

ASIAN DEVELOPMENT BANK

TAR: VIE 31368

TECHNICAL ASSISTANCE

TO THE

SOCIALIST REPUBLIC OF VIET NAM

FOR

**CAPACITY BUILDING FOR
NONBANK FINANCIAL INSTITUTIONS AND THE CAPITAL MARKET**

December 2002

CURRENCY EQUIVALENTS

(as of 14 December 2002)

Currency Unit	–	dong (D)
D1.00	=	\$0.000065
\$1.00	=	D15,384

ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money laundering
CMRC	–	Capital Markets Resource Center
FIU	–	Financial Intelligence Unit
FSPL II	–	second financial sector program loan
GDP	–	gross domestic product
IA	–	implementing agency
IT	–	information technology
MOF	–	Ministry of Finance
SBV	–	State Bank of Viet Nam
SMEs	–	small and medium-sized enterprises
SOCB	–	state-owned commercial bank
SSC	–	State Securities Commission
STC	–	Securities Trading Center
TA	–	technical assistance

NOTE

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

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I. INTRODUCTION

1. To support implementation of the second financial sector program loan (FSPL II),¹ the Government of Viet Nam requested the Asian Development Bank (ADB) to provide technical assistance (TA). In response to the request, ADB fielded a fact-finding mission to Hanoi from 26 August to 6 September and reached an understanding with the Government on the objectives, scope, cost, financing plan, and implementation arrangements for the TA.² The TA framework is in Appendix 1. Summary Initial Poverty and Social Analysis is presented as Appendix 2.

II. ISSUES

2. **Financial Sector Issues.** The current Vietnamese financial sector mirrors the country's economy and is in a transitional phase. Financial sector reforms since the onset of *Doi Moi*³ have created a two-tier banking system, put the basic legal framework for central and commercial bank operations in place and initiated the development of financial infrastructure such as a payments system and a credit information bureau. However, financial intermediation still remains low, and the current structure does not fully support economic development. Domestic resource mobilization has been limited, with the gross domestic saving to gross domestic product (GDP) ratio at 24% in 2001. The banking sector is dominant (accounting for 70.7% of GDP) relative to the nonbanking financial sector, is still in a nascent stage, with assets of less than 3% of total bank assets.

3. The banking sector is dominated by the state. For credit, state-owned commercial banks (SOCBs) provide 72% of total bank loans in the economy. Approximately 45% of SOCBs' credit is channeled to state-owned enterprises, and a high proportion of the loans are nonperforming. The poor asset quality and inefficient operation have deteriorated the profitability and financial positions of SOCBs: Returns on assets averaged -0.2%, and the capital to assets ratio stood at 6% as of December 2001. Under the auspices of the International Monetary Fund and World Bank, the Government is implementing comprehensive reform programs for the banking and state-owned enterprise sectors. Given the extent of problems in both sectors, substantial time and resources are required for their successful transformation.

4. The nonbanking sector is still in the early stage of development. Currently, the nonbanking sector comprises the insurance and leasing businesses. Insurance penetration, measured by annual insurance premiums written to GDP, is still low at 1% of GDP in 2001 compared with 6.5% in OECD countries in 2000.⁴ However, following the enactment of the new insurance law, gross domestic insurance premiums have grown at an average rate of 30% per annum, reaching an estimated D4.9 trillion (\$318.5 million) in 2001. The current regulatory framework is not supportive of sound growth of the industry. Strengthening the Insurance Management Division of the Ministry of Finance (MOF), to monitor and regulate the insurance industry is a matter of high priority. Currently it has 12 staff, all with limited supervisory experience. Off-site surveillance and on-site inspection are being conducted on an annual basis. The frequency and quality of surveillance are constrained by the number of qualified staff in the Insurance Management Division as well as its statutory power.

¹ A cluster program in the pipeline approved on 20 November 2002 for a total amount of \$75 million.

² The TA first appeared in *ADB Business Opportunities* (internet edition) on 26 August 2002.

³ Doi Moi meaning "Renovation", represents a period since 1986 which initiated the process of transition to a market-based economy.

⁴ In 2000, the ratio stood at 1.37 in Philippines, 1.42 in Indonesia, 1.63 in People's Republic of China, 2.27 in Thailand, and 3.88 in Malaysia.

5. There are eight financial leasing companies operating in Viet Nam, of which three are joint ventures with foreign investors or wholly foreign owned, and five are subsidiaries of SOCBs. Leased assets during 2001 are estimated to have amounted to D2 trillion (\$130 million). Inconsistencies and gaps in the legal framework remain that need to be addressed. Leasing regulations that involve many government agencies will require substantial coordination and procedures for enforcement of leasing contracts at times of default need to be established.

