



Technical Assistance Report

Project Number: 38335
April 2006

Socialist Republic of Viet Nam: Preparing the Small and Medium-Sized Enterprise (SME) Development Program—Subprogram II

CURRENCY EQUIVALENTS

(as of 30 March 2006)

Currency Unit	–	dong (D)
D1.00	=	\$.0000629
\$1.00	=	D15,897

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Francaise de Développement
CIL	–	Common Investment Law
CSPU	–	country strategy and program update
FSPL II	–	Second Financial Sector Program Loan
KfW	–	Kreditanstalt für Wiederaufbau
IAS	–	International Accounting Standards
LURC	–	land use rights certificate
MPI	–	Ministry of Planning and Investment
NBIN	–	National Business Information System
SBV	–	State Bank of Viet Nam
SDPL	–	Small And Medium Enterprise Development Program Cluster
SME	–	small and medium-sized enterprise
TA	–	technical assistance
UEL	–	Unified Enterprise Law

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Industry and trade
Subsector	–	Small and medium-scale enterprises
Theme	–	Private sector development
Subtheme	–	Policy/institutional/legal/regulatory reforms

NOTE

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

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I. INTRODUCTION

1. The Small and Medium-Sized Enterprise (SME) Development Program Cluster (SDPL) was approved by the Board of Directors of the Asian Development Bank (ADB) in October 2004.¹ Its main objective is to support the Vietnamese Government's efforts to create an environment that is conducive to SME development. It addresses (i) a policy framework for SME development, including institutional coordination mechanisms; (ii) reforms of business registration and licensing systems; and (iii) specific reforms to enhance SMEs' access to resources—for both land use and finance. The Government's *Social-Economic Development Plans for 2001–2005*² and 2006–2010 recognize that the SME sector is a core component for the country's development.

2. As outlined in the design and monitoring framework (Appendix 1), this project preparatory technical assistance (TA) will prepare for SDPL subprogram II, which is included in the country strategy and program update (CSPU), 2006–2008, for Viet Nam.³ Like the CSPU, the SDPL reflects ADB's support for SME development as a means of continuing the country's path toward economic growth and poverty reduction (the initial poverty and social analysis is in Appendix 2). This TA project will support the strategy by formulating subprogram II, which aims to (i) continue reforms to the business environment for SMEs, and (ii) develop alternative channels of financial intermediation to banks, particularly through the development of the leasing industry.⁴

II. ISSUES

3. Viet Nam has made substantial progress in recent years in improving its regulatory and business environment, as evidenced by the increase in the number of newly registered enterprises. However, although reduced, business entry costs are still excessive and cumbersome licensing requirements continue to constrain business operations. In addition, the basic economic and business infrastructure is not sufficiently developed to ensure proper functioning of a market-based economy. For example, accounting standards and an integrated land registry are lacking. The rest of this section analyzes the major challenges facing SMEs, the achievements of subprogram I and the previous TA, and the remaining tasks.

A. Lack of a National SME Development Plan and Coordination Framework

4. The many and varied constraints facing SMEs mean that their development requires vision, strategic direction, and effective coordination between the different stakeholders in policy delivery, both horizontally and vertically. There has in the past been no overall national

¹ The SDPL (ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Small and Medium-Sized Enterprise Development Program*. Manila.) Loan no. 2095-VIE is a cluster loan with two subprograms. The first subprogram was approved for \$60 million (Asian Development Fund [ADF]), and the concept for the second subprogram was approved for \$40 million (\$20 million ADF for the program component and \$20 million ordinary capital resources for the investment component). The SDPL has been further supported by the Agence Française de Développement (AFD) and German development assistance through KfW Development Bank (KfW) for a combined amount of about \$70 million. Along with the SDPL, the Board also approved TA-4418 (ADB. 2004. *Technical Assistance to the Socialist Republic of Viet Nam for Capacity Building for SME Development*. Manila for \$1.4 million [cofinanced by Denmark and Switzerland]).

² Ministry of Planning and Investment. 2000. *The Five-Year Socio-economic Development Plan 2001–2005*. Hanoi.

³ The TA first appeared in *ADB Business Opportunities* on 7 February 2006.

⁴ A fact-finding mission fielded in October 2005 reached an understanding with the Government on the purpose, approach, and implementation arrangements of the TA.

development plan that could fulfill these functions. Support programs remain uncoordinated and often overlap, reducing their impact.

5. Under subprogram I, the Government formulated an SME development action plan, but its implementation requires further assistance. In particular, the action plan needs to be disseminated to major stakeholders and SMEs and an assessment made of its overall impact. The Government needs support for the coordinated implementation of its policy and institutional framework for the development of the SME sector, including more active involvement by the private sector. The Government is also keen to have ADB play an important role in stakeholder coordination and has asked ADB to be the co-chair of the SME partnership group (made up of funding agencies, government agencies, and private sector representatives).

