL	–	Financial Sector Program Loan
GDP	–	gross domestic product
IA	–	implementing agency
MOF	–	Ministry of Finance
SBV	–	State Bank of Viet Nam
SME	–	small or medium enterprise
SSC	–	State Securities Commission
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sectors	–	Finance
Subsectors	–	Finance sector development
Themes	–	Sustainable economic growth, governance
Subthemes	–	Promoting economic efficiency and enabling markets, financial and economic governance

NOTE

In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	R. Nag, Mekong Department (MKRD)
Directors	R. Boumphrey, Governance, Finance and Trade Division, MKRD B. Philips, Country Director, Viet Nam Resident Mission (VRM), MKRD
Team Leader	V.V. Subramanian, Sr. Financial Sector/Private Sector Development Specialist
Team members	R. O'Sullivan, Senior Counsel, Office of the General Counsel N. T. Bui, Financial Sector Officer, VRM, MKRD

I. INTRODUCTION

1. The Government of Viet Nam has requested technical assistance (TA) from Asian Development Bank (ADB) for preparing Financial Sector Program Loan (FSPL) III that will improve access to finance and provide a broader menu of financial services and tailored financial instruments, backed by an appropriate market infrastructure, for developing a more competitive, stable, and broad-based financial system. A TA grant of \$900,000 for FSPL III is included in the 2005 assistance program under ADB's 2003 country strategy and program update for Vietnam (2004–2006). The TA will form the basis for the FSPL III scheduled for 2007, which is the next phase of a medium-term development program that follows on from the ongoing FSPL II.¹ A TA Fact-Finding Mission visited Viet Nam in July 2005 and had detailed consultations with key stakeholders and the Government. This report reflects findings of the Mission and understandings reached with the Government on objectives, scope, cost, and implementation arrangements for the TA.² The TA framework is in Appendix 1.

II. ISSUES

2. Since 1988, Viet Nam has adopted a wide range of reforms in an effort to transform its economy from a centrally planned to a market-based system. In recent years, the gross domestic product (GDP) has been growing by more than 7% annually and exports by roughly 20%. The private enterprise sector already plays a significant role in the economy, generating over 40% of GDP and employing 30% of the workforce. However, the growth of most private enterprises continues to be constrained by their difficulties in accessing finance, receiving recognition of land titles, and obtaining financial information.

3. Financial intermediation is limited in Viet Nam today, and it is accomplished primarily through bank savings and lending. In an effort to enhance the means of financial intermediation, the Government is undertaking financial and operational restructuring of the banking sector with assistance from World Bank and the International Monetary Fund under a poverty reduction and growth facility and a poverty reduction support credit. To complement this process, ADB is assisting with FSPL II, which builds on the achievements of FSPL I³ and supports the Government's effort to develop alternative channels of financial intermediation. In implementing policy reforms under FSPL II, the Government has shown strong commitment to carry the reform program forward. This momentum needs to continue in order to develop a diversified financial system for Viet Nam and so that the country's broad-based economic growth and socioeconomic development objectives, including poverty reduction, can be achieved. The TA and the subsequent FSPL III in 2007 should facilitate this process.

4. The nonbank sector, which includes leasing, insurance, and securities markets, remains small and limited in its role within the economy. While the growth potential for these subsectors is excellent, (the insurance subsector, e.g., has grown by an average annual rate of approximately 40% in recent years), its development is constrained by limited institutional and human capacity. As small and medium enterprises (SMEs) grow, it will be increasingly difficult to find means for financing their operations within the current system. There are reports of major state-owned enterprises planning large bond issues, and municipal governments are exploring alternatives for funding their infrastructure needs. Thus, development of the nonbank sector,

¹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan Cluster to the Socialist Republic of Viet Nam for the Financial Sector Program Loan II*. Manila.

² The TA first appeared in *ADB Business Opportunities* (internet edition) on 16 September 2005.

³ ADB.1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program Loan I*. Manila.

and, in particular, the bond market, will be critical for such bodies to mobilize resources from the market and to provide the long-term funds and investment capital largely lacking in Viet Nam. Development of these subsectors will also increase competition within the financial sector and thus pressure financial institutions—banks in particular—to improve their efficiency.

5. Until now, very little effort has been made to develop the bond market as an alternative means of capital formation for corporations. The money market is basically restricted to cash transactions in the interbank market. The market is restrictive, and fragmented regulations inconvenience sellers and buyers while discouraging innovations. The Treasury now regularly issues directions for issuing treasury bills with maturities of 6 months, 9 months, and 364 days through the State Bank of Viet Nam (SBV). However, much more needs to be done to develop the interbank and money markets. The bond market mostly comprises Government dated securities with 5–10 year maturities and with state-owned commercial banks and insurance companies as buyers. Currently, there are 21 members having exclusive rights in the primary market, but, unlike primary dealers in many developed markets, they do not necessarily perform the role of market makers. Municipal bond issues have been very rare, and only two corporate bond issues are listed so far. Developing a market for bonds, and especially government bonds, is considered a top priority in the strategy to 2010 for building a securities market in Viet Nam.

6. The insurance sector in Viet Nam has experienced remarkable growth over the past few years. The gross premium grew by 48% in 2003 and 19% in 2004. In 2004, premium revenues totaled D12.4 trillion, representing a penetration rate close to 2% of GDP. Despite impressive growth in the insurance market and government efforts to improve the regulatory framework and supervisory capacity, there remain significant gaps to address in order to secure the sector's sound development and sustainability, such as to improve accounting and auditing regulations and standards, corporate governance, capital requirements, and supervision capacity.

7. An accounting and auditing system is being developed gradually as part of the fundamental infrastructure for building a sound and efficient financial sector. The Vietnamese Accounting Law was issued in 2003. The Ministry of Finance (MOF) will require assistance to strengthen the accounting standards and audit quality, taking into account the envisaged growth and demands of the aforementioned sectors during 2006–2010.