6. The money and capital markets are similarly at rudimentary stages of development. Money market transactions have been insignificant so far. Treasury bills issued by MOF, in 2001 amounted to D3.955 trillion (\$257 million). In a bid to develop the money market, the State Bank of Viet Nam (SBV) will undertake policy reforms under FSPL II such as (i) introduction of market-based monetary and foreign exchange policies, (ii) deregulation on the issuance of diverse money market instruments, and (iii) establishing a regulatory framework for money market brokers and other intermediaries. Likewise, trading for equities and bonds at the Securities Trading Center (STC) is still limited. After over 5 years of meticulous planning and enactment of an extensive legal and regulatory framework for listed securities, the STC opened on 28 July 2000 in Ho Chi Minh City. Currently there are 19 companies and 18 bonds listed on the STC with total market capitalization of D1.605 billion (\$104,329).

7. There has been substantial progress in building infrastructure and safety nets for the financial system. The Deposit Insurance Corporation of Vietnam was established in June 2000, with support from the first financial sector program loan. The fundamental infrastructure for building a sound and efficient financial sector, including an accounting and auditing system, and basic laws on bankruptcy, contract enforcement, collateral, and loan recovery, is gradually being developed. The Accounting and Policy Department of MOF is drafting the Vietnamese Accounting Law. Vietnamese accounting standards, which are being developed based on international accounting standards while taking into account Viet Nam's specific conditions, are expected to be completed by the end of 2004. Also, the Ministry of Justice plans to draft and submit for enactment a comprehensive secured transactions law. Furthermore, to enhance public confidence in and the integrity of the financial system in anticipation of its gradual economic integration with the regional and global financial system, Viet Nam will launch a program to establish an anti-money laundering (AML) system.

8. **ADB's Second Financial Sector Program Loan.** To complement the recent banking sector restructuring and other policy reforms under the International Monetary Fund and the World Bank programs, the Government recognizes that Viet Nam needs to develop a sound market-based nonbank financial sector to support broad-based and sustainable economic growth.

9. With this objective in mind, the Government and ADB formulated the FSPL II to be launched in December 2002. It aims at developing alternative financing channels for economic growth by supplementing financial intermediation of the banking sector. To achieve this goal, the FSPL II focuses on:

- (i) establishing a regulatory framework for the insurance business and strengthening the supervisory and regulatory frameworks, while promoting the development of key industry professionals;
- (ii) promoting the leasing industry by creating a coherent regulatory framework, developing ground rules for contract enforcement, and enhancing public awareness;

- (iii) enabling interbank/money market development through phased interest rate deregulation, increasing money market instruments, and developing market microstructure;
- (iv) fostering capital markets' financial intermediation by establishing incentives compatible to the regulatory framework for increasing quality shares on the market, strengthening the market surveillance system, and building the basis for institutional investors; and
- (v) continuing to build financial infrastructure such as accounting and auditing systems, a secured transactions registration system, a deposit insurance system, and an AML regime.

10. While there is strong commitment from the Government to undertake all necessary policy reforms under the FSPL II, it introduces many new concepts and frameworks unfamiliar to Viet Nam. Given the extent of policy reforms and the level of technical requirements, both technical inputs as well as targeted training to equip the executing and implementing agencies with knowledge and skills to undertake the needed reforms are deemed necessary.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The primary purpose of the TA is to assist the Government in undertaking policy conditions proposed under the FSPL II. Its scope therefore parallels the FSPL II, covering principally the nonbanking and money/capital markets sectors.⁵ While the FSPL II is extensive, requiring a multitude of policy reforms, the scope of the TA is selective and focuses on a number of policy conditions of the FSPL II that have been assessed to require technical inputs and capacity-building activities for successful implementation.

12. For the development of money markets, the TA will help draft a negotiable instrument law and provide legal and regulatory frameworks for money market instruments. This will include a comprehensive explanatory note, including explanations on all the articles of the draft law and a glossary of key terms. The TA will also assist the SBV in developing an efficient information system for money market activities.

13. Assistance to the leasing industry will aim to establish an enabling regulatory framework for leasing. The TA will help establish a regulatory framework that includes both financial and operating leasing.⁶ Specifically, the TA will draft (i) an action plan for introducing operating leasing in Viet Nam; it will specify the issues and constraints to introducing operating leasing and policy actions to be taken; and (ii) a consolidated regulation (decree), in consultation with related ministries, on financial and operating leasing, including, but not limited to, simplified procedures and methods to deal with leased assets in cases where a lessee violates the lease contract.

