

**ASIAN DEVELOPMENT BANK**

**TAR: VIE 37532**

**TECHNICAL ASSISTANCE**  
(Financed by the Japan Special Fund)

**TO THE**

**SOCIALIST REPUBLIC OF VIET NAM**

**FOR**

**CAPACITY BUILDING FOR THE FINANCIAL SECTOR**

**AND CAPITAL MARKETS**

**December 2003**

## **CURRENCY EQUIVALENTS**

(as of 26 November 2003)

Currency Unit	–	dong (D)
D1.00	=	\$0.0001
\$1.00	=	D15,617

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AML	–	antimoney laundering
DIV	–	Deposit Insurance Corporation of Viet Nam
FIU	–	financial intelligence unit
FSPL II	–	second financial sector program loan
IA	–	implementing agencies
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
SBV	–	State Bank of Viet Nam
SSC	–	State Securities Commission
TA	–	technical assistance
VAA	–	Vietnamese Accounting Association

## **NOTES**

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2002 ends on 31 December 2002.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by S. Hattori.
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## I. INTRODUCTION

1. In implementing policy reforms under the Second Financial Sector Program Loan (FSPL II) Subprogram I,<sup>1</sup> the Government of the Socialist Republic of Viet Nam (the Government) has shown strong commitment to carry the Program forward and proceed to FSPL II, subprograms II and III in 2004–2005. The Asian Development Bank (ADB) loan review mission fielded from 16 to 20 June 2003 confirmed that the Government had initiated multiple processes to fulfill subprogram II and III policy actions. However, because many reform measures proposed under FSPL II include concepts and frameworks new to Viet Nam, full implementation of the two subprograms requires additional technical input. Accordingly, the Government requested follow-on technical assistance (TA)<sup>2</sup> to help complete policy actions proposed under FSPL II. In response to this request, a fact-finding mission<sup>3</sup> from ADB was fielded to Hanoi from 10 to 12 September 2003 to discuss and reach an understanding with the Government on the objective, scope, cost, and implementation arrangements for the proposed TA.<sup>4</sup>

## II. ISSUES

2. Financial intermediation, dominated by bank savings and loans, remains low in Viet Nam. It is unlikely that the banking sector alone, with its current level of outreach and operational efficiency, would be capable of supporting economic development and employment generation targets under the Comprehensive Poverty Reduction and Growth Strategy.<sup>5</sup> In an effort to enhance means of financial intermediation, the Government is undertaking financial and operational restructuring of the banking sector with assistance from the World Bank and International Monetary Fund (IMF) under a Poverty Reduction and Growth Facility and a Poverty Reduction Support Credit as of June 2001. To complement this process, FSPL II, building on achievements of FSPL I, supports the Government's effort to develop alternative channels of financial intermediation to bank savings and loans. A diversified financial system will help Viet Nam realize its broad-based economic growth and socioeconomic development objectives, including poverty reduction.

3. The subsectors covered under FSPL II include money/capital markets, insurance, and leasing. The nonbanking sector and capital markets will provide long-term funds and investment capital, largely lacking in Viet Nam. Development of these subsectors will also increase competition within the financial sector and thus pressure other financial institutions, banks in particular, to improve their efficiency. Under FSPL II, financial infrastructure, such as accounting and auditing systems, a deposit insurance system, and an antimoney-laundering (AML) regime are also covered. FSPL II as a whole aims to broaden and better balance the financial system, thereby building resilience to unfavorable exogenous shocks.

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<sup>1</sup> On 20 November 2002, the Board of the Asian Development Bank (ADB) approved FSPL II, the cluster concept of three subprograms for \$75 million and Subprogram I for \$50 million, which is to be released in two tranches of \$20 million and \$30 million. The program objective is to support the Government's efforts in building an enabling environment for developing alternative channels of market-based financial intermediation. FSPL II Subprogram I became effective on 23 May 2003 and the first tranche was released on 28 August 2003 upon compliance with all seven first-tranche release conditions.

<sup>2</sup> ADB. 2002. *Technical Assistance to the Socialist Republic of Viet Nam for Capacity Building for Nonbank Financial Institutions and Capital Market*. Manila (TA:4035-VIE).