8. The securities law, drafted under ADB TA 4035-VIE: Capacity Building for the Financial Sector and Capital Market., is expected to be approved by the first quarter of 2006. Despite its huge potential, the market has just 28 listed enterprises. That number remains too modest in comparison with the number of joint-stock companies and total number of enterprises in Viet Nam's economy. With a view to the strategic goal of developing a safe and efficient securities market to mobilize domestic and foreign capital for economic and social development, the State Securities Commission (SSC) has prioritized a number of tasks and responsibilities. It has requested ADB assistance in certain specified areas that would be consistent with the sector strategy under preparation for 2006–2010.

9. Leasing remains a small segment in the financial sector, with leased assets amounting to D5.4 trillion in 2004. The sector has not been able to meet the funding demand of the growing private sector. This can be ascribed to an inadequate regulatory framework (especially with regard to registering leased contracts and assets), lengthy and costly foreclosure procedures, limited funding sources, the small range of products offered, and low public awareness of leasing operations. Some of these impediments are being addressed under FSPL II and the SME Development Program. Nevertheless, there remain some gaps.

10. Follow-up support is now required for implementing the Law on Bills of Exchange, drafted with assistance provided under ADB TA 4035, and expected to be approved by the end of 2005. Also needed is to develop specific bankruptcy decrees and regulations to govern operations of the financial and credit institutions, as the provisions existing under the bankruptcy law are more general and not specifically relevant to the financial sector. Deposit Insurance of Viet Nam (DIV) needs to map out a new and sustainable long-term development strategy that clearly delineates its role and responsibilities to act as an independent agency and build up sufficient capacity to effectively function as a sustainable safety net for depositors.

11. Development of the social security system and housing finance industry—two critical segments of the nonbank sector—are being assisted through two ADB TA projects.⁴ The progress and outputs under these two projects will be reviewed to ascertain if further ongoing reforms should be included under FSPL III in 2007.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The main objectives of the TA are to (i) prepare the proposed FSPL III scheduled for 2007; and (ii) assist Viet Nam to adopt measures that would lead to broader access to financial services and a more competitive, diversified financial sector that reduces systemic vulnerability and meets the economy's immediate funding needs. The major outputs expected from the TA are plans and sequenced road maps to (i) enhance the future level of market-based financial intermediation, (ii) enhance the efficiency and reach of financial services and products, and (iii) strengthen key institutions and human resources for the financial sector.

13. **Money and Bond Markets.** The TA will specifically build on available debt market development studies and help formulate a plan and sequenced road map to develop the money and debt markets. It will (i) help create a comprehensive legal and regulatory framework and the necessary infrastructure for money and bond markets development; (ii) suggest measures and incentives to develop and stimulate an active interbank and money market; (iii) recommend mechanisms for establishing a sustainable government bond issuance and marketing strategy and a benchmark yield curve; (iv) assist in development of a secondary market for bond trading; and (v) suggest measures to facilitate real-time information and price discovery.

14. **Insurance.** Assistance under the insurance component will (i) estimate the growth and demands of the insurance sector for 2006–2010 through dialogues with the Government and insurance industry; (ii) specifically support assessing technical and infrastructure requirements to set up a supervisory information system within the Insurance Department; (iii) adopt on-site inspection procedures and develop skills in reserves and solvency assessment and investment regulation; (iv) educate the industry on aspects of risk-based capital and transition to full adoption of risk-based capital; (v) develop accounting standards and a unified chart of accounts applicable to insurance companies; and (vi) educate the industry on corporate governance concepts and adoption of best practices in corporate governance of insurance companies, as considered appropriate.

15. **Capital Markets.** The TA will (i) support comprehensive implementation of the Securities Law that has been drafted with ADB assistance and is expected to be approved in early 2006,

⁴ ADB. 2003 *Technical Assistance to the Socialist Republic of Viet Nam for Developing the Social Security System*. Manila. ADB. 2002. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Housing Finance Project*. Manila.

(ii) support capacity building for the Securities Training Center; and (iii) help develop a system of criteria for supervising securities companies, fund management companies, etc. These activities will be in line with the strategy developed for the sector for 2006–2010. The TA will also support a diagnostic assessment of areas requiring further assistance and suggest measures to further strengthen the securities market.

16. **Accounting Policy and Standards.** The TA will (i) include a review of the existing road map adopted by the MOF for the accounting and auditing profession and suggest improvements, if required, for Viet Nam to be in line with international standards; (ii) help draft a law on independent auditing and develop regulations needed to control the quality of auditing practice in Viet Nam, after ensuring that the required road map is in place and that global experiences in this area are being taken into consideration; (iii) develop uniform accounting policy and standards for commercial banks in line with international standards; and (iv) develop accounting standards for insurance companies and related implementation guidelines

17. **Leasing.** This will (i) help identify mechanisms for promoting and supporting the use of financial and operating leases, including the accounting and tax aspects; (ii) recommend legal remedies for recourse on default lease assets; (iii) strengthen SBV in its monitoring of leasing operations; and (iv) develop the framework and procedures for the operation of finance companies.

18. **Legal Areas of Assistance and DIV.** This will include support to implement the Law on Bills of Exchange (expected to be approved in early 2006) and develop specific decrees and regulations on bankruptcy governing the operations of financial and credit institutions within the existing law on bankruptcy. In addition, the TA will support enhancing the legal basis for DIV to act as an independent agency, helping to establish a time-bound, sustainable long-term development strategy that clearly delineates DIV's role.

B. Methodology and Key Activities

19. The TA will help design the FSPL III scheduled for 2007 to enhance market-based financial intermediation for the private sector along with the efficiency and reach of financial services and products. The consultants will confer in depth with the Government and private sector stakeholders to ensure the TA's outputs are practical within the Vietnamese economic and operational environment. Consultations and awareness-raising will be key to producing outputs and will include workshops and roundtable discussions as deemed appropriate.