⁵ The detailed discussion of the background and rationale of each component addressed in this section can be found in the Memorandum of Understanding on the FSPL II for the ADB Loan Appraisal Mission dated 2 July 2002, or the ADB. 2002. *Report and Recommendation of the President to the Board for the Second Financial Sector Program Loan for the Socialist Republic of Viet Nam*. Manila.

⁶ Operating leasing involves the acquisition of property for only a small portion of its useful life. An operating lease is commonly used to acquire equipment on a short-term basis; the lessor meets all operating and maintenance costs.

14. The TA will help the Government establish an AML system to fight against criminal activities in and out of the financial sector to bolster public confidence in the sector. The TA input will include (i) drafting a decree on AML regulations, and (ii) drawing a master plan for establishing a financial intelligence unit (FIU) in Viet Nam. The AML activities and the operation of the FIU will require the involvement of multiple law enforcement authorities, and will involve extensive consultations among related agencies.

15. Assistance in the insurance sector will focus on (i) identifying areas where compulsory insurance is required, (ii) drafting the terms and tariffs for compulsory insurance, (iii) setting up an accounting system for insurance companies, (iv) drafting measures to enhance corporate governance and the competitiveness of insurance companies, (v) drafting procedures for dealing with problem insurance companies, (vi) drafting a plan for the development of an insurance supervisory agency, and (vii) developing a risk-based capital regulations system suitable for Viet Nam. Each component will include training of staff through either workshops or roundtable discussions.

16. The capital market component of the TA will comprise assistance on the following items as requested by the Government: (i) opening and operating a trading board for the Hanoi STC; (ii) market surveillance and inspection procedures for the Hanoi and Ho Chi Minh City STCs, (iii) enforcement of corporate governance principles; (iv) establishment of an independent securities depository center; (v) establishing the legal framework for public offerings, back-door listings, and mergers and acquisitions; and (vi) establishing a capital market resource center.

B. Methodology and Key Activities

17. The TA will fund consultants with expertise in nonbanking financial sectors and capital markets, who will conduct in-depth consultations with the Government and private sector stakeholders. Consultations will be part of the process to produce targeted outputs, and will be followed by a number of roundtable discussions and workshops to transfer the knowledge and skills needed by all stakeholders to implement the policy conditions under the FSPL II. ADB will monitor the process closely to ensure the quality of outputs and training.

C. Cost and Financing

18. The TA, estimated to cost \$1,255,000 equivalent, includes a foreign exchange cost of \$883,200 and a local currency cost of \$371,800 equivalent. A total of \$1,000,000 equivalent—the total foreign exchange cost and \$116,800 equivalent of local currency cost—will be financed on a grant basis by the ADB-funded TA Special Fund. The Government will contribute \$255,000 equivalent in kind for office space, counterpart staff, and other miscellaneous services. Details of the cost estimates are in Appendix 3.

D. Implementation Arrangements

19. SBV will be the Executing Agency for the TA; and SBV, MOF, and the State Securities Commission will be the implementing agencies (IAs). In addition to office space, the IAs will provide counterpart staff and other support services to the consultants. The program steering committee, which will be formed under the FSPL II, will oversee TA implementation. SBV will appoint a project director for the purposes of assisting in daily implementation of the TA.

20. The TA will require 24 person-months of international and 20 person-months of domestic consultant inputs. The terms of reference for the consultants are in Appendix 4. The TA will

have separate contracts for each component. Individual consultants will be recruited to (i) strengthen the legal framework and information system for money market, (ii) upgrade the regulatory framework for leasing, (iii) establish an AML system, and (iv) develop the supervisory and governance frameworks for insurance. The international consultants will be a negotiable instruments law specialist, an information technology specialist for money market information system, a leasing industry specialist, an anti-money laundering specialist, and insurance specialists. The domestic consultants will be a banking expert and an insurance expert.

21. The capital market component will be contracted to an international consulting firm for 9 person months each of international and domestic consulting services. International capital market specialists will be required with expertise in (i) supervision and prudential regulation of securities trading centers, (ii) corporate governance, (iii) establishment of an independent securities depository center, (iv) legal framework for public offerings, back-door listings and mergers and acquisitions, and (v) establishment of a capital market resource center. A domestic capital market specialist will also be required under this component. The consulting contract will be allocated with a budget of about \$370,000. The quality-based selection method is proposed in selecting the consultants as the assignments entail drafting of key laws and regulations in the financial sector, inadequacies of which will result in high cost for the sector as well as the whole economy. Shortlisted firms will submit simplified technical proposals. All the consultants will be selected in accordance with ADB's Guidelines on the Use of Consultants and other arrangements satisfactory to ADB on the engagement of domestic consultants.