B. Incomplete Business Registration and Licensing Systems

6. Although the Enterprise Law, 1999, simplified business registration by reducing time, cost, and documentation requirements, recent guidelines and their interpretation by local authorities have not been consistent with the law, resulting in further complications for SMEs. Similarly, while the number of licenses required decreased after the Enterprise Law was passed, new licenses have emerged, imposing an additional burden on both SMEs and the government administration. There is a clear need to rationalize existing licenses and to apply standard approaches to limit the number of new licenses. With the passage of the Unified Enterprise Law (UEL) in 2005, there is momentum for further reform. This includes an expansion of the National Business Information System (NBIN)—the business registration system—to cover all provinces and to provide information to the private sector on licensing requirements and procedures.

7. Under subprogram I, the NBIN expansion and business licensing plans were drafted, but their implementation will require significant capacity building within Government. It is envisioned that the expansion plans will be piloted in a number of districts, and then expanded throughout the country. The business licensing reform plan, a decree under the UEL, was drafted under subprogram I. However, the institutional capacity to implement it effectively, incorporating the specific features and overall spirit of the new UEL, is yet to be established.

C. Limited Access to Financial and Physical Resources

8. Access to finance remains one of the most critical issues for the SMEs. The costs and risks related to lending to SMEs need to be addressed. Limited access to land use rights certificates (LURCs) reduces their use for collateral purposes. The legal and regulatory framework under which LURCs are issued needs to be formalized and registration procedures for subsequent transactions need to be streamlined and unified. SMEs' access to finance would also be improved by an effective secured transactions registry that clearly prioritizes creditors' and lien holders' rights upon registration. Lack of collateral is compounded by unreliable financial information on SMEs. Financial reporting requirements are felt to be complex and difficult to comply with. A simplified SME accounting system that adheres to International Accounting Standards (IAS) needs to be introduced.

9. Under subprogram I, the Government drafted SME accounting guidelines. However, considerable training is needed to ensure that SMEs are fully familiar with the existing accounting system and guidelines. The Government improved the LURC issuance process in a group of pilot provinces under subprogram I and a plan for a full nationwide expansion of the process is needed.

D. Limited Financial Resource Availability for Leasing Industry Development

10. Leasing is a vital part of a healthy financial sector in emerging economies. It is an important financial instrument with the potential to play a prominent role in the development of the financial sector in Viet Nam. The leasing industry is strategically important as it can stimulate investment activity, increase the availability of different financing mechanisms, and stimulate economic growth. It is a convenient way for SMEs to acquire capital goods, especially in developing countries such as Viet Nam with scarce medium- to long-term capital. Leasing has been used to modernize industrial facilities and increase capital and labor productivity in many countries.

11. However, leasing remains a small segment of the financial sector in Viet Nam, with leased assets amounting to D5.4 trillion in 2004–2005. The sector has not been able to meet the funding demands of the growing private sector. This can be ascribed to an inadequate regulatory framework (especially with regard to registering leased contracts and assets), limited funding sources, the small range of products offered, and low public awareness of leasing operations. Some of these regulatory impediments are being addressed under the Second Financial Program Loan Cluster (FSPL II⁵) and the SDPL. The TA project Preparing the Financial Sector Development Program III will help identify mechanisms for promoting and implementing financial and operating leases, including accounting and tax aspects; recommend legal remedies for recourse on default lease assets; strengthen the State Bank of Viet Nam (SBV) as the industry regulator in its monitoring of leasing operations; and develop a framework on the operations of finance companies. However, access to long-term funds will remain an issue.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The main objective of the TA is to further support the SME development program in Viet Nam through the effective design and implementation of subprogram II of the SDPL. An indicative policy framework for subprogram II was agreed with the Government while the SDPL was being formulated. That framework needs to be refined following recent developments affecting the SME sector. The TA will therefore be implemented in two phases. In the first phase, a diagnostic assessment of the progress made so far under SDPL will be made. The major challenges and the most effective policies will be identified. In the second phase, implementation of subprogram II will be supported through the provision of (i) technical support, (ii) capacity building activities, and (iii) support for consensus building (include donor agency coordination). The major outcomes are outlined below.

⁵ FSPL II was approved by the ADB Board of Directors on November 2002 for \$75 million. Under FSPL II, the SBV, in cooperation with related ministries and agencies, issued guidelines for establishing a regulatory environment conducive to business development. FSPL II also proposed that SBV issue a regulation allowing leasing companies to provide both finance and operating leases. Guidelines were also issued on registration of and information on finance-leased assets. These provide details of procedures for registration at the National Office for Registration of Secured Transactions by financial leasing companies.