C. Cost and Financing

20. The TA is estimated to cost \$1,150,000 equivalent, comprising a foreign exchange cost of \$785,000 and a local currency cost of \$365,000 equivalent. The Government has requested ADB to provide \$900,000 to finance the entire foreign exchange cost of \$785,000 and \$115,000 equivalent of the local currency cost. The TA will be financed on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Government will provide the remaining \$250,000 equivalent in the form of counterpart staff and other support facilities. The cost estimates and financing plan are in Appendix 3. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

21. SBV will be the Executing Agency (EA) for the TA and relevant departments within SBV, MOF and SSC will be the Implementing Agencies (IAs). A project steering committee to oversee

TA implementation will be formed with representatives from the departments, agencies, and stakeholders concerned. In addition to office space, the EA and IAs will provide counterpart staff and other support services to the consultants. The EA will appoint a project director to assist in daily implementation of the TA.

22. The TA will require 26.5 person-months of international and 21 person-months of domestic consultant inputs. The terms of reference for the consultants are in Appendix 4. Consulting services will be provided by (i) a team of individual international and domestic consultants, and (ii) an international consulting firm. Two individual international experts for 6 person-months in total will be engaged for the insurance and accounting component while an individual international information technology (IT) expert will be engaged for 2.5 person-months for supporting the insurance and the debt market development components in the area of IT infrastructure. Three domestic experts will be engaged for a total of 8 person-months to work with the above-mentioned three international experts.

23. The rest of the TA implementation will be contracted out to an international consulting firm for 18 person-months for international and 13 person-months for domestic consulting services. The international consulting firm will engage a team of international securities market experts for a total of 12 person-months for the debt and securities market component while the remaining 6 person-months will be used for implementing the legal, leasing, and DIV components. The consulting contract for the international consulting firm will be allocated with a budget of about \$575,000. Quality-based selection procedure will be followed for selecting the consultants, as the assignments entail drafting of key laws and regulations in the financial sector, inadequacies of which will result in high costs for both the sector and the whole economy. Short-listed firms will submit simplified technical proposals. All consultants will be selected in accordance with ADB's *Guidelines on the Use of Consultants*⁵ and other arrangements satisfactory to ADB for engaging domestic consultants.

24. The consultants will prepare a detailed work plan before the start of services, which will include a timetable for deliverables defined under each component of the TA. The consultants engaged are required to submit interim reports within the deadline specified in the work plan agreed upon with ADB. Interim reports will be reviewed by the SBV, the IAs, and ADB. Draft final reports will be submitted within the deadline specified in the work plans after incorporating feedback from SBV, the IAs, and ADB. Study tours will be organized by the consultants to Japan, Singapore, or South Korea (any two) to build the capacity of the officials concerned with developing the money and debt markets. Tripartite meetings will be held before finalizing the draft final reports. The final report, incorporating comments from SBV, the IAs, and ADB during and after the tripartite meetings, should be submitted upon completion of service. The TA is expected to be implemented over a period of 15 months. It is scheduled to commence by the end of March 2006 and to be completed by June 2007.

IV. THE PRESIDENT'S DECISION

25. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$900,000 on a grant basis to the Government of Viet Nam for preparing the Financial Sector Development Program III and hereby reports the action to the Board.

⁵ ADB. 2005. *Guidelines on the Use of Consultants by ADB and Its Borrowers*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Enhanced financial sector capacity leading to broader access to financial services and a more competitive, diversified financial sector with reduced systemic vulnerability and meeting the immediate funding needs of the economy</p>	<p>Increased M2/GDP</p> <p>Increased ratio of financial assets to GDP</p> <p>Increased domestic savings and foreign direct investment</p> <p>Improved legal and regulatory framework</p> <p>Improved market infrastructure</p> <p>Improved governance</p>	<p>Economic reports, official statistics, financial statements of banks and insurance companies</p> <p>State Securities Commission reports and feedback</p> <p>Market reports</p> <p>ADB review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Macroeconomic stability • Commitment to reforms • Program design is implementable • Government and ADB agree on terms and conditions of FSPL III
<p>Outcome</p> <p>FSPL III developed</p>	<p>Adoption of roadmaps and plans for diversification of financial services, measured as percentage of gross revenue of all financial institutions</p> <p>Increased issuance of money and bond market securities</p> <p>Strengthened insurance industry with improved standards of governance and accounting; increased insurance coverage, and insurance products diversification (measured by net premium for the various insurance products)</p> <p>Strengthened accounting standards and quality of audit in Viet Nam</p>	<p>Economic reports, official statistics</p> <p>ADB review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Political commitment to undertake reforms • Willingness and commitment of the industry to adopt proposed standards • Acceptance of the proposed draft for legal framework on bankruptcy and securities • Demand will exist for leasing products • Incentives exist for corporates to list