22. 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. The 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 incorporation of feedback from SBV, the IAs, and ADB. Tripartite meetings will be held before finalization of the draft final reports. The final report, incorporating comments of SBV, the IAs, and ADB during and after the tripartite meetings, should be submitted upon completion of service. The TA is scheduled to commence in January 2003 and to be completed by December 2003.

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance on a grant basis to the Government of Viet Nam in an amount not exceeding the equivalent of \$1,000,000 for the Capacity Building for Nonbank Financial Institutions and the Capital Market, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <ul style="list-style-type: none"> ▪ Develop a financial system with higher levels of financial intermediation, efficiency, and accessibility 	<ul style="list-style-type: none"> ▪ Increased M2/gross domestic product (GDP) ▪ Increased ratio of financial assets to GDP ▪ Increased domestic savings and foreign direct investment ▪ Reduced operating cost of financial institutions and interest rate spreads ▪ Interest rate deregulation 	<ul style="list-style-type: none"> ▪ Economic reports, official statistics, financial statements of banks and insurance companies ▪ Asian Development Bank (ADB) review missions 	<ul style="list-style-type: none"> ▪ Macroeconomic stability ▪ Reform progress in banking and state-owned enterprises
<p>Purpose</p> <ul style="list-style-type: none"> ▪ Develop alternative channels of market-based financial intermediation 	<ul style="list-style-type: none"> ▪ Diversified financial services measured as percentage of gross revenue of all financial institutions ▪ Increased insurance coverage and diversified insurance products measured as net premium for each insurance products ▪ Increased leasing assets and credit outstanding ▪ Diversified interbank/money market instruments, and increased transactions ▪ Increased total market capitalization, and higher turnover 	<ul style="list-style-type: none"> ▪ Economic reports, official statistics ▪ ADB review missions 	<ul style="list-style-type: none"> ▪ Political commitment to undertake reforms ▪ Technical capacities ▪ Progress in restructuring of state-owned commercial banks and state-owned enterprises
Outputs			
<p>Money Market Development</p> <p>Strengthening legal framework and information system for money market</p>	<ul style="list-style-type: none"> ▪ Draft negotiable instrument law; providing explanatory note ▪ Money market information system 	<ul style="list-style-type: none"> ▪ Official copy of the draft negotiable instrument law ▪ Establishment and operation of money market information system 	<ul style="list-style-type: none"> ▪ State Bank Viet Nam's (SBV's) commitment to reform
<p>Leasing Industry</p> <ul style="list-style-type: none"> ▪ Upgrading regulatory framework for leasing industry 	<ul style="list-style-type: none"> ▪ Consolidated regulation for financial and leasing and procedures and methods to deal with leased assets. 	<ul style="list-style-type: none"> ▪ Official copy of the consolidated regulation on leasing 	<ul style="list-style-type: none"> ▪ SBV's commitment to reform
<p>Anti-money laundering (AML) system</p> <ul style="list-style-type: none"> ▪ Establishment of AML system 	<ul style="list-style-type: none"> ▪ AML regulation ▪ Establishment of a financial intelligence unit 	<ul style="list-style-type: none"> ▪ Official copy of draft decree on AML regulation ▪ Establishment and operation of a financial intelligence unit 	<ul style="list-style-type: none"> ▪ The Government's commitment to enforce AML regulation