<sup>3</sup> The mission comprised S. Hattori (sr. financial sector specialist) supported by A. Pio (principal programs officer/VRM) and B. T. Nghia (financial sector economist/VRM) in the field.

<sup>4</sup> The TA first appeared in *ADB Business Opportunities* (Internet edition) on 22 August 2003.

<sup>5</sup> A poverty partnership agreement was signed on 25 February 2002. Poverty incidence declined from 37% in 1998 to 29% in 2002. The Comprehensive Poverty Reduction and Growth Strategy targets a reduction in poverty incidence by approximately 12 percentage points by 2010, with a medium-term economic growth rate of 7.5% per annum.

4. Along with the extensive banking sector restructuring and other policy reforms supported by IMF and World Bank programs, the Government initiated implementation of FSPL II, Subprogram I. While there is strong commitment from the Government to complete all reform measures under FSPL II, many concepts and frameworks are new to Viet Nam. Both technical input as well as targeted training to equip the Executing Agency and implementing agencies (IAs) with knowledge and skills to implement the reform measures are indispensable for successfully completing FSPL II.

5. Technical support and training from international experts provided under the first TA,<sup>2</sup> have been timely and effective in filling the technical gaps encountered. However, to sustain the momentum for reforms and to cover areas in need of technical input not provided for under the first TA, particularly accounting/auditing and deposit insurance systems, additional assistance is necessary. Continued support is needed to (i) finalize the negotiable instruments law for submission to the National Assembly, (ii) establish the financial intelligence unit (FIU) as an effective agency under the Vietnamese AML regime, (iii) draft the securities law for interministerial consultation, (iv) strengthen the Vietnamese Accounting Association (VAA), and (v) enhance the legal framework of Deposit Insurance Corporation of Viet Nam (DIV).

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Purpose and Output**

6. The primary purpose of the TA is to assist the Government in undertaking policy conditions proposed under FSPL II. Its scope therefore parallels FSPL II, covering principally the nonbanking and money/capital markets sectors.<sup>6</sup> While 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 that have been assessed to require additional technical inputs and capacity-building activities for successful implementation. Appendix 1 gives the technical assistance framework and Appendix 2 contains the summary initial poverty and social analysis.

7. In the money market, restrictive and fragmented regulations inconvenience sellers and buyers and discourage innovations. To integrate the legal framework of different types of negotiable instruments, the adoption of a negotiable instruments law is essential. FSPL II supports the Government's intention to adopt a comprehensive legal framework for a wide range of negotiable instruments and has proposed drafting and submitting the negotiable instruments law as policy actions under FSPL II, subprograms II and III. With the assistance provided under the first TA, the legal department of the State Bank of Viet Nam (SBV) initiated and completed the first draft of the negotiable instruments law. However, prior to the submission of the law to the National Assembly, a process of interministerial consultation and discussion must be completed. This TA will support SBV in the process of interministerial consultation and discussion to ensure that the best practices incorporated in the current draft are maintained in the draft adopted as law. Furthermore, through a workshop and a study tour, officials involved in drafting and implementing the law will be exposed to international best practices. Such exposure will facilitate discussions in the law-making process as well as in its effective implementation, once the law is enacted.

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<sup>6</sup> The detailed discussion of the background and rationale of each component can be found in 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.

8. The first TA helped the Government in initiating the process for establishing an AML regime to fight against criminal activities. The TA inputs included (i) drafting a decree on AML and (ii) formulating a plan for establishing an FIU in Viet Nam. With the technical inputs from the first TA, the Inspectorate Division of SBV initiated and completed the draft decree on AML and held interministerial discussions in August 2003. The decree will be submitted to the standing committee of the National Assembly and, upon receiving its endorsement, it will be signed by the Prime Minister for issuance by end-2003. Once it is issued, establishing and operationalizing the FIU will be the critical next step. This TA proposes to support SBV in establishing and operationalizing the FIU with provision of technical inputs and a study tour to see first hand the actual functions of the FIU.

