

TA COMPLETION REPORT

Division: IWFI

TA NO./NAME: TA NO. 2909-VIE: POLICY SUPPORT FOR STATE BANK OF VIET NAM				TA AMOUNT APPROVED: \$700,000	SOURCE: TASF
				REVISED AMOUNT: None	
EXECUTING AGENCY: STATE BANK OF VIET NAM				TA AMOUNT UNDISBURSED: \$116,838.26	TA AMOUNT UTILIZED: \$583,161.74
DATE:	Approval: 04 Nov 1997	Signing: 25 Mar 1998	Field: 17 June 1998	Closing Original: 30 Nov 1998	Actual: 31 July 2000

TA DESCRIPTION:

1. Viet Nam's financial system made significant advancement with the adoption of a market-oriented banking system in 1988. A series of reforms adopted have resulted in a two-tier banking system with liberalized entry by the banks and licensing of foreign banks. However, despite the growing size and complexity of the financial market, parallel advancement in the central bank, State Bank of Vietnam (SBV) to perform central banking functions effectively has been rather slow. Thus, the TA was designed to provide the SBV with an appropriate policy framework to strengthen its regulatory and supervisory functions to service the needs of the growing financial market and to promote economic growth. The TA was also intended to build capacity within the SBV to formulate and implement banking legislation and regulations as required by the Financial Sector Program Loan (FSPL).¹ By providing assistance in strengthening the central banking system, the TA complemented well FSPL's focus on policy framework to create a more efficient commercial banking system.

TA OBJECTIVE AND SCOPE:

2. The primary objective of the TA was to (i) address the policy framework of the SBV, (ii) recommend appropriate guidelines to perform regulatory and supervisory functions and draft basic laws, and (iii) strengthen the capacity of the SBV. The TA assisted the SBV in analyzing, formulating, and establishing a comprehensive set of policies to enable SBV to perform efficiently and effectively its central banking functions. These policies were related to bank and nonbank supervisions covering areas such as prudential regulations, audits, chart of accounts, portfolio quality, risk management, asset/liability management, and other areas such as deposit insurance and credit information as required by FSPL. The TA also assisted the SBV in strengthening its capability to formulate, draft, and enforce banking legislation and regulations.

TA INPUTS EVALUATION:

3. The terms of reference for consulting services were appropriately designed and covered major areas within the scope of the TA. A total of 13.27 person-months of consultancy, by a team of four international consultants, were involved. The TA contingency budget was effectively utilized to meet the additional assistance required by the Government for new Decree Laws for negotiable instruments and Decree for Secured Transaction.

4. Although the Consultant team showed relatively weak coordination with other donors and among its team members, the TA received full support from the involved senior officials of the SBV and the counterparts assigned to the TA who coordinated effectively with the related Government offices in producing the outputs.

TA OUTPUTS EVALUATION:

5. Reports submitted by the consultants covered policy recommendations on the following: (i) Bank Supervision: strengthen on and off site bank supervision and prudential rules on capital adequacy ratio, loan classification and loan loss provision requirements, and bank licensing requirements, among others; (ii) Legislative Drafting: help finalize basic laws and improve drafting skills in the legal department; (iii) Deposit Insurance: recommend guidelines on setting up a deposit insurance scheme and its operational aspects; and (iv) Credit Information: review the existing Credit Information Center procedures and propose specific improvements and appropriate software design.

6. The outputs were both conceptual and analytical, borrowing from the best international practice, and covered major areas of the terms of reference. Through drafting practice, Decree on Commercial Paper and Implementation Regulations under the Decree on Credit Institutions were finalized. Also the consultant's recommendation on the Deposit Insurance Scheme was accepted by the Government, although the acceptance was delayed by eight months due to the delay in the Government's decision. (Seminars and workshops in these four areas were held to disseminate recommended improvements and decrees to targeted audiences of Government officials and stakeholders from commercial banks, companies, and international institutions.)

¹ Loan 1485-VIE: Financial Sector Program Loan, approved in November 1996 in the amount of \$90 million; the loan was closed in December 1999 but some of the loan conditions are being monitored to the end of 2000.

7. The Government generally accepted all other policy advice and benefited from the seminars which enhanced understanding and ownership.

TA OVERALL ASSESSMENT/RATING:

8. Although the TA completion was delayed by eight months, it was generally successful as the objectives have been met, and the reports submitted by the consultant team were satisfactory.

MAJOR LESSONS LEARNED:

9. ADB should coordinate better with the activities of other donors and stakeholders in the banking and finance sector. Although the recommendations of the TA are mostly in line with the proposed activities of such other agencies, some duplication of efforts could have been avoided and scarce resources saved through a systematic coordination to ensure that a seamless and less overlapping approach is taken.

FOLLOW-UP ACTION AND RECOMMENDATIONS:

10. The TA outputs will help conceptualization of the FSPL II, which is scheduled for processing in 2001. It is recommended that the future policy based lending program to Viet Nam – and countries with newly developing financial system - dedicate a separate policy support aimed at strengthening the capacity of executing agencies/institutions.

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