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Insurance Industry <ul style="list-style-type: none"> ▪ Strengthening of supervisory framework and governance 	<ul style="list-style-type: none"> ▪ Terms and tariffs for each type of compulsory insurance ▪ An accounting system for insurance companies ▪ Policy measures to enhance corporate governance and competitiveness of insurance companies ▪ Procedure to deal with problem insurance companies ▪ Capacity building towards the development of independent insurance supervisory agency ▪ Regulations on risk-based capital regulation 	<ul style="list-style-type: none"> ▪ Official copies of terms of compulsory insurance, insurance accounting system, procedure for problem companies, plan for insurance supervisory agency, policy measures for enhancing corporate governance, risk-based capital regulation 	<ul style="list-style-type: none"> ▪ Ministry of Finance's (MOF's) commitment for reform
Capital Market Development <ul style="list-style-type: none"> ▪ Strengthening of capital market infrastructure 	<ul style="list-style-type: none"> ▪ Opening and operating a trading board for Hanoi Securities Trading Center (STC) ▪ Market surveillance and inspection procedures for Hanoi and Ho Chi Minh City STCs ▪ Enforcement of corporate governance principles ▪ Establishment of independent securities depository center ▪ Legal framework for public offerings, back-door listings and mergers and acquisitions ▪ Opening of a capital market resource center (CMRC) 	<ul style="list-style-type: none"> ▪ Opening Hanoi STC ▪ Official copy of market surveillance and inspection procedures ▪ Official copies of program for enforcement of corporate governance principles ▪ Establishment of Independent securities depository center ▪ Official copies of legal framework for public offerings, back-door listings, and mergers and acquisitions 	<ul style="list-style-type: none"> ▪ State Securities Commission's (SSC's) commitment to reform
Inputs			
Negotiable Instruments Law Specialist	<ul style="list-style-type: none"> ▪ Drafting a negotiable instruments law; providing explanatory note, which includes explanation on all the articles of the draft law and a glossary for key terms; and conducting a roundtable discussion 	<ul style="list-style-type: none"> ▪ Official copy of draft negotiable instruments law ▪ Explanatory note for the draft negotiable instruments law 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants ▪ Cooperation of relevant government staff
Information Technology (IT) Specialist for Money Market Information System	<ul style="list-style-type: none"> ▪ Developing software program to collect and process daily information and data regarding money market activities; drafting IT investment plan for money market information system, including assessing the demand for IT investment; and conducting roundtable discussions 	<ul style="list-style-type: none"> ▪ Software program and IT investment plan for money market information system 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants ▪ Cooperation of relevant government staff

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Leasing Industry Specialist	<ul style="list-style-type: none"> ▪ Drafting an action plan for introducing operating leasing in Viet Nam; drafting a consolidated regulation (decree) on financial and operating leasing; and conducting roundtable discussions 	<ul style="list-style-type: none"> ▪ Draft plan for operating leasing ▪ Official copy of consolidated regulation on leasing 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants ▪ Cooperation of relevant government staff
AML Specialist	<ul style="list-style-type: none"> ▪ Drafting decree on AML regulation, drafting an action plan to establish a Financial Intelligence Unit (FIU) in Viet Nam, and conducting roundtable discussions on the draft decree on AML and the action plan on the establishment of a FIU 	<ul style="list-style-type: none"> ▪ Official copies of draft decree on AML regulation and action plan for FIU 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants ▪ Cooperation of relevant government staff
Insurance Expert	<ul style="list-style-type: none"> ▪ Drafting terms and tariffs for each type of compulsory insurance, an accounting system for insurance companies, policy measures to enhance corporate governance and competitiveness of insurance companies, a procedure to deal with problem insurance companies, an action plan for capacity building towards the development of independent insurance supervisory agency suitable for Viet Nam, regulations on risk-based capital regulation, and conducting roundtable discussions on the outputs 	<ul style="list-style-type: none"> ▪ Official copies of terms and tariffs for each type of compulsory insurance, an accounting system for insurance companies, policy measures to enhance corporate governance and competitiveness of insurance companies, a procedure to deal with problem insurance companies, an action plan for capacity building towards the development of independent insurance supervisory agency, and regulations on risk-based capital regulation 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants. ▪ Cooperation of relevant government staff
Capital Market Specialist	<ul style="list-style-type: none"> ▪ Drafting a list of potential small and medium -sized enterprises (SMEs) that have capabilities and needs to list in the Hanoi STC (an estimated list of a critical mass of listing companies); conducting a diagnostic review of impediments facing potential listing SMEs, and formulating remedial measures to encourage listing; drafting a surveillance and inspection system for Hanoi and Ho Chi Minh City STCs; developing a program to enforce implementation of the guidelines on the best practices in corporate governance and compulsory application of the model charters by listed companies after the Government adopts such guidelines and model charters; drafting a master plan for establishing an independent securities depository center; developing a legal framework for public offerings, back-door listings, takeovers, and mergers among companies; and assisting SSC in establishing a CMRC within SSC 	<ul style="list-style-type: none"> ▪ Official copies of draft list of potential SMEs that have capabilities and needs to list in the Hanoi STC; a diagnostic review of impediments facing potential listing SMEs; draft surveillance and inspection system; a program to enforce the implementation of the guidelines on the best practices in corporate governance; a master plan for establishing an independent securities depository center; a legal framework for public offerings, back-door listings, takeovers, and mergers among companies 	<ul style="list-style-type: none"> ▪ Competence of and coordination among consultants ▪ Cooperation of relevant government staff