9. The State Securities Commission (SSC) submitted to the Government a long-term plan for capital market development, which was subsequently approved and issued by the Prime Minister in August 2003. While not in the original proposal for policy actions under FSPL II, the SSC recognizes the limitations of operating the securities market by decree and wishes to draft a comprehensive securities law for submission to the National Assembly by 2005. The drafting of such a law was originally envisaged for 2007–2009 under the capital market development roadmap.<sup>7</sup> However, there is much merit in strengthening the current legal framework sooner and such an initiative by SSC should be supported. The follow-on TA proposes to support SSC in drafting a comprehensive securities law for Viet Nam and to facilitate interministerial discussions for finalizing the draft law for submission to the National Assembly.

10. The first TA did not provide assistance for the accounting/auditing and deposit insurance components of FSPL II. The Accounting and Policy Department of the Ministry of Finance (MOF) drafted the Vietnamese Accounting Law, which was endorsed and issued by the National Assembly in 2003. The Vietnamese accounting standards, which are being developed based on international accounting standards and with consideration of Viet Nam's specific conditions, are planned for completion by end-2004. In tandem with the legal and regulatory framework for accounting/auditing being established, there is much work to be done in upgrading the quality of industry professionals. FSPL II proposes to strengthen the VAA for this purpose.

11. VAA was founded in 1994 and became a member of the International Federation of Accountants and the Association of Southeast Asian Nations Federation of Accountants in 1998. However, its capacity remains low and its role in the industry is limited. The TA proposes to work with MOF and VAA to formulate an action plan for strengthening the capacity of VAA as well as to provide VAA with the legal basis to act as a self-regulatory organization for the accounting and auditing industry.

12. Similarly, DIV requires substantial capacity building to effectively function as a safety net for depositors and contribute to the stability of the financial sector as originally planned. The TA will assist SBV and DIV in enhancing the legal basis for DIV to act as an independent agency and preclude the moral hazard integral to the deposit insurance system. Also, the TA will provide technical input to make the deposit insurance system financially sustainable by setting different premiums in accordance with the type of financial institution and by drafting an action plan for people's credit funds to establish their own safety funds.

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<sup>7</sup> The Capital Market Development Roadmap, which provided the technical inputs for drafting the Government's long-term plan for capital market development, was prepared in October 2002 under ADB. 1999. *Technical Assistance to the Socialist Republic of Viet Nam for Corporatization and Corporate Governance*. Manila. (TA 3353-VIE)

13. The operational environment of two subsectors under FSPL II—money market and leasing—is being improved. However, there are some pending technical issues, such as the improvement of the banking sector's treasury functions as well as modifications in the rules and regulations governing the leasing sector. The TA will support roundtable discussions with government officials and stakeholders concerned and invite international experts to share international best practices to facilitate discussions.

## **B. Methodology and Key Activities**

14. The TA will fund consultants with expertise in building an effective legal and regulatory system for the nonbanking sector and financial infrastructure. The consultants will conduct in-depth consultation with the Government and private sector stakeholders to ensure that the proposed legal and regulatory frameworks are practical within the Vietnamese economic and operational environment. Consultation will be a key part of the process in producing outputs, and will be followed by a number of roundtable discussions and workshops for transferring knowledge and skills needed for implementing policy conditions under FSPL II, subprograms II and III. ADB will closely monitor the process to ensure quality of outputs produced and training offered.

15. The proposed TA will also fund study tours in preparation for actual implementation of the negotiable instruments law and the AML regime. The first study tour is for the officials involved in drafting and implementing the negotiable instruments law to learn best practices in the use and management of the law. The second study tour is for the appointed FIU officials to learn the procedural requirements of an effective FIU operation. The consultants engaged for the negotiable instruments law and the AML will be responsible for making all the necessary arrangements for the study tours. For all study tours, the participants will be required to submit to the consultants and ADB a report of the study tour no later than 3 weeks after their return, citing the relevance of the study tour to their work.

16. The roundtable discussions and study tours will be designed to support implementation of specific policy actions under FSPL II and thus must be pragmatic and suitable to the current situation in Viet Nam. The government officials concerned, the consultants, and ADB will ensure that issues identified during the roundtable discussions and findings of the study tours are fully addressed and incorporated in the draft law, rules, and regulations prepared under the TA.