1. Preparing Subprogram II

a. Refining the SDPL Framework for Subprogram II

13. Subprogram II will be refined by (i) assessing the progress of subprogram I implementation and the lessons learned; (ii) reflecting the changes in the policy environment of the SME sector since the initiation of the SDPL; and (iii) forging consensus with the Government and stakeholders on the design of subprogram II. Major changes that may need to be reflected include the Unified Commercial Enterprise Law and the Common Investment Law, which were promulgated by the National Assembly in 2005. Considerable efforts will be needed by the Government to implement these laws effectively.

b. Designing an Investment Component for Leasing Industry Development

14. Although the leasing industry in Viet Nam is still underdeveloped, demand for medium-term financing (of which leasing is an attractive part, especially for smaller companies) is expected to grow. Subprogram II originally contained a provision for an investment component to provide long-term funding to leasing companies in Viet Nam to help them meet strong demand for longer-term leasing products from SMEs and to help the leasing companies diversify their funding base and target more clients. To facilitate this process, this TA will identify the best design for the investment component and build on current activities of the SBV and others.

2. Capacity Building for Subprogram II Implementation

15. The second phase of the TA will support the implementation of subprogram II. The TA is based on the policy framework of the program cluster, as approved in 2004. The major areas include (i) implementation of the business registration and licensing plans; (ii) implementation of the SME development action program through stakeholder coordination; (iii) training and maintenance of financial infrastructure, including accounting, land use access, and secured transactions; and (iv) improvements to the institutional and legal framework for technical standards. The TA also adds components to subprogram II, related to the new UEL and CIL for the program component, and to the leasing industry development for the project component.

B. Methodology and Key Activities

16. The TA will fund consultants with expertise in the SME sector and related areas. They will conduct in-depth consultations with the Government and private sector stakeholders. A consultative approach will include a number of round table discussions and workshops on skill and knowledge transfer. ADB will monitor the process closely to ensure the quality of outputs, including training.

17. The consultants will prepare a detailed work plan before their services start. The plan will include a timetable for deliverables defined under each component of the TA. All reports will be reviewed by the Executing Agency, the Ministry of Planning and Investment (MPI); the implementing agencies (IAs); and ADB. Tripartite meetings will be held before the draft final reports are finalized. The final report, incorporating comments from MPI, IAs, and ADB, will be submitted when they complete their services.

C. Cost and Financing

18. The TA is estimated to cost a total of \$750,000 equivalent, comprising \$528,000 in foreign exchange and \$222,000 equivalent in local currency. The Government has asked ADB to finance \$528,000 equivalent to cover the entire foreign exchange cost and \$72,000 equivalent of the local currency costs (\$600,000 in total). ADB will provide \$600,000 to finance the TA on a grant basis from ADB's TA funding program. The Government will finance the remaining \$150,000 equivalent of the local currency costs, including provision of counterpart staff, office space, administrative services, and physical facilities. The Government has been advised that approval of the TA does not commit ADB to finance any ensuing project. The cost estimates and financing plan is in Appendix 3.⁶

D. Implementation Arrangements

19. To facilitate implementation of the TA, the SDPL's program steering committee will oversee its implementation. The committee is headed by the vice minister of MPI, the Executing Agency. The IAs include the Ministry of Finance, SBV (which will be the lead IA on the leasing component), Ministry of Science and Technology, Ministry of Natural Resources and Environment (General Department of Land Management). The TA will be implemented over 12 months from May 2006 to May 2007 and will require seven international consultants (19 person-months total) and seven domestic consultants (26 person-months total) on an intermittent basis. The consultant team will produce an inception report, two interim reports, and a draft final report, each of which will be discussed during the tripartite meetings.

20. Because of the diverse skill requirements of the TA, the consultants will be recruited as individuals, in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the selection and engagement of domestic consultants. Procurement under the TA will be in accordance with ADB's *Guidelines for Procurement*. Equipment to be purchased under the TA includes a computer and other office equipment, which will be disposed of according to ADB guidelines after completion of the TA.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of Viet Nam for preparing the SME Development Program—Subprogram II, and hereby reports this action to the Board.