Design Summary	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>Improved legal framework in the banking sector on bankruptcy and negotiable instruments law</p> <p>Increased leasing assets and credit outstanding</p> <p>Increased total market capitalization and higher turnover</p>		<p>Risk</p> <ul style="list-style-type: none"> • Technical capacities may be inadequate
<p>Outputs</p> <p>1. Enhanced level of market-based financial intermediation, enhanced efficiency and outreach of financial services and products, and strengthened key institutions and human resources for the financial sector</p> <p>2. Formulated sequenced road map to develop the debt market, including a comprehensive legal and regulatory framework and the necessary infrastructure for development of the debt market,</p> <p>3. Developed alternative channels of financial</p>	<p>Facilitated provision of a broader menu of financial services and tailored financial instruments backed by appropriate market infrastructure leading to a more competitive, stable, and broad-based financial system</p> <p>Time-bound plan for development and implementation of the money and bond markets</p> <p>A comprehensive legal and regulatory framework and the necessary infrastructure for the development of the debt market, including the money market</p> <p>Detailed needs assessments undertaken</p>	<p>Ongoing dialogue with stakeholders</p> <p>Progress reports</p> <p>ADB review missions</p> <p>Consultants report</p> <p>ADB review missions</p> <p>Feedback from the industry</p> <p>Consultants report</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Sufficient support and capacity in key institutions to adhere to plan and meet milestones • Cooperation of relevant government staff <p>Risks</p> <ul style="list-style-type: none"> • Timely fielding of consultants may not be possible • Potential weakness in competence of and coordination among consultants. <p>Assumptions</p> <ul style="list-style-type: none"> • Cooperation of relevant government staff • Sufficient support and capacity in key institutions to adhere to plans and milestones <p>Assumptions</p>

Design Summary	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>intermediation such as insurance, leasing, and financial infrastructure to enhance public confidence</p> <p>4. Strengthened insurance industry in the areas of accounting regulations, corporate governance, capital requirements, and supervision capacity</p> <p>5. Strengthened accounting standards and quality of audit in Viet Nam</p> <p>6. Initiated steps and mechanisms for achieving the strategic goal of developing a safe and efficient securities market to mobilize domestic and foreign capital flows for economic and social development</p>	<p>Accounting standards, as well as technical and infrastructure requirements assessed to set up a supervisory information system; on-the-job training provided for staff of the Insurance Supervisory Department in reserving and solvency assessment; insurance industry educated on corporate governance concepts and adoption of best practices in corporate governance, as well as on aspects of risk-based capital for gradual or full adoption of risk-based capital.</p> <p>Developed draft law on independent auditing and the required regulation to control the quality of auditing practice in Viet Nam; accounting policy and standards for commercial banks in line with international standards; accounting standards for insurance companies with related implementation guidelines</p> <p>Securities Law (to be approved in early 2006) Implemented; mechanisms identified for development of secondary market for bond trading; and development of a system of bond secondary trading via OTC market in Hanoi; enhanced capacity of Securities Training</p>	<p>ADB review missions</p> <p>Feedback from the industry</p> <p>Annual reports of insurance companies</p> <p>Consultants report</p> <p>ADB review missions</p> <p>Feedback from industry</p> <p>Official copies of relevant documents</p> <p>Annual reports of commercial banks</p> <p>Annual reports of insurance companies</p> <p>Consultants' report</p> <p>ADB review missions</p> <p>Copies of relevant documents</p> <p>Feedback from the market</p> <p>Annual report of SSC</p> <p>Consultants' report</p> <p>ADB review missions</p>	<ul style="list-style-type: none"> • Cooperation of relevant government staff • Willingness and commitment of the industry to adopt proposed standards <p>Assumptions</p> <ul style="list-style-type: none"> • Acceptance of the proposed draft law on independent auditing, accounting standards for insurance companies and commercial banks • Timely approval of the Securities Law • Adequate capacity of SSC to implement the Securities Law

Design Summary	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>7. Facilitated further development of the leasing sector and established framework for operation of finance companies</p> <p>8. Implemented Law on Bills of Exchange and drafted a legal document on bankruptcy for financial institutions governing the operations of the financial and credit institutions developed</p> <p>9. Strengthened DIV legal structure and institutional capacity</p>	<p>Center</p> <p>Identified the remaining gaps and developed mechanisms to promote financial and operating leases and developed framework for the operations of financial companies</p> <p>Law on Bills of Exchange (expected to be approved end 2005) implemented, circulars and guidelines for introducing the new instruments in the market developed; draft decrees and regulations on bankruptcy for financial institutions governing the operations of the financial and credit institutions produced</p> <p>Sufficient capacity built to effectively function as a safety net for depositors and contribute to the stability of the financial sector</p> <p>Legal basis enhanced for DIV to act as an independent agency</p> <p>Time-bound, sustainable long-term development strategy established, with clear delineation of DIV role and responsibilities towards the banking industry and the People's Credit Fund</p>	<p>Feedback from leasing industry</p> <p>Annual reports of leasing companies</p> <p>ADB review missions</p> <p>Copies of relevant documents</p> <p>Consultants' report</p> <p>ADB review mission</p> <p>DIV annual reports</p> <p>SBV annual reports</p> <p>Relevant documents</p> <p>ADB review mission</p> <p>Consultant reports</p>	<p>Risks</p> <ul style="list-style-type: none"> • Sufficient debt securities for secondary trading <p>Assumption</p> <ul style="list-style-type: none"> • Sufficient capacity in leasing companies <p>Risk</p> <ul style="list-style-type: none"> • Demand for such leasing products <p>Assumptions</p> <ul style="list-style-type: none"> • Timely approval of the Law on Bills of Exchange • Acceptance of the draft decree and/or regulations on bankruptcy • Adequate skill sets of DIV staff to develop required capacity • Acceptance of the legal format for DIV to operate as an independent agency