17. The proposed TA will also support roundtable discussions for the money market and leasing subsectors. Participants will include government officials and stakeholders concerned and discussions will be led by international experts in the area invited to share international best practices and facilitate consensus building.

## **C. Cost and Financing**

18. The TA is estimated to cost a total of \$980,000 equivalent, including a foreign exchange cost of \$655,850 and a local currency cost of \$324,150 equivalent. A total of \$780,000 equivalent—the total foreign exchange cost and \$124,150 equivalent of local currency cost—will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government will contribute \$200,000 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, DIV, and SSC will be the IAs. In addition to office space, the IAs will provide counterpart staff and other support services to the consultants. The program steering committee,<sup>8</sup> which was formed under FSPL II, Subprogram I, will oversee TA implementation. SBV will appoint a project director for the purposes of assisting in daily TA implementation.

20. The TA will require 14 person-months of international and 9 person-months of domestic consultant inputs. The terms of reference for the consultants are in Appendix 4. The TA will be contracted to an international consulting firm. Short-listed 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 for the engagement of domestic consultants.

21. Study tours will be organized by the consultants to build the capacity of the officials concerned in drafting and managing the negotiable instruments law and in establishing the financial intelligence unit for the Vietnamese antimoney-laundering regime. The countries for the study tours and visits to institutions will be carefully selected considering their relevance to the economic, financial, and legal status of Viet Nam.

22. The consultants will prepare detailed work plans before the start of services, which will include a timetable for deliverables defined under each component of the TA in consultation with the IAs. The consultants engaged are required to submit an inception report after 2 weeks of starting the Project. Interim reports will be submitted 8 weeks after the submission of the inception report. The interim reports will be reviewed by SBV, the IAs, and ADB. Draft final reports will be submitted within the deadline specified in the work plans after incorporating feedback from SBV, the IAs, and ADB. Tripartite meetings will be held before finalizing the draft final reports. The final reports, incorporating comments of SBV, the IAs, and ADB during and after the tripartite meetings, will be submitted upon completion of service. The TA is expected to be implemented over a period of 12 months and is scheduled to commence in May 2004 and to be completed by May 2005.

## **IV. THE PRESIDENT'S DECISION**

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$780,000 on a grant basis to the Government of Viet Nam for Capacity Building for the Financial Sector and Capital Markets, and hereby reports this action to the Board.

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<sup>8</sup> The program steering committee comprises senior officers from the State Bank of Viet Nam, Ministry of Finance, Ministry of Planning and Investment, Ministry of Justice, State Securities Commission, and the Deposit Insurance Corporation of Viet Nam. The steering committee meets twice a year and on an ad hoc basis to review pending issues for FSPL II implementation.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Target	Monitoring Mechanisms	Assumptions and Risks
<b>Goal</b> <ul style="list-style-type: none"> <li>Develop a financial system with higher levels of financial intermediation, efficiency, and accessibility</li> </ul>	<ul style="list-style-type: none"> <li>Increased M2/gross domestic product (GDP)</li> <li>Increased ratio of financial assets to GDP</li> <li>Increased domestic savings and foreign direct investment</li> </ul>	<ul style="list-style-type: none"> <li>Economic reports, official statistics, and financial statements of banks and insurance companies</li> <li>Asian Development Bank (ADB) review missions</li> </ul>	<ul style="list-style-type: none"> <li>Macroeconomic stability</li> <li>Reform progress in banking and state-owned enterprises</li> </ul>
<b>Purpose</b> <ul style="list-style-type: none"> <li>Develop alternative channels of market-based financial intermediation</li> </ul>	<ul style="list-style-type: none"> <li>Diversified financial services measured as percentage of gross revenue of all financial institutions</li> <li>Diversified interbank/money market instruments, and increased transactions</li> <li>Increased total market capitalization, and higher turnover</li> </ul>	<ul style="list-style-type: none"> <li>Economic reports, official statistics</li> <li>ADB review missions</li> </ul>	<ul style="list-style-type: none"> <li>Political commitment to undertake reforms</li> <li>Technical capacities</li> <li>Progress in restructuring of state-owned commercial banks and state-owned enterprises</li> </ul>
<b>Outputs</b>			
<b>Money market development</b> <ul style="list-style-type: none"> <li>Strengthening legal framework for money market instruments</li> </ul>	<ul style="list-style-type: none"> <li>Drafting and submission of the negotiable instrument law to the National Assembly</li> </ul>	<ul style="list-style-type: none"> <li>Official copy of the draft negotiable instrument law</li> </ul>	<ul style="list-style-type: none"> <li>State Bank of Viet Nam's (SBV's) commitment to reform</li> <li>Technical understanding of other government ministries concerned</li> </ul>
<b>Antimoney-laundering (AML) system</b> <ul style="list-style-type: none"> <li>Establishment of antimoney-laundering (AML) system</li> </ul>	<ul style="list-style-type: none"> <li>Establishment and operationalization of a financial intelligence unit (FIU)</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of an FIU, collection and reporting of information and data on suspicious transactions</li> </ul>	<ul style="list-style-type: none"> <li>The Government's commitment to build an effective AML regime</li> </ul>
<b>Accounting and auditing</b> <ul style="list-style-type: none"> <li>Strengthening the capacity of Vietnamese Accounting Association (VAA)</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced legal basis of the VAA as a self-regulatory organization</li> <li>Formulation of an action plan for strengthening the capacity of VAA</li> </ul>	<ul style="list-style-type: none"> <li>Draft legal document for enhancing the legal basis of VAA</li> <li>An action plan for discussion by the stakeholders for strengthening VAA's capacity</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Finance's (MOF's) commitment</li> <li>VAA's human resource and institutional capacity</li> </ul>