SUMMARY INITIAL POVERTY AND SOCIAL ANALYSIS

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/subsector to reduce poverty in Viet Nam:</p> <p>The financial sector's contribution to poverty reduction in Viet Nam on both the macro and individual levels.</p> <p>First, the financial sector supports economic growth through mobilizing resources (savings and other means of investments domestically and internationally). In Viet Nam, in addition to existing banks, other financial intermediaries such as insurance and leasing as well as capital markets are still in the primary stage. Under the Second Financial Sector Program Loan (FSPL II), the development of these subsectors will help to mobilize domestic resources and long-term funding in particular. The Government estimates that, for 2001-2005, about \$60 billion will be mobilized for development investment. This target can only be achieved by a well-functioning and diversified financial sector.</p> <p>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 (SMEs) have difficulties in accessing credit and other financial services. This is because of high costs, lack of regional outreach, and limited understanding of alternative sources of funding. Under the FSPL II, these constraints will be addressed. Moreover, the development of the real sectors, including the private sector, especially SMEs, benefits from higher accessibility and diversification of financial products and services. Real sector development creates employment opportunities, and enables the poor and vulnerable to obtain the critical means of lifting themselves out of poverty.</p> <p>A sound and efficient financial system provides accessible, high quality and well-diversified financial services for both poor and nonpoor. In cases of economic or other crisis, improved insurance coverage and other institutional safeguards such as the Deposit Insurance Corporation, reduce income fluctuation, and thus people's vulnerability to drastic changes in socioeconomic situation.</p> <p>The Government has long recognized that a sound financial sector is essential for poverty reduction, and has listed it as a priority of reform in its Comprehensive Poverty Reduction and Growth Strategy.</p>			

B. Poverty Analysis Proposed Classification: Beneficiary non-specific

<p>Analysis:</p> <p>The technical assistance aims at supporting the implementation of the FSPL II, which has five components, all with implications for poverty reduction. The implementation of the FSPL II will lead to a more balanced and competitive financial structure, increase income and employment generating activities, reduce income fluctuation of individuals and businesses, and thereby contribute to macroeconomic stability and poverty reduction.¹</p>
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¹ For detailed discussions of poverty analysis see Appendix 4, Summary Poverty Reduction and Social Strategy and Supplementary Appendix Poverty Impact Assessment of ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program Loan*. Manila.

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C. Participation Process

Stakeholder analysis prepared: No Participation strategy: No

D. Social Issues

Subject	Significant, Not Significant, None	Strategy to Address Issues	Output Prepared
Resettlement	None		No
Gender	None		No
Affordability	None		No
Labor	None		No
Indigenous People	None		No
Other Risks/ Vulnerabilities	None		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	663.60	0.00	663.60
ii. Domestic Consultants	0.00	52.75	52.75
b. International and Local Travel	40.00	8.00	48.00
c. Miscellaneous Travel Expenses	1.60		1.60
d. Reports and Communications	11.00		11.00
2. Manual for MOF and insurance companies		5.00	5.00
3. Workshops, Seminars, and Conferences ^b		36.00	36.00
4. Office Equipment (PCs and Printers) ^b	20.00	0.00	20.00
5. Miscellaneous Administration, Translation and Support Costs ^b	15.00	2.00	17.00
6. Representative for Contract Negotiations	5.00	0.00	5.00
7. Contingencies	127.00	13.05	140.05
Subtotal (A)	883.20	116.80	1,000.00
B. Government Financing^c			
1. Office Accommodation	0.00	70.00	70.00
2. Secretarial and Related Services		68.00	68.00
3. Remuneration and Per Diem of Counterpart Staff	0.00	80.00	80.00
4. Miscellaneous Administration		16.00	16.00
5. Contingencies		21.00	21.00
Subtotal (B)	0.00	255.00	255.00
Total	883.20	371.80	1,255.00

^a Funded from the Technical Assistance Special Fund.

^b The provision for (i) workshops/seminars/conferences, (ii) equipment, and (iii) miscellaneous TA administration (under foreign currency category) will be allocated equally to the 3 implementing agencies.

^c The Government's contribution will be shared among the 3 implementing agencies.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. Negotiable Instruments Law Specialist (2 person-months)

1. The international negotiable instruments law specialist must have an extensive working knowledge of negotiable instruments laws and their regulatory framework, as well as of international best practices. In addition, the specialist should demonstrate good understanding of the history and culture of the Vietnamese money market and of the current situation of the country's legal and regulatory system on which the money market builds. The tasks and responsibilities of the specialist include

- (i) reviewing existing laws and regulations with provisions concerning money market instruments, and proposing solutions to resolve conflicts, if any;
- (ii) assisting in drafting a negotiable instruments law and related implementation regulations;
- (iii) providing an explanatory note, which includes a discussion of all the articles of the draft law and a glossary of key terms; and
- (iv) conducting roundtable discussions with stakeholders.