⁶ The project cost estimates and their presentation in this paper were negotiated with the Government and finally agreed in the TA memorandum of understanding with the Government prior to the issuance of the staff instructions on "Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing". Therefore, the table distinguishes between foreign and local costs.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Development of Viet Nam's small and medium-sized enterprise (SME) sector resulting in improved economic growth, employment, and poverty reduction</p>	<p>Increased SME activities and their contribution to economic growth</p> <p>Improved business and regulatory environment and consequent reduced costs of doing business</p> <p>Enhanced access by SMEs to both financial and physical resources</p>	<p>Economic reports (including firm-level surveys) and official statistics of the Government¹, private sector organizations, and international development agencies</p> <p>Discussions and consultations with the Government, private sector representatives, and other stakeholders</p> <p>Various legal and policy documents issued by the Government</p> <p>Asian Development Bank (ADB) staff assessments</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Continued political commitment to reforms by the Government, and sustained coordination • Continued broad-based growth • Government is better able to improve business policies (and implement them) • Continued support for the reforms from other development agencies <p>Risks</p> <ul style="list-style-type: none"> • Lack of specific mechanisms for monitoring policy effectiveness • Limitations of the partnerships for reform between the Government and the private sector
<p>Outcome Subprogram II developed</p> <p>Growth of leasing sector supported as alternative source of long-term capital for SMEs</p> <p>Enhanced institutional capacity in the SME sector</p>	<p>Refined policy framework for SME sector</p> <p>Improved business environment</p> <p>Enhanced capacity of the Government</p> <p>Enhanced capacity of SMEs to participate in a market economy</p> <p>Long-term non-bank funding source for SMEs developed under the investment component</p> <p>Improved coordination among different stakeholders</p>	<p>Economic reports and official statistics of the Government, private sector organizations, and international development agencies</p> <p>Discussions and consultations with business sector representatives (including those from the financial institutions)</p> <p>Various legal and policy documents issued by the Government</p> <p>ADB review missions and feedback from conferences and workshops</p> <p>ADB staff assessments</p> <p>Midterm report Final report Tripartite review</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Political commitment to reforms within the Government, and sustained coordination • Continued support for the reforms from other development agencies • Proper coordination among the Government agencies and other stakeholders <p>Risks</p> <ul style="list-style-type: none"> • Inadequate allocation of financial resources for policy implementation • Limitations in the partnerships for reform between the Government and the private sector
<p>Outputs Coordinated implementation of the refined</p>	<p>Diagnostic assessment made of the progress made so</p>	<p>Official copies of documents issued by the Government that are</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Effective technical assistance (TA) findings and activities

¹ The Government also includes the local government agencies.

Design Summary	Performance Targets/ Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>policy and institutional framework for the development of the SME sector</p> <p>Streamlined procedures for business licensing and registration</p> <p>Improved access to financial and physical resources for SMEs</p> <p>Improved financial infrastructure for SMEs</p> <p>Technical inputs, including workshops and other activities to support subprogram II undertaken</p>	<p>far under Small and Medium Enterprise Development Program Cluster (SDPL), major challenges that need to be further addressed identified, and the most effective policy framework to address the identified challenges prescribed for implementation under subprogram II</p> <p>The relevant legal and regulatory framework for issuance of land use rights certificate (LURCs) formalized and procedures for registration of subsequent transactions streamlined</p> <p>Improved institutional capacity of the land transactions offices</p> <p>Effective secured transactions registry established</p> <p>Sustainable mechanism for strengthening SMEs' access to finance identified (particularly as related to the leasing industry development)</p> <p>Simplified accounting procedures for SMEs developed</p> <p>In parallel, capacity in SMEs developed to follow prescribed accounting procedures</p> <p>Feedback from stakeholders and consensus on the reform design</p>	<p>relevant to the business regulations</p> <p>Final report and various activities of the TA as outlined</p> <p>Reports of financial institutions, private sector representatives, and other major stakeholders</p> <p>Progress reports on ADB's SME and other related projects in the region</p> <p>ADB review missions and feedback from conferences and workshops</p>	<ul style="list-style-type: none"> • Sustained active ownership and participation in the TA <p>Risks</p> <ul style="list-style-type: none"> • Government's low commitment to capacity building and inadequate allocation of financial resources • Limitations in the partnerships for reform between the Government and the private sector • Capacity of the SME to absorb and follow prescribed systems and procedures • Capacity of the leasing industry to obtain sustainable alternate long-term funding source

Activities with Milestones	Inputs
<p>1. Refinement of the SDPL Subprogram II (first phase)</p> <p>1.1. Analysis of the business environment based on the impact of the subprogram I</p> <p>1.2. Analysis of the business environment based on the impact of the recent reforms on laws and policies (especially the new Unified Enterprise Law and Common Investment Law)</p> <p>1.3. Formulation of subprogram II—which maintains the overall scope of the program cluster as approved by the Government and ADB in September 2004—to address the main challenges faced by the SMEs</p> <p>2. Formulation of the Investment Component to Enhance SMEs' Access to Finance (first phase)</p> <p>2.1. Identification of the key actions as required for the leasing industry development—as a key source of finance for SMEs</p> <p>2.2. Formulation of an appropriate mechanism for an investment component</p> <p>3. Support of Capacity-Building Efforts for Subprogram II Implementation (second phase)</p> <p>3.1. Implementation of activities that will build the capacity of the Government to undertake the required reforms under Subprogram II</p> <p>3.2. Continued implementation of activities that enhance the business environment</p>	<ul style="list-style-type: none"> • ADB: Cost of TA (\$600,000), including consultancy, equipment, domestic training workshops, regional conferences, and other related activities • Government: Staff resources and information to be provided by the Government throughout TA implementation (estimated to be \$150,000) • Private sector: Information to be provided by various private sector representatives throughout TA implementation • Others: Coordination with ongoing Second Financial Sector Development Program, and consideration of reports and views of ADB and other donor agencies