Design Summary	Performance Indicators/Target	Monitoring Mechanisms	Assumptions and Risks
<b>Strengthening the deposit insurance system</b> <ul style="list-style-type: none"> <li>Strengthening the legal basis of the Deposit Insurance Corporation of Viet Nam (DIV)</li> </ul>	<ul style="list-style-type: none"> <li>Drafting and submission of amendments to the existing decree on DIV to strengthen its financial and operational viability</li> </ul>	<ul style="list-style-type: none"> <li>Draft amendments to the decree</li> </ul>	<ul style="list-style-type: none"> <li>SBV and DIV commitment to reform on a timely basis</li> </ul>
<b>Activities</b>			
<b>Workshops/roundtable discussions</b>	<ul style="list-style-type: none"> <li>For all policy decisions, draft laws, decrees and regulations, workshops and roundtable discussions will be held for the purposes of consultation with all relevant stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>TA Reports</li> <li>ADB review missions</li> </ul>	<ul style="list-style-type: none"> <li>Support of relevant government ministries and agencies concerned</li> <li>Level of participation from the private sector</li> </ul>
<b>Study tours</b>	<ul style="list-style-type: none"> <li>Study tour for the officials involved in drafting and implementing the negotiable instruments law</li> <li>Study tour for the appointed FIU officials to learn the procedural requirements for effective FIU operation</li> </ul>	<ul style="list-style-type: none"> <li>Reports provided by the participants of the study tour</li> </ul>	<ul style="list-style-type: none"> <li>Preparedness of the receiving institutions for providing the required learning experiences to participants</li> <li>Selection of the appropriate officials for participation</li> </ul>
<b>Inputs</b>			
<b>Negotiable instruments law specialist</b>	<ul style="list-style-type: none"> <li>Facilitating the process of interministerial discussions, redrafting the negotiable instruments law, and reviewing the final draft for consistency with international best practices</li> </ul>	<ul style="list-style-type: none"> <li>Official copy of draft negotiable instruments law</li> <li>Explanatory note for the draft negotiable instruments law</li> </ul>	<ul style="list-style-type: none"> <li>Adequate SBV staff resources to initiate and continue discussion/consultation with relevant government ministries</li> <li>Cooperation of relevant government staff</li> </ul>
<b>Antimoney-laundering specialist</b>	<ul style="list-style-type: none"> <li>Assisting in establishing and operationalizing the FIU, and drafting related implementing regulations under the AML decree</li> </ul>	<ul style="list-style-type: none"> <li>Official document declaring establishment of the FIU</li> <li>Data/information from the FIU on suspicious transactions</li> <li>Draft implementing regulations under the AML decree</li> </ul>	<ul style="list-style-type: none"> <li>Selection of appropriate officials for the FIU</li> <li>Cooperation of relevant government staff</li> </ul>
<b>Legal expert on securities law</b>	<ul style="list-style-type: none"> <li>Drafting a comprehensive securities law in Viet Nam, providing explanatory notes, and facilitating interministerial discussion of the draft securities law</li> </ul>	<ul style="list-style-type: none"> <li>Draft securities law</li> <li>Interministerial discussions on the draft securities law</li> </ul>	<ul style="list-style-type: none"> <li>SSC's capacity and commitment to assume a larger role in the securities industry</li> <li>Cooperation of relevant government staff</li> </ul>