Activities with Milestones	Inputs
<p>1.1 Providing a broader menu of financial services and tailored financial instruments, backed by an appropriate market infrastructure, for developing a more competitive, stable, and broad-based financial system</p> <p>2.1 Reviewing available studies on development of the debt market, identifying steps and formulating a plan and sequenced road map to develop the debt market</p> <p>2.2 Based on the above study, developing a comprehensive legal and regulatory framework and the necessary infrastructure for development of the debt market, including the money market</p> <p>2.3 Reviewing current practices and suggesting better use of treasury bills for better management of monetary policy</p> <p>2.4 Suggesting measures to facilitate better coordination with the various government agencies and the market players for real-time information and price discovery, including the required market infrastructure</p> <p>2.5 Based on market requirements and potential trade volumes, recommending the required depository system within SBV for clearing and settlement and interface with the money and the bond markets</p> <p>2.6 Studying and recommending steps and measures for developing a standard yield curve for bond markets</p> <p>2.7 Recommending measures to develop and monitor money brokerage activities</p> <p>31. Undertaking detailed need assessment for developing alternate channels of financial intermediation</p> <p>4.1 Interacting with Government and industry for estimating growth and demands of the insurance sector over the period 2006–2010</p> <p>4.2 Assisting MOF in developing accounting standards and a unified chart of accounts applicable to insurance companies</p> <p>4.3 Assessing technical and infrastructure requirements for establishing a supervisory information system and the implementation of such a system, including data linkage between the regulator and insurers, electronic filing, and off-site examination techniques</p> <p>4.4 Providing on-the-job training for staff of the Insurance Supervisory Department to analyze financial statements of insurance companies and undertake on-site inspection procedures and skills; training for new staff in reserving and solvency assessment and investment regulation</p> <p>4.5 Sensitizing the industry on corporate governance concepts and adoption of best practices in corporate governance of insurance companies as considered appropriate</p> <p>4.6 Educating the industry on aspects of risk-based capital and the gradual or full adoption of risk-based capital</p> <p>5.1 Reviewing existing road map for the accounting profession adopted by the MOF and suggesting improvements, if any, for Viet Nam to be in line with international standards</p> <p>5.2 Formulating and drafting law on independent auditing</p> <p>5.3 Developing the required regulation to control the quality of auditing practice in Viet Nam</p> <p>5.4 Developing accounting policy and standards for commercial banks in line with international standards, and with the ultimate aim of unifying the policy and standards for all banks in Viet Nam</p> <p>5.5 Developing the accounting standards for insurance companies and related implementation guidelines based on best practices</p> <p>6.1 Supporting the comprehensive implementation of the Securities Law expected to be approved in early 2006</p> <p>6.2 Reviewing and assisting in the development of a secondary market for bond trading, including developing legal and policy framework and a system of bond secondary trading via the OTC market in Hanoi</p> <p>6.3 Providing support for capacity building within the Securities Training Center to</p>	<p>26.5 person-months of international consultant</p> <p>21 person-months of domestic consultant</p> <p>Workshops/ Training sessions</p> <p>Study tours</p> <p>Others</p> <p>Budget:</p> <p>ADB \$900,000</p> <p>Government \$250,000</p> <p>Government contributions consisting of office accommodation, counterpart staff and coordination support</p>

Activities with Milestones	Inputs
<p>improve practitioner's licensing education and testing</p> <p>6.4 Developing a system of criteria for supervising securities companies, fund management companies, etc</p> <p>6.5 Carrying out a diagnostic assessment of areas requiring further assistance and suggesting measures to further strengthen the securities market in line with the strategy being developed for the sector for the period 2006–2010</p> <p>7.1 Identifying the remaining gaps and supporting implementation of measures to further promote development of the leasing sector</p> <p>7.2 Identifying mechanisms to promote financial and operating leasing, its implementation, accounting and tax aspects</p> <p>7.3 Suggesting legal remedies for recourse on default lease assets</p> <p>7.4 Strengthening SBV in its monitoring of leasing operations</p> <p>7.5 Developing the framework on the operations of finance companies</p> <p>8.1 Facilitating implementation of the Law on Bills of Exchange</p> <p>8.2 Developing circulars and guidelines for introducing the new instruments to the market</p> <p>8.3 Developing specific decrees and regulations on bankruptcy governing operations of financial and credit institutions within the existing law on bankruptcy</p> <p>9.1 Helping DIV build sufficient capacity to effectively function as a safety net for depositors and contribute to the stability of the financial sector</p> <p>9.2 Assisting SBV and DIV in enhancing the legal basis for DIV to act as an independent agency and manage the moral hazard inherent to the deposit insurance system</p> <p>9.3 Assisting DIV to map out a new and sustainable long-term development strategy with clear delineation of its role and responsibilities towards the banking industry and the People's Credit Fund</p>	

ADB = Asian Development Bank, DIV = Deposit Insurance of Viet Nam, FSPL = Financial Sector Program Loan, GDP = gross domestic product, MOF = Ministry of Finance, OTC = over-the-counter, SBV = State Bank of Viet Nam, SSC = State Securities Commission.

INITIAL POVERTY AND SOCIAL ANALYSIS REPORT FORM

A. Linkages to the Country Poverty Analysis

Sector identified as a national priority in country poverty analysis? Yes	Sector identified as a national priority in country poverty partnership agreement? Yes
<p>Contribution of the sector or subsector to reduce poverty in Viet Nam:</p> <p>The financial sector's contribution to poverty reduction in Viet Nam is on both the macro and individual levels. First, the financial sector supports economic growth through mobilizing resources (savings and other sources for investments, domestically and internationally). While the basic legal and institutional frameworks generally have been established in Viet Nam's financial sector, progress in actually implementing the market-based financial framework is still lacking and needs further improvement. There is little financial intermediation in Vietnam today, and it occurs primarily through bank savings and lending. In an effort to enhance means of financial intermediation, the Government is undertaking financial and operational restructuring of the banking sector with assistance from World Bank and the International Monetary Fund under a poverty reduction and growth facility and a poverty reduction support credit. To complement this process, ADB is assisting with its second Financial Sector Program Loan (FSPL II), building on achievements of FSPL I and supporting the Government's effort to develop channels of financial intermediation that are alternatives to bank savings and lending. In implementing policy reforms under the FSPL II, the Government has shown strong commitment to carry the Program forward. Second, the financial sector also functions as a channel for allocating resources to the real sector. Currently, many segments of the economy, including the private sector and especially small and medium-sized enterprises, have difficulties in accessing credit and other financial services. This is because of high costs, lack of regional reach, and limited understanding of alternative funding sources. Real sector development creates employment opportunities and enables the poor and vulnerable to obtain the critical means of lifting themselves out of poverty. The momentum already created needs to continue in order to help develop a diversified financial system for Viet Nam and so that the country's broad-based economic growth and socioeconomic development objectives, including poverty reduction, can be achieved. It is necessary to improve access to finance and make available a broader menu of financial services and tailored financial instruments backed up by appropriate market infrastructure for developing a more competitive, stable, and broad-based financial system. The TA and the subsequent FSPL III in 2007 should facilitate this process.</p>	