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Contribution of the sector or subsector to reduce poverty in the Viet Nam: In Viet Nam, private enterprises dominate the economy and are a major source of employment for the poor. The TA is expected to formulate a program which will contribute towards increasing private enterprises' contribution to economic growth, employment generation, and poverty reduction. This will be achieved by creating a more conducive business environment by (i) improving the commercial sector legal framework, (ii) minimizing regulatory requirements, (iii) enhancing access to finance, and (iv) liberalizing trade and investment regimes. It is expected that the TA and the ensuing program will, in the medium to long term, have significant impact on increasing opportunities for employment, and reduce the incidence of poverty. To the extent possible, the TA will ensure that the process of policy formulation and implementation follow the Government's goal to foster participation, and promote social inclusion and gender-responsiveness in pursuing its poverty reduction efforts.</p>			

B. Poverty Analysis

Targeting Classification: General Intervention

<p>What type of poverty analysis is needed? The Government's Socio-Economic Plan and other documents stress the reduction of poverty through strong economic growth. ADB has played an active role in the strategy formulation process through various initiatives, and emphasizes regional economic integration, market-based development initiatives, human resource development, and sustainable social and environmental management. In line with the priorities set forth in the strategy, the technical assistance (TA) aims to address some of the structural policy and legal and regulatory impediments to SME and private sector development. Identified priorities include the following: (i) enhancing the legal and regulatory environment for SMEs; (ii) enhancing private enterprises' access to finance; (iii) facilitating foreign investment and trade; and (iv) promoting public-private partnership.</p> <p>The establishment of transparent, market-friendly, socially inclusive and, to the extent possible, gender-responsive business practices is also likely to promote private sector confidence and contribute to the establishment of pro-poor governance structures. The impacts of the TA on economic growth and employment generation are assessed to be significantly positive. No adverse impact requiring mitigating measures was identified.</p>
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C. Participation Process

Is there a stakeholder analysis?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
No formal stakeholder analysis is required. However, the formulation of the TA itself is based on extensive formal and informal stakeholder consultations.		
Is there a participation strategy?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

D. Gender Development

<p>Strategy to maximize impacts on women: Proposed design of the TA indicates that there will be no negative impact on women. The TA plans to design an information system for private enterprises, which will be gender responsive to identify needs for policy changes.</p>		
Has an output been prepared?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

E. Social Safeguards and other Social Risks

Item	Significant/	Plan Required
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	Not Significant/ None	Strategy to Address Issues	
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The TA will closely monitor the relevant outcomes as well as economic and social impacts throughout its implementation to ensure that there are no adverse impacts on the poor and the vulnerable.	<input type="checkbox"/> Yes <input type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN^a

(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank (ADB) Financing^b			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	448.4	0.0	448.4
ii. Domestic Consultants	0.0	57.2	57.2
b. International and Local Transportation	25.0	0.0	25.0
c. Reports Preparation	1.0	0.0	1.0
2. Equipment and Materials	10.0	0.0	10.0
3. Workshops ^c	5.0	8.0	13.0
4. Communication and Administration	1.2	4.8	6.0
5. Translation	0.0	2.0	2.0
6. Contingency	37.4	0.0	37.4
Subtotal (A)	528.0	72.0	600.0
B. Government Financing			
1. Office, secretarial and related services	0.0	48.0	48.0
2. Local counterpart	0.0	35.5	35.5
3. Facility for workshops	0.0	21.7	21.7
4. Miscellaneous Administration	0.0	24.1	24.1
5. Contingency	0.0	20.7	20.7
Subtotal (B)	0.0	150.0	150.0
Total	528.0	222.0	750.0

^a The project cost estimates and their presentation in this paper were negotiated with the Government and finally agreed in the technical assistance memorandum of understanding with the Government prior to the issuance of staff instructions on "Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing".

Therefore, the table distinguishes between foreign and local costs.

^b Financed by ADB's technical assistance funding program.

^c Allocation of the workshops on various topics will be determined based on their progress.