Design Summary	Performance Indicators/Target	Monitoring Mechanisms	Assumptions and Risks
<b>Accounting and auditing policies expert</b>	<ul style="list-style-type: none"> <li>Drafting the legal document to enhance VAA's legal basis as a self-regulatory organization, formulating an action plan to strengthen VAA's capacity, and assisting MOF in drafting ethical rules of accountants and auditors</li> </ul>	<ul style="list-style-type: none"> <li>Draft legal document to enhance VAA's legal basis as a self-regulatory organization</li> <li>An action plan for strengthening VAA's capacity</li> <li>Draft ethical rules for accountants and auditors</li> </ul>	<ul style="list-style-type: none"> <li>MOF/VAA's intention to upgrade VAA's capacity</li> <li>Cooperation of relevant government staff</li> </ul>
<b>Expert on deposit insurance</b>	<ul style="list-style-type: none"> <li>Assist SBV and DIV in amending the Decree on DIV to enhance the legal basis of DIV, prepare a financial framework for calculating differential premiums by types of covered financial institutions, and draft an action plan for establishing a system safety fund for people's credit funds</li> </ul>	<ul style="list-style-type: none"> <li>Draft legal document prepared for enhancing DIV's legal basis</li> <li>Financial framework for calculating differential premiums by types of institution covered</li> <li>Action plan to establish the system safety fund for people's credit funds</li> </ul>	<ul style="list-style-type: none"> <li>SBV and DIV commitment to immediately undertake reform measures</li> <li>Cooperation of relevant government staff</li> <li>Understanding of the relevant stakeholders on DIV's role to support stability of the financial system</li> </ul>

## 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>Efficiency, resiliency, and diversity of the financial sector contribute to poverty reduction in Viet Nam on the macro, micro, 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 of development. Under the Second Financial Sector Program Loan (FSPL II), the development of these subsectors will help to mobilize domestic resources, long-term funding in particular. The Government estimates that for 2001–2005, approximately \$60 billion will need to be mobilized for development investment, particularly infrastructure. 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 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 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 the 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 their socioeconomic situation. 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 nonspecific

Analysis:

The technical assistance aims at supporting the implementation of FSPL II, which has five components, all with implications for poverty reduction. The implementation of 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.<sup>9</sup>

### C. Participation Process

\* 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.

Stakeholder analysis prepared:	No
Participation strategy:	No

**D. Social Issues**

<b>Subject</b>	<b>Significant, Not Significant, None</b>	<b>Strategy to Address Issues</b>	<b>Output Prepared [xx Template varies here]</b>
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**  
(\\$)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Japan Special Fund Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	410,900		410,900
ii. Domestic Consultants		29,750	29,750
b. Travels			
i. International Travel	54,000		54,000
ii. Local Travel		6,400	6,400
c. Miscellaneous Travel Expenses	1,350		1,350
d. Report Preparation/Communication	2,000	1,000	3,000
2. Workshops, Conferences, and Overseas Training <sup>b</sup>	84,000	36,000	120,000
3. Miscellaneous Administration, Translation, and Support Costs <sup>b</sup>	15,000	3,000	18,000
4. Representative for Contract Negotiations	5,000		5,000
5. Contingencies <sup>c</sup>	83,600	48,000	131,600
<b>Subtotal (A)</b>	<b>655,850</b>	<b>124,150</b>	<b>780,000</b>
<b>B. Government Financing<sup>d</sup></b>			
1. Office Accommodation		80,000	80,000
2. Secretarial and Related Services		68,000	68,000
3. Remuneration and Per Diem of Counterpart Staff		40,000	40,000
4. Miscellaneous Administration		12,000	12,000
5. Contingencies		0	0
<b>Subtotal (B)</b>		<b>200,000</b>	<b>200,000</b>
<b>Total</b>	<b>655,850</b>	<b>324,150</b>	<b>980,000</b>

<sup>a</sup> Funded by the Government of Japan.