2. Information Technology (IT) Specialist for Money Market Information System (2 person-months)

2. The international IT specialist for money market information system must have an extensive working knowledge of money market information systems and the operation of money markets, as well as of international best practices. In addition, the specialist should demonstrate good understanding of the Vietnamese money market and the current situation of the country's legal and regulatory system on which the money market builds. In making recommendations, the expert will review different models and justify 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 tasks and responsibilities of the specialist include

- (i) customizing a software program to collect and process daily information and data regarding money market activities (e.g., interest rates, turnover, maturities, etc.); the consultant will take into consideration available software packages that may be customized for application at lower cost;
- (ii) assisting in drafting an IT investment plan for a money market information system, including assessing the demand for IT investment; and
- (iii) conducting roundtable discussions with stakeholders.

3. Leasing Industry Specialist (2 person-months)

3. The international leasing industry specialist must have an extensive working knowledge of supervision and prudential regulation of the leasing business and market, as well as of international best practices. In addition, the specialist should demonstrate good understanding

of the history and culture of the Vietnamese leasing market and the current situation of the country's legal and regulatory system on which the leasing industry builds. The tasks and responsibilities of the specialist include

- (i) assisting in drafting an action plan for introducing operating leasing in Viet Nam; The plan should specify the issues and constraints involved in introducing operating leasing and policy actions to be taken;
- (ii) assisting in drafting a consolidated regulation (decree) on financial and operating leasing, including, but not limited to, procedures and methods to deal with leased assets in cases where a lessee violates the lease contract in consultation with related ministries; and
- (iii) conducting roundtable discussions.

4. Anti-Money Laundering (AML) Specialist (3 person-months)

4. The international AML specialist must have extensive working knowledge of AML regulations and operational frameworks, as well as of international best practices. In addition, the specialist should demonstrate good understanding of the history and culture of the Vietnamese financial system, especially the banking sector, and the current situation of the country's legal and regulatory system in the banking system. The tasks and responsibilities of the specialist include

- (i) advising and assisting the State Bank of Viet Nam (SBV) to solve any problem arising in the drafting of the decree on AML;
- (ii) advising and providing specific comments for each article in the draft decree provided by SBV;
- (iii) providing necessary materials to SBV in the process of drafting the decree;
- (iv) assisting SBV in drafting an action plan to establish a Financial Intelligence Unit (FIU) in Viet Nam;
- (v) drafting a decree on AML and related implementing regulations; and
- (vi) identifying stakeholders and advising and making presentations in roundtable discussions on the draft decree on AML and the action plan on the establishment of an FIU. Participants of the roundtable discussions will be exposed to training materials available on the web and organizations that may provide additional assistance.

5. Insurance Specialists (6 person-months)

5. The international insurance specialists 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 specialists should demonstrate good understanding of the history and culture of the Vietnamese insurance market and the current situation of the country's legal and regulatory system on which the insurance industry builds. In making recommendations, the experts will review different 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 tasks and responsibilities of the specialists include

- (i) assisting in drafting terms and tariffs for each type of compulsory insurance with examples of terms and tariffs for compulsory insurance;
- (ii) assisting in developing an accounting system for insurance companies with operating manual and/or guidelines for Ministry of Finance staff and insurance companies;
- (iii) assisting in drafting policy measures to enhance corporate governance and the competitiveness of insurance companies with materials on international best practices and examples;
- (iv) assisting in drafting a procedure to deal with problem insurance companies, including the functions and operation of the Board of Solvency Control;
- (v) assisting in drafting an action plan for capacity building towards the development of independent insurance supervisory agency suitable in Viet Nam, together with providing models/examples of an independent insurance supervisory agencies, including their power, function, structure, staffing, etc. in advanced economies;
- (vi) drafting regulations on risk-based capital regulation suitable to the Vietnamese insurance industry using international practices and examples; and
- (vii) identifying stakeholders and conducting roundtable discussions on the outputs.