Source: ADB staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. **SME Development Specialist–Team Leader** (5 person-months: first phase, 2 person-months; second phase, 3 person-months)

1. The team leader will have extensive working knowledge of small and medium-sized enterprise (SME) development, its policy framework, and applicable international best practices. In addition, the team leader should demonstrate a good understanding of the history and development of the Vietnamese private sector and the development situation of the country's legal and regulatory system, including promotion policies, legal reforms, and capacity building measures for SMEs. The team leader will be responsible for all outputs from the technical assistance (TA) and will provide guidance to all other consultants. Specific tasks will include the following.

- (i) **First Phase:** Coordinate with other consultants to draft a refined framework for Small and Medium Enterprise Development Program Cluster SDPL subprogram II. Develop a framework for SME promotion policies as well as institutional and legal reforms, based on an in-depth analysis (including sectoral issues for policy formulation) of the SME sector.
- (ii) Conduct an analysis of the impact of the Unified Enterprise Law and Common Investment Law and provide a series of detailed recommendations on how the implementation of the two laws can be further supported through the SDPL.
- (iii) Analyze the poverty and social impact of ADB policy reform programs for SME development in Viet Nam.
- (iv) **Second Phase:** Disseminate the SDPL framework through holding workshops and meetings with the Government and other stakeholders.
- (v) Draft a detailed action plan for donor coordination on the SME sector, in close consultation with the Government and ADB's Resident Mission.
- (vi) Support the implementation of the Unified Enterprise Law and Common Investment Law through the drafting of appropriate implementing legal guidelines.
- (vii) Oversee and report on the implementation of the capacity building program by the entire TA team.
- (viii) Assist ADB missions with related activities as well as conduct discussions and workshops with stakeholders, to build consensus on the SDPL framework.

2. **Financial/Leasing Specialist** (7 person-months: first phase, 5 person-months; second phase, 2 person-months)

2. The financial/leasing specialist will have extensive working knowledge of leasing industry development, including international best practices. The specialist will recommend the most appropriate financing mechanisms so the ADB loan can be coursed through the Government and relent to qualified participating leasing and financial intermediaries on a commercial and sustainable basis and within the parameters laid down for such lending by ADB. The tasks of the specialist include the following:

- (i) **First Phase:** Assess the effective demand and scope for commercially funded or managed leasing finance for SMEs as an alternative to bank financing in Viet Nam and advise on improving conditions for their operations, including their access to capital markets and bank financing.

- (ii) Provide a comprehensive analysis of the operations of the leasing or finance companies that are active in Viet Nam and identify impediments for their operation, including legal and regulatory obstacles.
- (iii) Advise on the establishment of a financially sustainable leasing financing support scheme for SMEs through an ADB-funded project and make detailed recommendations for its legal form; financing, pricing, and fund flows; investment strategies and criteria; and governance structure.
- (iv) Recommend the appropriate project and subproject size.
- (v) Identify local leasing and/or financial intermediaries with the capacity, interest and willingness to expand their SME financing operations and participate in the Project.
- (vi) Conduct detailed financial and operational analyses of potential participating leasing companies and prepare operating and financial qualification standards and/or benchmarks for such leasing and finance companies to qualify for support from the Project.
- (vii) For each potential participating leasing or financial intermediary, design reporting systems and procedures to account for the sources and uses of funds associated with the borrower's activities and responsibilities under the proposed project. This task should draw on information in ADB's guidelines for assessment of borrower's/executing agency's internal control, accounting system and capability for the use of ADB's disbursement procedures.¹
- (viii) Familiarize leasing companies with the best international practices for lease financing.
- (ix) Identify and design pilot leasing finance projects to test the efficiency of institutions and mechanisms and the demand for different leasing products.
- (x) Assist in the introduction and implementation of organizational and managerial procedures and practices involved in SME lending or leasing.
- (xi) Prepare an institutional development and capacity-building program for leasing companies.
- (xii) Identify if possible, appropriate risk mitigation mechanisms for the Government organization through which ADB funds will be coursed.
- (xiii) Prepare a domestic symposium on lease financing and present related TA findings.
- (xiv) **Second phase:** Undertake the tasks required as the main advisor in identifying the financial intermediaries and the conditions for lending under the investment component.
- (xv) Assist in the evaluation of leasing companies for qualification and participation in the investment component.
- (xvi) Assist in implementation of the agreed financing mechanisms and the pilot leasing finance projects identified under the first phase.
- (xvii) Develop appropriate loan design, underwriting procedures, and relevant forms, servicing techniques, nonperforming loans recovery procedures, etc.
- (xviii) Assist in introducing appropriate risk mitigation mechanisms for the financial intermediary through which the ADB funds will be coursed.
- (xix) Develop and lead workshops for the intermediaries in implementing the project.
- (xx) Assist in the implementation of the reporting systems and procedures developed under the first phase of the TA.