<sup>b</sup> The provision for (i) workshops/seminars/conferences and (ii) miscellaneous TA administration (under foreign currency category) will be allocated to the four implementing agencies. Three overseas study tours with five participants for one week each are proposed and are estimated to cost a total of \$54,000. Two international conferences with guest speakers will be held in Hanoi for a total cost of \$30,000. Additionally, 12 two-day roundtable discussions will be held for a total cost estimated at \$36,000.

<sup>c</sup> Contingencies will be used mainly to augment shortages in technical inputs from international experts as they may arise for drafting the securities law, supporting the Vietnamese Accounting Association and establishing the financial intelligence unit.

<sup>d</sup> The Government's contribution will be shared among the four implementing agencies.

Source: Asian Development Bank estimates.

## **OUTLINE TERMS OF REFERENCE FOR CONSULTANTS**

### **A. International Consultants**

#### **1. Negotiable Instruments Law Specialist (3 person-months)**

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 a good understanding of the history and culture of the Vietnamese money market and its current legal and regulatory framework. The tasks and responsibilities of the specialist include;

- (i) acting as a facilitator in interministerial and stakeholder discussions of the draft negotiable instruments law; through roundtable discussions, the specialist will present different types of negotiable instruments law, their usage and related legal regulations for credit institutions and the role of negotiable instruments within the financial sector and the economy at large;
- (ii) assisting the State Bank of Viet Nam (SBV) in redrafting the negotiable instruments law on the basis of interministerial comments/feedback received;
- (iii) reviewing the final draft negotiable instruments law to ensure that it is consistent with the international best practices before its submission to the National Assembly; and
- (iv) organizing workshops and a study tour for the officials involved in drafting and implementing the negotiable instruments law to learn the best practices in the use and management of the law.

#### **2. Antimoney-Laundering Specialist (3 person-months)**

The international antimoney-laundering (AML) specialist must have extensive working knowledge of AML regulations and operational frameworks, as well as of international best practices. He or she will have had practical experiences in the establishment, organization, and operation of financial intelligence units (FIUs) in different countries. In addition, the specialist should demonstrate good understanding of the history and culture of the Vietnamese financial system, especially the banking sector. The specialist will be responsible for studying the legal system of Viet Nam, the draft Decree on Antimoney-Laundering of Viet Nam, and the system of government regulatory and law enforcement agencies prior to his assignment. The tasks and responsibilities of the specialist include;

- (i) providing reference materials to SBV on the FIU's operational regulations governing organizational structure, operations, divisional functions, power of authority, and information processing procedures (collection, compilation, storage, and provision of information). Relevant sample reports used in other FIUs, particularly those at similar stages of economic and financial development, will also be provided;
- (ii) advising and assisting SBV to solve any problems arising in implementing the action plan for establishing and operationalizing the FIU in Viet Nam;

- (iii) assisting SBV in drafting related implementing regulations under the decree on AML;
- (iv) identifying stakeholders and advising and making presentations in roundtable discussions on the establishment of the FIU. If required, assistance will be given to SBV in organizing roundtable discussions within SBV as well as with other concerned agencies on FIU related regulations and implementing circulars of the AML Decree. Participants of the roundtable discussions will be exposed to training materials available on the World Wide Web and organizations that may provide additional assistance; and
- (v) organizing a study tour for the appointed FIU officials to learn the procedural requirements of an effective FIU operation.

