

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No. and Name TA 4035-VIE: Capacity Building for Nonbank Financial Institutions and the Capital Market			Amount Approved: \$1,000,000	
Executing Agency State Bank of Vietnam		Source of Funding: TASF	Amount Undisbursed: \$120,432.01	Amount Utilized \$879,567.99
Date			TA Completion Date	
TA Approval 13 December 2002	TA Signing 17 January 2003	Fielding of Consultants 16 March 2003	Original 31 December 2003	Actual 31 March 2006
			Account Closing Date	
			Original 31 December 2003	Actual 13 August 2007

Description

In line with the economy's transition from a command to market-based system with the onset of *Doi Moi* reforms in the mid-1980s, Viet Nam's financial sector has been undergoing fundamental and far-reaching transformation. The banking sector has changed from a monobank system that served as a channel for directed credit to one where state-owned commercial banks have been created and are now being equitized and are in competition with domestic as well as foreign private banks which have been allowed entry. Regulation and supervision of the sector is likewise being transformed through reforms aimed at modernizing the functions and strengthening the capacity of the central bank.

In contrast to the banking sector, much of the market and institutional infrastructure and related capacity for the nonbank sector had to be established from the ground up and is at a relatively rudimentary stage of development—as a consequence, the financial sector remains overwhelmingly bank-dominated. ADB has been providing long-term support through a series of technical assistance and policy-based loans to support the Government's efforts to develop the nonbank financial sector in recognition of its importance with respect to strengthening overall financial sector resilience as well as effectiveness and efficiency in mobilizing resources. TA 4035–VIE complements the second financial sector program loan (FSPL II) by providing support for implementation of selected reforms under it.

Expected Impact, Outcome and Outputs

The TA was intended to strengthen the legal, regulatory and institutional infrastructure for the financial sector through support for implementation of selected reforms under FSPL II—with a focus on reforms in the nonbank sector.

Components and related outputs include support for the

- (i) development of the **money markets** through support for drafting of a negotiable instruments law and development of an efficient information system for money market activities;
- (ii) development of the **leasing industry** through strengthening of the regulatory framework;
- (iii) establishment of an **anti-money laundering** (AML) regime through support for development of the regulatory framework and establishment of a financial intelligence unit;
- (iv) development of the **insurance** sector through support for strengthening the regulatory and supervisory framework and related capacity building; and
- (v) development of **capital markets** through support for strengthening of supervision as well as establishment of key legal, regulatory, and institutional infrastructure.

Delivery of Inputs and Conduct of Activities

Formulation of the TA and terms of reference were generally adequate with objectives and deliverables being relevant to addressing identified issues. Some of the measures called for under FSPL II supported by the TA, however, required longer timeframes for effective implementation than provided for under the TA due to their novelty (e.g. AML), and/or complexity arising from inter-institutional issues (e.g. leasing, money market information system).

Given the wide-ranging scope of the TA, work under its different components was carried out under individual contracts to allow for greater flexibility in selection of experts as well as timing of implementation. Experts recruited under most of the components were generally competent and possessed suitable technical expertise as well as practical experience.

The EA for the TA (State Bank of Viet Nam (SBV)) as well as identified implementing agencies (Ministry of Finance and State Securities Commission (SSC)) were generally closely involved in implementation of the TA and the extent of ownership as well as appreciation by implementing agencies of work done under the TA is reflected in part in the Government's requests for substantial additional support under several of the components (e.g. insurance and capital markets). Where there were delays in progress on implementation of some of the measures supported by the TA, these were more often than not related to constraints on staff resources within the implementing agency rather than weakness in commitment or will.

While most of the components under the TA were completed close to schedule, the overall completion date for the TA was extended significantly in part to accommodate the Government's requests for additional work in some areas but also due to unavoidable delays resulting from an outbreak of severe acute respiratory syndrome (SARS) in Viet Nam during

project implementation that affected travel and work by international consultants.

Evaluation of Outputs and Achievement of Outcome

Reports as well as other outputs produced under each of the TA components were generally technically sound and clearly written. The majority of outputs originally targeted under the TA were achieved with significant additional work being accommodated under some of the components. Outputs and related achievements under the different components include:

- (i) **Money market development.** The TA provided technical and drafting support for the development of a law on negotiable instruments. A new law came into effect in July 2006 and is considered sufficiently clear and detailed by the Government for effective implementation. While the TA provided support for development of software for a money market information system and a detailed assessment and set of recommendations was produced under the TA, such a system is not yet in place as it will require significant changes to work processes within SBV as well as issuance of new rules with respect to reporting requirements. Support for this is planned under FSPL III and its implementing TA.
- (ii) **Leasing.** While the regulatory framework for leasing has now been strengthened with support from the TA, leasing is a new industry for Viet Nam and uncertainty remains with regard to enforcement of contracts.
- (iii) **Anti-money laundering.** A regulatory framework for AML as well as a financial intelligence unit have now been established with support from this as well as follow-on TA. Development of an effective AML regime, however, in any country requires the involvement and cooperation of a wide range of agencies as well as covered institutions. It will necessarily take time as well as significant sustained effort to develop the necessary understanding and effective operational and inter-institutional arrangements. Support in this regard is now being provided by United Nations Office on Drugs and Crime and the World Bank.
- (iv) **Insurance.** The TA provided support for strengthening of the regulatory framework for the insurance sector as well as capacity building for staff in MOF's Insurance Department. Availability of an adequate number of staff with suitable backgrounds, however, remains a key constraint to effective regulation and supervision of this rapidly growing sector. Continued support for this sector is planned under FSPL III and its implementing TA.
- (v) **Capital market development.** The TA provided detailed recommendations for the establishment of a centralized and independent securities depository. A Prime Ministerial decision allowing for this was issued in July 2005 and the Viet Nam Securities Depository is currently operational and represents a significant step in strengthening the institutional framework for capital market development in Viet Nam. Support was also provided under the TA for the strengthening of market surveillance and inspection procedures. Reflecting commitment and continued progress in this area, SSC has recently established a new department focused on this function (previously handled by the market development department). Support for further strengthening of this department is planned under FSPL III and its implementing TA.

Overall Assessment and Rating

The TA is rated as successful. It achieved the majority of its intended outputs as well as provided significant additional support in a number of areas at the request of the Government. Apart from achieving its immediate objective of supporting implementation of selected reforms under FSPL II, it allowed for continuity of support and dialogue with counterpart agencies in areas where fundamental reforms are taking place and sustained attention and continuity of support is critical.

Major Lessons

Reforms involving establishment of new institutions and/or inter-institutional coordination require significant time and support to effect. Adequate provision should be made for this with respect to timeframe and allocated resources.

Recommendations and Follow-Up Actions

Provision for continuity of support and dialogue in key areas as noted above under FSPL III and related TA.

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