3. International Legal and Taxation Specialist (first phase, 1 person-month)

3. The international legal and taxation specialist must have an extensive working knowledge of legal and taxation issues of the leasing business, as well as of international best practices. The

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

specialist will support the international financial or leasing specialist in designing an appropriate investment component under subprogram II. The specialist will review and coordinate the findings and outputs under the ADB-assisted Financial Sector Program Loan II (FSPL) project as well as the SME Development Program Loan and keep in consideration the areas that are to be covered under TA 4732-VIE² before undertaking these tasks. The tasks of the specialist will include the following.

- (i) Support the international financial/leasing specialist to develop a sustainable leasing finance support scheme for SMEs in Viet Nam through an ADB-funded project. Make detailed recommendations for its legal form, governance, and structure.
- (ii) Identify any tax impediments to the operation of the scheme and recommend appropriate incentives.
- (iii) Based on the recommended structure of the scheme, recommend appropriate lending agreements for funding arrangements with the leasing companies.
- (iv) Identify and recommend any other legal aspects to be addressed to make the scheme sustainable.

4. SME Accounting Specialist (second phase, 1 person-month)

4. The international SME accounting specialist will have extensive working knowledge of both international and Vietnamese accounting system standards. In addition, the SME accounting specialist should demonstrate good understanding of current progress in developing the SME accounting system. The specific tasks of the SME accounting specialist will include the following.

- (i) Based on consultation with the MOF, draft a comprehensive SME accounting training program.
- (ii) Train the domestic accounting specialist to undertake the training program in consultation with the stakeholders.
- (iii) Undertake the capacity building program as designed in the first phase, in coordination with the team leader and the domestic consultants.
- (iv) Assist ADB missions with the related activities and conduct discussions and workshops with the relevant stakeholders for effective implementation of the SDPL.

5. Technical Standards Specialist (second phase, 2 person-months)

5. The international technical standards specialist will have extensive working knowledge of technical standards in Viet Nam, and international best practices. In addition, the technical standards specialist should demonstrate good understanding of the development of Viet Nam's SME sector and the country's legal and regulatory system under which SMEs operate. The tasks of the technical standards specialist include the following.

- (i) Assist the Ministry of Science and Technology to implement the Directorate for Standards and Quality (STAMEQ) separation.
- (ii) Draft a plan requiring that any certification body operating in Viet Nam must be accredited by an accreditation body that is a mutual recognition agreement signatory member of the International Accreditation Forum, the Board of Accreditation, and others, as appropriate.

² ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Financial Sector Development Program III*. Manila.

- (iii) Draft a plan which allows for private SME representation in technical standards formulation. Members of business associations should be on the National Technical Committee of Standardization and on the industry technical committees of standardization.
- (iv) Undertake the capacity building program as designed in the first phase, in coordination with the team leader and domestic consultants.
- (v) Assist ADB missions with the related activities as well as conduct discussions and workshops with stakeholders for effective implementation of the SDPL.

6. Regulatory Specialist (second phase, 2 person-months)

6. The international SME regulatory specialist will have extensive working knowledge of regulatory environment for SMEs, and relevant international best practices. In addition, the regulatory specialist should demonstrate good understanding of the development of Viet Nam's SME sector and the country's legal and regulatory system under which the SMEs operate. The tasks of the SME regulatory specialist include the following.

- (i) Based on consultation with various stakeholders, draft an assessment of the implementation of the business registration and licensing reform plans.
- (ii) Based on consultation with various stakeholders, draft a plan to improve the business registration and licensing systems.
- (iii) Undertake the capacity building program designed in the first phase, in coordination with the team leader and the domestic consultants.
- (iv) Assist ADB missions with the related activities as well as conduct discussions and workshops with the relevant stakeholders for effective implementation of the SDPL.

7. Land Administration Specialist (second phase, 1 person-month)

7. The international land administration specialist will have extensive working knowledge of land administration issues for Vietnamese SMEs, and relevant international best practices. In addition, the land administration specialist should demonstrate good understanding of the development of Viet Nam's SME sector and the country's legal and regulatory system under which the SMEs operate. The tasks of the SME land administration specialist include the following.

- (i) Based on consultation with various stakeholders, draft an assessment on the Government's expansion plan for land administration.
- (ii) Undertake the capacity building program as designed in the first phase, in coordination with the team leader and the domestic consultants.
- (iii) Help ADB missions with related activities and conduct discussions and workshops with stakeholders for effective implementation of the SDPL.