### **3. Legal Experts on Securities Law (3 person-months)**

The international legal expert on securities law must have extensive working knowledge of the legal framework of the capital markets, as well as of international best practices. In addition, the specialists should demonstrate good understanding of the history and culture of the Vietnamese capital market and the current legal and regulatory frameworks. The tasks and responsibilities of the expert include:

- (i) assisting the State Securities Commission (SSC) in drafting the securities law and related implementation regulations;
- (ii) reviewing all existing laws, decrees, and regulations with provisions concerning the capital market and proposing solutions to resolved conflicts for drafting a comprehensive and modern securities law in Viet Nam;
- (iii) providing detailed explanatory notes, which include discussions on all articles of the draft law and a glossary of key terms; and
- (iv) acting as a facilitator for conducting roundtable discussions of the draft law with the Government and private sector stakeholders.

### **4. Accounting/Auditing Policies Specialist (3 person-months)**

The international accounting/auditing policies expert must have an extensive working knowledge of accounting and auditing policies as well as practical working experience as accountant/auditor, the regulatory framework and international best practices. In addition, the expert should demonstrate a good understanding of the history of the Vietnamese accounting/auditing system, and of the current situation of the country's accounting and auditing standards and practices. The tasks and responsibilities of the specialist include;

- (i) providing reference materials on the operations of accounting associations around the world;
- (ii) reviewing the current organization and function of the Vietnamese Accounting Association (VAA) and formulating an action plan for its strengthening with the aim to establish VAA as a self-regulatory organization;

- (iii) assisting the Ministry of Finance (MOF) and VAA in drafting a decree to enable VAA to assume the responsibilities of a self-regulatory organization; and
- (iv) assisting MOF in drafting a set of ethical rules for the accounting and auditing profession and ensure its practicality as well as its consistency with international best practices.

#### **5. Expert on Deposit Insurance (2 person-months)**

The expert on deposit insurance must have an extensive working knowledge of deposit insurance systems and their regulatory framework, as well as of international best practices. In addition, the specialist should demonstrate a good understanding of the DIV's historical background and the current legal and regulatory framework on which DIV is built. The tasks and responsibilities of the expert include:

- (i) assisting SBV and DIV in amending the Decree on DIV to allow DIV to:
  - borrow from commercial banks and the Government, as well as issue bonds;
  - clarify the regulatory framework;
  - charge differential premiums on types of covered financial institutions; and
  - specify strict conditions under which DIV will provide financial support to problem banks;
- (ii) providing a solid financial framework for the charging of differential premiums on types of covered financial institutions from the perspective of DIV's risk exposure; and
- (iii) drafting an action plan for deliberation by SBV and DIV for establishing the system safety fund for people's credit funds.

### **B. Domestic Consultants**

#### **1. Banking Expert (2 person-months)**

The domestic banking expert and 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 or she should have experience in working with international consultants, government agencies, and financial institutions. He or she will:

- (i) assist the international AML specialist, the negotiable instrument law specialist, and the expert on deposit insurance in all aspects of the tasks within the terms of reference;
- (ii) under the guidance of the above international consultants, collect and analyze required information and data, and make these available in English and in an organized, clear format;



- (iii) arrange and organize roundtable discussions and workshops, assist the above international consultants 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 above consultants;
- (vi) assist SBV officials in organizing roundtable discussions for the money market and leasing subsectors; and
- (vii) arrange other logistical work as required for completion of the Project.

## **2. Legal Expert on Capital Market (3 person-months)**

The domestic legal expert on capital market will serve as an assistant to the international legal expert on securities law and will have a background in law, particularly those pertaining to the securities market, understanding of the securities industry, and proficiency in English. Preferably, he or she should have experience in working with international consultants and the Government. He or she will:

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

## **3. Accounting/Auditing Policies Specialists (4 person-months)**

The domestic accounting/auditing policies specialist will have a background in accounting and auditing, understanding of accounting and auditing standards in Viet Nam, accounting and auditing policy issues, and proficiency in English. Preferably, he or she should have experience in working with government and international consultants. He or she will:

- (i) assist the international expert in all aspects of their tasks within the terms of reference;
- (ii) under the guidance of the international accounting and auditing policies expert, collect and analyze required legal documents, including accounting standards, and other relevant information and data, and make these available in English and in an organized, clear format;

- (iii) conduct research on specific topics as required by the international consultants;  
and
- (iv) arrange and organize roundtable discussions and workshops, and assist the international accounting and auditing policies expert in preparing materials for workshops/roundtable discussions including translation of documents and interpretation in workshops/roundtable discussions.