6. Capital Markets Specialists (9 person-months)

6. The international capital markets specialists must have extensive working knowledge of supervision and prudential regulation of capital markets, as well as of international best practices. In addition, the specialists should demonstrate good understanding of the history and culture of Vietnamese capital market and the current situation of the country's legal and regulatory system on which capital markets build. The tasks and responsibilities of the specialists include

- (i) Assisting in opening and operating a trading board for the Hanoi Securities Trading Center (STC). This will cover:
 - (a) organizing a program for regulators to define the capability of small and medium-sized enterprises (SMEs) with potential to list on the Hanoi STC;
 - (b) preparing a list of SMEs that have capabilities and need to potentially list on the Hanoi STC;
 - (c) conducting a diagnostic review of impediments facing SMEs that are candidates for potential listing, and formulating remedial measures to encourage listing; and

- (d) assisting SMEs in preparing to meet listing requirements, including assistance for on-site audit and advisory activities for selected SMEs;
- (ii) developing market surveillance and inspection procedures for the Hanoi Chi Minh City STCs that will involve:
 - (a) developing a surveillance and inspection system for Hanoi and Ho Chi Minh City STCs,
 - (b) drafting operating manuals for the surveillance and inspection system, and
 - (c) training staff of the STCs to implement the system;
- (iii) enforcing corporate governance principles:
 - (a) running a program to enforce the implementation of the guidelines on best practices in corporate governance and compulsory application of the model charters by listed companies¹ after the Government adopts such guidelines and model charters; an enforcement system should include, among others, sanctions to deal with potential violations and noncompliance; and
 - (b) identifying stakeholders and conducting roundtable discussions regarding the application of the guidelines and model charters;
- (iv) setting up an independent securities depository center: drafting a master plan for establishing an independent securities depository center; the master plan should include, among others, (a) a legal framework and operational model for a depository with consideration for linkages to settlement on the STC, (b) an information disclosure system, (c) development of a securities database and information processing technology, and (d) establishment of a joint compensation fund;
- (v) devising a legal framework for public offerings, back-door listings and mergers and acquisitions: developing a legal framework for public offerings, back-door listings, takeovers, and mergers among companies; and
- (vi) setting up a capital market resource center: assisting the State Securities Commission (SSC) in establishing a Capital Markets Resource Center (CMRC) within SSC; CMRC will be a knowledge depository for capital market development in Viet Nam; it will also aim to enhance the capacity for securities training and research; the major activities of CMRC include, among others, (a) collecting and managing textbooks and reference materials for securities and capital markets, (b) providing training courses for lecturers and researchers, and (c) providing educational equipment and software for capital market training.

¹ The guidelines and model charters are the outputs of an ADB technical assistance: ADB. 1999. *Technical Assistance to the Socialist Republic of Viet Nam for Corporatization and Corporate Governance*. Manila

B. Domestic Consultants

1. Banking Expert (6 person-months)

7. The domestic banking expert cum coordinator will have a background in financial analysis, knowledge of the banking sector, understanding of the organization and structure of government agencies and financial institutions, and proficiency in English. Preferably, he/she should have experience in working with international consultants, government agencies, and financial institutions. He/she will:

- (i) assist the international AML specialist, the leasing industry specialist, and the negotiable instrument law specialist in all aspects of the tasks within the terms of reference;
- (ii) under the guidance of the above specialists, collect and analyze required information and data, and make these available in English and in an organized, readable form;
- (iii) arrange and organize roundtable discussions and workshops, assist the above specialists in preparing materials and logistics for these events;
- (iv) participate in meetings and act as interpreter/translator when necessary;
- (v) assist the executing agency in monitoring progress and coordinating working schedule for all other consultants; and
- (vi) arrange other logistical work for the consultant team.

2. Insurance Expert (5 person-months)

8. The domestic insurance expert will serve as an assistant to the international insurance specialist and will have a background in economic analysis, understanding of the insurance industry, and proficiency in English. Preferably, he/she should have experience in working with international consultants and government. He/she will

- (i) assist the international team of experts in all aspects of their tasks within the terms of reference;
- (ii) under the guidance of the international insurance expert, collect and analyze required information and data, and make these available in English and in an organized, readable form;
- (iii) conduct research on specific topics as required by the international insurance specialist; and
- (iv) arrange and organize roundtable discussions and workshops, and assist the international insurance specialist in preparing materials for workshops/roundtable discussions including translation of documents and interpretation in workshops/roundtable discussions.

3. Capital Markets Specialist (9 person-months)

9. The domestic capital markets specialist will have a background in economic analysis, understanding of capital markets, and proficiency in English. Preferably, he/she should have experience in working with government and international consultants. He/she will

- (i) assist the international experts in all aspects of their tasks within the terms of reference;
- (ii) under the guidance of the international capital markets specialist, collect and analyze required information and data, and make these available in English and in an organized, readable form;
- (iii) conduct research on specific topics as required by the international consultants; and
- (iv) arrange and organize roundtable discussions and workshops, and handle other logistic matters.