B. Poverty Analysis

Targeting Classification: General intervention

<p>The technical assistance will prepare the proposed Financial Sector Development Program Loan (FSPL) III, scheduled for 2007, and assist Viet Nam to adopt measures that would lead to broader access to financial services and a more competitive, diversified financial sector that reduces systemic vulnerability and meets the immediate funding needs of the economy. It would lead to an enhanced level of market-based financial intermediation, enhanced efficiency and reach of financial services and products, and strengthened key institutions and human resources for the financial sector. Overall, the TA and the subsequent FSPL III will lead to a more balanced and competitive financial structure, increase income and employment generating activities, reduce income fluctuation for individuals and businesses, and thereby contribute to macroeconomic stability and poverty reduction.</p>
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C. Participation Process

<p>Is there a stakeholder analysis: Yes</p>
<p>Roundtable discussions will be held with State Bank of Viet Nam, Ministry of Finance, State Securities Commission and other key stakeholders, including multilateral and bilateral organizations, to ensure participation of stakeholders in proposing quality action plans and recommendations.</p>
<p>Is there a participation strategy? Yes</p>
<p>During TA implementation, there will be two or more workshops and training sessions. The workshops and training will secure good representation and participation of key players in the financial sector.</p>

D. Gender and Development

Strategy to maximize impacts on women: None.

Has an output been prepared? No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	625.0	0.0	625.0
ii. Domestic Consultants	0.0	65.0	65.0
b. International and Local Travel	60.0	10.0	70.0
2. Equipment (Computer, Printer, etc.)	10.0	0.0	10.0
3. Workshops, Training, Seminars and Conferences ^b			
a. Resource Persons and Facilitators	0.0	5.0	5.0
b. Training Program	0.0	20.0	20.0
4. Study Tour	30.0	0.0	30.0
5. Miscellaneous Administration and Support Costs	10.0	10.0	20.0
6. Contract Negotiations	5.0	0.0	5.0
7. Contingencies	45.0	5.0	50.0
Subtotal (A)	785.0	115.0	900.0
B. Government Financing^c			
1. Office Accommodation	0.0	90.0	90.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	70.0	70.0
3. Secretarial and Related Services	0.0	50.0	50.0
4. Contingencies		40.0	40.0
Subtotal (B)	0.0	250.0	250.0
Total	785.0	365.0	1,150.0

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Budget allocation for workshops to be utilized 20% by individual consultants and remaining 80% by the international consulting firm.

^c Government financing will be allocated proportionately among the different implementing agencies.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE

A. Scope

1. The technical assistance (TA) will require 26.5 person-months of international and 21 person-months of domestic consultant inputs. Consulting services will be provided by (i) a team of individual international and domestic consultants, and (ii) an international consulting firm. As detailed in B below, two individual international experts for a total of 6 person-months will be engaged for the insurance and accounting component. In addition, an individual international information technology (IT) expert will be engaged for 2.5 person-months to support the insurance and the debt market development components in the area of IT infrastructure. Three individual domestic experts will be engaged under B for a total of 8 person-months to assist the above international insurance, accounting, and IT experts.

2. The rest of the TA implementation under C below will be contracted to an international consulting firm for 18 person-months of international and 13 person-months of domestic consulting services. The international consulting firm will engage a team of international securities market specialists for a total of 12 person-months for the debt and securities market component while the remaining 6 person-months will be used for implementing the legal, leasing, and deposit insurance components. The international consulting firm will also designate the team leader (preferably the debt market development specialist) with regard to all tasks under C below. That leader will (i) ensure timely delivery of quality outputs consistent with the terms of reference; (ii) monitor progress, and, in particular, the appropriate sequencing of various TA elements, while making minor adjustments where necessary; (iii) ensure that work in progress is shared across the different components; (iv) liaise between the Government and the Asian Development Bank (ADB); and (v) bring to the attention of the Government and ADB all matters needing to be addressed for facilitating TA implementation.

B. Individual Consultants

1. Insurance Expert (international, 3 person-months)

3. The international insurance expert must have extensive working knowledge of supervision and prudential regulation of the insurance business and market, as well as of international best practices. In addition, the expert should demonstrate good understanding of the history and culture of the Vietnamese insurance market and of the country's legal and regulatory system upon which the insurance industry is built. In formulating recommendations, the expert will review various models and justify the application of the one most suitable for Viet Nam. Recommendations should be supported by demand analysis and full costing of the proposal, where applicable. The expert will undertake the following tasks:

- (i) Estimate the insurance sector's growth and demands for the period 2006–2010 through dialogues with the Government and the insurance industry, then suggest an appropriate and sequenced road map for meeting the industry's expected growth and demands.
- (ii) Assess the technical and infrastructure requirements to set up a supervisory information system and to implement such a system, including data linkage between the regulator and insurers, electronic filing, and off-site examination techniques. In the process, coordinate with the information technology expert on matters of IT infrastructure.
- (iii) Provide on-the-job training for staff of the insurance supervisory department to analyze financial statements of insurance companies and adopt on-site

- inspection procedures and skills.
- (iv) Provide training for new staff in the insurance supervisory department in reserve and solvency assessment, as well as in investment regulation.
- (v) Educate the industry on aspects of risk-based capital and initiating gradual and perhaps full adoption of risk-based capital.
- (vi) Develop accounting standards and a unified chart of accounts applied to insurance companies in coordination with the accounting expert.
- (vii) As appropriate, educate the industry on corporate governance concepts and adopting best practices in corporate governance of insurance companies.
- (viii) Identify stakeholders and conduct roundtable discussions on the outputs.