B. Domestic Consultants

1. SME Specialist (5 person-months: first phase, 2 person-months; second phase, 3 person-months)

8. The SME specialist will have a background in SME development, understand private sector development, and be proficient in English. The SME specialist will be responsible for providing inputs related to the frameworks, especially in legal and policy reform areas. The specialist will undertake the following tasks.

- (i) Assist the team leader in all aspects of his or her tasks within the terms of reference.
- (ii) Under the guidance of the team leader, collect and analyze information, and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the team leader.
- (iv) Arrange and organize discussions and workshops, and assist the team leader in preparing materials for them including translation of documents and interpretation of the discussions.

2. Financial Specialist (7 person-months: first phase, 5 person-months; second phase, 2 person-months)

9. The financial specialist will have a background in the leasing industry, understand the financial sector in Viet Nam in general, and be proficient in English. The financial specialist will be responsible for providing inputs related to the project component on leasing. The financial specialist will undertake the following tasks.

- (i) Assist the international leasing specialist in all aspects of their tasks within the terms of reference.
- (ii) Under the guidance of the international leasing specialist, collect and analyze information and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the international leasing specialist.
- (iv) Arrange and organize discussions and workshops, and assist the international leasing specialist to prepare materials for them, including translation of documents and interpretation of the discussions.

3. Legal Specialist (1 person-month)

10. The specialist will have a background in law: knowledge of the financial and/or leasing sector: an understanding of the functioning and operations of the banking and financial institutions in Viet Nam: in particular the leasing industry; and proficiency in English. The specialist will undertake the following tasks.

- (i) Assist the international financial, leasing, legal, and taxation specialists in all aspects of their tasks within the terms of reference.
- (ii) Under the guidance of the international financial, leasing, legal, and taxation specialists, collect and analyze information, and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the international legal and taxation specialists.
- (iv) Organize round table discussions and workshops. Assist the international financial, leasing, legal, and taxation specialists to prepare materials for the workshops and round table discussions, including translation of documents and interpretation during workshops and round tables.

4. Accounting Specialist (second phase, 8 person-months)

11. The specialist will have a background in accounting, understand private sector development, and be proficient in English. The specialist will be responsible for providing training to SMEs on SME accounting guidelines. The specialist will undertake the following tasks.

- (i) Assist the team leader in all aspects of his or her tasks within the terms of reference.
- (ii) Under the guidance of the team leader, collect and analyze information, and make it available in English in an organized, readable form.
- (iii) Conduct a series of in-depth training seminars on SME accounting guidelines for SMEs and industry and business associations.
- (iv) Organize discussions and workshops, and assist the team leader to prepare materials for them, including translation of documents and interpretation of the discussions.

5. Technical Standards Specialist (second phase, 2 person-months)

12. The specialist will have a background in technical standards, understand private sector development, and be proficient in English. The technical standards specialist will be responsible for providing inputs related to the SDPL frameworks, especially related to the reform of technical standards. Preferably, the technical standards specialist will have had experience working with international consultants and governments. The technical standards specialist will undertake the following tasks.

- (i) Assist the team leader in all aspects of his or her tasks within the terms of reference.
- (ii) Under the guidance of the team leader, collect and analyze information and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the team leader.
- (iv) Arrange and organize discussions and workshops, and assist the team leader in preparing materials for them, including translation of documents and interpretation of the discussions.

6. Regulatory Specialist (second phase, 2 person-months)

13. The regulatory specialist will have a background in business registration and licensing, understand private sector development, and be proficient in English. The regulatory specialist will be responsible for providing inputs related to the SDPL frameworks, especially in regulatory reform areas. Preferably, the regulatory specialist will have had experience working with international consultants and governments. The technical standards specialist will undertake the following tasks.

- (i) Assist the team leader in all aspects of his or her tasks within the terms of reference.
- (ii) Under the guidance of the team leader, collect and analyze information and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the team leader.
- (iv) Arrange and organize discussions and workshops, and assist the team leader in preparing materials for them including translation of documents and interpretation of the discussions.

7. Land Administration Specialist (second phase, 1 person-month)

14. The land administration specialist will have a background in land reform issues in Viet Nam, understand private sector development, and be proficient in English. The land administration specialist will be responsible for providing inputs related to the SDPL frameworks, especially in land reform areas. Preferably, the land administration specialist will have had

experience working with international consultants and governments. The specialist will undertake the following tasks.

- (i) Assist the team leader in all aspects of his or tasks within the terms of reference.
- (ii) Under the guidance of the team leader, collect and analyze information and make it available in English in an organized, readable form.
- (iii) Conduct research on specific topics as required by the team leader.
- (iv) Arrange and organize discussions and workshops, and assist the team leader in necessary preparations, including translation of documents and interpretation of the discussions.