4. Items (v) and (vii) are mainly for sensitizing the industry on risk-based capital measures and corporate governance standards. The Ministry of Finance (MOF) would later determine the appropriate timing for their implementation, based on the industry response and its readiness to adopt such measures. The international insurance expert will be assisted by the domestic insurance expert in carrying out the above tasks.

2. Accounting and Auditing Policies Expert (international, 3 person-months)

5. The international accounting and auditing policies expert must be a professionally qualified accountant with practical working experience as an accountant and auditor. He or she must have extensive working knowledge of accounting and auditing policies, the regulatory framework, and international best practices. The expert should demonstrate a good understanding of the history of the Vietnamese accounting and auditing system, as well as of the country's current accounting and auditing standards and practices. In particular, the expert must be familiar with international best practices on accounting standards for the insurance and banking industry. The international accounting expert will be assisted by the domestic accounting expert and will undertake the following tasks:

- (i) Review the existing road map for the accounting profession adopted by MOF and suggest improvements, if required, in order for Viet Nam to be in line with international standards.
- (ii) Based on the above, draft and formulate a law on independent auditing and develop regulation needed to control the quality of auditing practice in Viet Nam.
- (iii) Develop accounting policy and standards for commercial banks in line with international standards. Should aim to unify the policy and standards for all banks in Viet Nam.
- (iv) Develop, in coordination with the international insurance expert, accounting standards for insurance companies and related implementation guidelines.
- (v) Arrange and organize roundtable discussions and workshops on the outputs.

3. Financial Sector Information Technology (IT) Expert (international, 2.5 person-months)

6. The international financial IT expert must have an extensive working knowledge of (i) infrastructure requirements for setting up a supervisory information system for the insurance industry, and (ii) IT infrastructure requirements to facilitate the interface of the money and bond markets. The IT expert should coordinate with and support the insurance and the debt market securities experts in their respective fields. In formulating recommendations, the expert will review various models and justify the application of the one most suitable for Viet Nam. Recommendations should be supported by demand analysis and full costing of the proposal,

where applicable. The international IT expert will be assisted by the domestic IT expert and will undertake the following tasks:

- (i) In coordination with the insurance expert, assess the technical and infrastructure requirements to set up a supervisory information system and to implement such a system, including data linkage between the regulator and insurers, electronic filing, and off-site examination techniques.
- (ii) In coordination with the debt market experts (money and bond market experts working with the international consulting firm), recommend the necessary infrastructure and depository system within the State Bank of Viet Nam (SBV) for clearing and settlement and interface with the money and the bond markets.
- (iii) In coordination with the debt market experts, suggest measures to facilitate better coordination with the various government agencies and the market players for real-time information and price discovery.
- (iv) Organize and conduct roundtable discussions with stakeholders.

- 4. **Insurance Expert** (domestic, 2 person-months)
Accounting and Auditing Policies Expert (domestic, 2.5 person-months)
Information Technology Expert (domestic, 3.5 person-months)

7. The domestic insurance expert will serve as an assistant to the international insurance expert and will have a background in economic analysis and understanding of the insurance industry. The domestic accounting and auditing policies expert must be a professionally qualified accountant. He or she will have an understanding of accounting and auditing standards in Viet Nam, as well as of accounting and auditing policy issues. The domestic information technology (IT) expert will have a background in IT and understanding of IT infrastructure, applications and the implementation of these in the financial sector—and especially in Viet Nam’s insurance and securities markets. Besides having proficiency in English, preferably, all three domestic experts should have experience in working with international consultants, the government and financial institutions in Vietnam. In addition to the tasks outlined below, the three domestic experts will act as TA project coordinators and assist the respective international consultants in all matters of project coordination and logistics. The experts will

- (i) assist the respective international experts in all aspects of their tasks within the terms of reference;
- (ii) under guidance of the international experts, collect and analyze information and data, then provide these in English and in an organized, readable form;
- (iii) conduct research on specific topics as required by the international experts.
 - (i) organize roundtables and workshops, and handle other logistic matters; and
 - (ii) assist the international experts in preparing materials for workshops and roundtables including to translate documents and interpret in workshops and roundtables.

C. International Consulting Firm

- 1. **Team of Debt and Securities Market Experts** (international, 12 person-months)

8. The team with the right blend of international debt and securities markets experts must have extensive working knowledge of (i) how money and bond markets are developed together with their associated legal, policy, institutional, and regulatory framework; and (ii) supervision and prudential regulation of capital markets, as well as of international best practices; (iii) building capacity within both the ministry responsible for policy on government bond issues and the securities markets regulator. In addition, the experts should demonstrate good

understanding of the history and culture of the Vietnamese capital market and of the country's legal and regulatory system upon which the bond and capital markets are built. The debt and securities markets component will require expertise in (i) development of money and bond markets; (ii) associated legal, regulatory, institutional and incentive arrangements; (iii) securities market regulations and supervision; (iv) fixed-income market operations; and (v) money and debt market infrastructure. The domestic consultants will consist of one debt market expert, one capital market and regulatory expert, and one banking legal and regulatory expert. The TA is expected to be completed over a period of 15 months and the international experts for this component will be required to carefully schedule their respective work plan to facilitate development of the sequenced master plan for money and debt market development. The experts will undertake the following tasks:

- (i) Develop the money and bond markets, including to
 - (a) build on available studies on debt markets development and help formulate a plan and sequenced road map to develop the money and debt markets;
 - (b) develop a comprehensive legal and regulatory framework and the necessary infrastructure for money and bond markets development;
 - (c) suggest measures and incentives to develop and stimulate an active interbank and money market, recommending ways to improve bond market liquidity and support the active development of the market;
 - (d) provide assistance to develop and monitor money brokerage activities;
 - (e) study and recommend mechanisms to establish a sustainable government bond issuance and marketing strategy and for building a benchmark yield curve;
 - (f) recommend the required infrastructure and depository system within SBV for clearing and settlement and interface with the money and bond markets;
 - (g) assist in the development of a secondary market for bond trading, together with the associated legal, policy, and institutional framework and to develop a system of trading on bonds via the over-the-counter market in Hanoi;
 - (h) assess the feasibility of establishing a primary dealers system for the bond trading market, including the feasibility of the financial institutions in acting as primary dealers; and
 - (i) suggest measures to facilitate better coordination with the various government agencies and the market players for real-time information and price discovery.
- (ii) Assist the State Securities Commission (SSC), specifically by
 - (a) supporting comprehensive implementation of the Securities Law that was drafted with ADB assistance and is expected to be approved in early 2006—including to assist SSC in drafting decrees, circulars, and regulations;
 - (b) building capacity and education of market participants on the understanding and implementation of the Securities Law;
 - (c) building capacity in terms of professional management skills within SSC for implementing, monitoring, supervising, and dealing with violations on all aspects of the Securities Law;
 - (d) supporting capacity building within the Securities Training Center to improve practitioner's licensing education and testing, and in the process developing a system of curricula and examinations for practitioner' training, testing, and licensing;

- (e) training the trainees for teaching the practitioner's licensing training courses, along with designing a system of courses and software for training;
- (f) developing a system of criteria for supervising securities companies, fund management companies etc.; and
- (g) assisting in application of the criteria developed as above by securities and fund management companies.

9. The above activities would be in line with the strategy developed for the sector for the period 2006–2010. The TA will also support a diagnostic assessment of areas requiring further assistance and suggest measures to further strengthen the securities market.

2. Leasing Industry Expert (international, 2 person-months)

10. The international leasing industry expert must have extensive working knowledge of supervision and prudential regulation of the leasing business and market, as well as of international best practices. In addition, the expert should demonstrate good understanding of the history and culture of the Vietnamese leasing market and of the country's legal and regulatory system upon which the leasing industry is built. The expert will first review and coordinate the findings and outputs under the ADB-assisted Financial Sector Program Loan II project as well as the SME Development Program Loan and then undertake the following tasks:

- (i) Identifying mechanisms to promote and support the use of financial and operating leasing, including its implementation, accounting and tax aspects.
- (ii) Providing legal remedies for recourse on default lease assets.
- (iii) Strengthening SBV in its monitoring of leasing operations.
- (iv) Developing the framework and procedures for the operation of finance companies.

3. Banking Legal and Regulatory Expert (international, 2 person-months)

11. The international banking legal and regulatory expert must have an extensive working knowledge of legal aspects of the banking industry and their applications, including legal and regulatory frameworks and international best practices. In addition, the expert should demonstrate good understanding of the history and culture of the Vietnamese banking industry and of the country's legal and regulatory system upon which the banking industry is built. The expert will undertake the following tasks:

- (i) Assist in drafting regulations to implement the Law on Bills of Exchange (expected to be approved in early 2006) and drafting models and introducing the new instruments to the market, through circulars and guidelines.
- (ii) Develop specific decrees and regulations on bankruptcy governing operations of the financial and credit institutions within the existing law on bankruptcy. (Viet Nam issued in 2000 a general law on bankruptcy and a new law on enterprises in 2004, but these are not specifically relevant to the financial sector.)

4. Expert on Deposit Insurance (international, 2 person-months)

12. The expert on deposit insurance must have an extensive working knowledge of deposit insurance systems and their legal and regulatory framework, as well as of international best practices. In addition, the expert should demonstrate a good understanding of Deposit Insurance of Viet Nam's (DIV's) historical background and the legal and regulatory framework upon which DIV is built. The expert will undertake the following tasks:

- (iii) Strengthen the legal infrastructure through developing a law on deposit insurance and drafting implementing regulations.
 - (iv) Strengthen and enhance overall capacity of DIV staff, and ensure the systematic transparency of DIV operations.
 - (v) Provide advice and training to DIV staff and the industry on diversifying and improving the quality of products and services.
 - (vi) Assist DIV to map out a new and sustainable long-term development strategy that clearly delineates its role and responsibilities towards the banking industry and the People's Credit Fund.
4. **Debt and Bond Market Expert** (domestic, 5. person months)
Capital and Securities Market and Regulatory Expert (domestic, 5 person-months)
Banking Legal and Regulatory Expert (domestic, 3 person-months)

13. The domestic experts in debt, bond and other capital markets will have backgrounds in economic analysis, understanding of bond and capital markets, and proficiency in English. In addition to the tasks outlined below, the two domestic debt and capital markets experts will act as TA project coordinators and assist the international consultants in all matters of project coordination and logistics. The domestic banking legal and regulatory expert will have a background in law, knowledge of the banking sector, understanding of the functioning and operations of banking and financial institutions in Viet Nam, and proficiency in English. Preferably, all the above-mentioned domestic experts should have experience in working with international consultants, government agencies, and financial institutions. The experts will

- (i) assist the international experts in all aspects of their tasks within the terms of reference;
- (ii) under guidance of the international experts, collect and analyze information and data, then provide these in English and in an organized, readable form;
- (iii) conduct research on specific topics as required by the international experts.
- (vii) organize roundtables and workshops, and handle other logistic matters; and
- (viii) assist the international experts in preparing materials for workshops and roundtables including to translate documents and interpret in workshops and roundtables.