



Concept Paper

Project Number: 49331-001
April 2016

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Viet Nam: Financial Sector Development and Inclusion Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 April 2016)

Currency unit	–	Dong (VND)
VND1.00	=	\$0.0000449
\$1.00	=	D22,295

ABBREVIATIONS

ADB	–	Asian Development Bank
FSDP	–	Financial Sector Deepening Program
GDP	–	gross domestic product
NPL	–	non-performing loan
SBV	–	State Bank of Viet Nam
SEDS	–	Socio-Economic Development Strategy
SMEs	–	small and micro enterprises
TA	–	technical assistance
VAMC	–	Viet Nam Asset Management Company

GLOSSARY

Benchmark issue	–	A bond that provides a standard against which the performance of other bonds can be measured. Government bonds are almost always used as benchmark bonds. Benchmark issues are typically used as the basis of yield curves.
Money market	–	The money market is a subsection of the fixed income market that specializes in very short-term debt securities (debt that matures in less than 1 year).
Non-performing loan	–	A sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default.
Yield curve	–	A line that plots the interest rates, at a set point in time, of bonds with equal credit quality but differing maturity dates. The yield curve is used as a benchmark for pricing all other debts in the market, such as mortgage rates or bank lending rates, and is also used to predict changes in economic output
Viet Nam Asset Management Company	–	The Vietnam Asset Management Company (VAMC) was established in May 2013 pursuant to Decree No. 53/2013/ND-CP. It is a fully (100%) state-owned one-member limited liability company established by the State Bank of Vietnam and acts as a central repository to bring specialized knowledge and economies of scale to the disposition of problem assets. VAMC is given broad authority to deal with non-performing loans (NPLs), including the ability to restructure NPLs, the right to enforce security, and the power

to sell the collateral through an auction. Vietnamese Credit Institutions with NPL ratios of 3% or more are required to sell their NPLs to VAMC in exchange for special bonds, until the ratio drops below 3%. Holders of special bonds, which are written off over 5 years, may use the amortized value as collateral for re-financing from the State Bank of Vietnam.

NOTES

- (i) In this report, "\$" refers to US dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 49331-001	
Project Name	Financial Sector Development and Inclusion Program	Department /Division	SERD/SEPF
Country Borrower	Viet Nam, Socialist Republic of Viet Nam, Socialist Republic of	Executing Agency	State Bank of Vietnam
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		60.00
	Inclusive finance		20.00
	Insurance and contractual savings		60.00
	Money and capital markets		60.00
		Total	200.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Organizational development Public financial governance	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign Program loan: Asian Development Fund		200.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		200.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. To achieve middle-income country status and further reduce poverty by 2020, Viet Nam will need to continue reforms under the Socio-Economic Development Strategy (SEDS) 2011–2020, including efforts to develop its financial sector and broaden access to finance. The Financial Sector Development and Inclusion Program will continue ADB's support to financial sector development and will: (i) enhance financial sector stability, (ii) continue developing and deepening the domestic capital markets, and (iii) promote financial inclusion. The program is consistent with ADB's interim country partnership strategy¹ and is included in the country operations business plan, 2016–2018, approved in 2015.²

2. **The development problem.** Intermediation from Viet Nam's large financial sector is dominated by banks, is inefficient, and does not support equitable, inclusive economic growth and poverty reduction. There are three primary problems. First, a large overhang of nonperforming loans (NPLs) from the banking sector, estimated to represent 12% of total loans in 2012, has closed access to debt markets for all but the most credit worthy corporate borrowers.³ Second, the local currency bond market, which represents an alternative source of financing, is underdeveloped.⁴ Local currency bonds represented only 20.2% of gross domestic product (GDP) as of 31 September 2015, well below comparators Malaysia (94.2%) and Thailand (72.8%). Progress has been made, as noted below (para 6), but more needs to be done to improve investor confidence, address key foundation reforms, and embrace international standards. Third, participation in the financial sector is too low to ensure the full development of financial markets and balanced economic growth. Data indicate that only 31% of the adult population and 19% of adults in the bottom 40% income quintiles hold an account at a formal financial institution.⁵

3. **Addressing the next phase of development constraints.** To address the overhang of NPLs and boost investor confidence, the government strengthened the Viet Nam Asset Management Company (VAMC) by increasing its capital and improving its power to dispose of problem assets. Resolution strategies must now be formulated and implemented. To ensure the banking system is sound and adequately capitalized, risk management practices must be strengthened and prudential surveillance and supervision improved. Parallel efforts to develop the nonbank financial sector as an alternative source of intermediation must continue. Additional sequenced reforms are needed to establish permanent short-term benchmark interest rates, followed by a more highly developed government debt market to serve as the foundation for a corporate bond market. Initiatives should also be introduced to engage the contractual savings sector to provide institutional demand for long-term asset classes, such as infrastructure finance. The government should continue to strengthen governance and ensure that the securities settlement system and accounting regime conform to international standards.

4. **An emerging need to address financial inclusion.** The government has also recognized that economic benefits accruing through the SEDS 2011–2020 need to be provided more equitably, and that financial sector development requires broad participation. Persistent

¹ ADB. 2015. *Interim Country Strategy and Partnership: Viet Nam, 2016*. Manila.

² ADB. 2015. *Country Operations Business Plan: Viet Nam, 2016–2018*. Manila.

³ The World Bank. 2012. *Financial Sector Assessment: Viet Nam*. Washington, D.C.

⁴ The NPL overhang also constrains the development of a short term credit market, and the wider capital market.

⁵ World Bank. 2014. The Global Findex Database. <http://datatopics.worldbank.org/financialinclusion/country/vietnam>

budget deficits arising from the Viet Nam Bank for Social Policies have given rise to a pressing need to increase reliance on the private sector for delivery of credit to marginalized sectors. The government will need to encourage growth in microfinance and other credit institutions, such as Peoples Credit Funds and microfinance institutions, and to strengthen the associated supervisory and regulatory framework. The introduction of alternative payment methodologies, such as mobile and agent banking, and development of enhanced credit skills in financial institutions serving smaller borrowers would likewise improve access to finance in rural areas.

5. **The government's reform agenda.** SEDS 2011–2020 contains a detailed sector road map for strategic development of the Vietnamese capital market, beginning with sequenced reforms to develop the money and government bond markets. Over time, initiatives will be launched to develop contractual savings as a source of institutional demand. In addition, SEDS 2011–2020 calls for the government to rationalize its role in credit delivery to marginalized sectors, expand access to finance, and to develop a national strategy for financial literacy. Based on the findings of the recent Financial Sector Assessment Program, the government announced a complimentary three-part program that includes bank recapitalization, restructuring of state-owned enterprises, and public investment reform (footnote 3). More recently, the pending ratification of trade treaties has sharpened the government's focus on the introduction of market principles, as well as a more flexible exchange rate.⁶

6. **Lessons, ADB's value added and donor coordination.** The program design has been informed by lessons from the Third Financial Sector Program.⁷ Financial sector development is hierarchical and requires a long-term gestation period. In response, ADB has enhanced cross-agency coordination and refocused the government's efforts on foundation reforms, leading to increased activity in the money market. ADB supported the completion of the Bond Market Development Roadmap, which has produced measurable success in deepening the domestic capital market. Long overdue efforts to improve transparency and upgrade the securities settlement system are now under way. ADB will support the government's efforts to strengthen the banking system, accelerate the development of a domestic capital market and creation of institutional investors, and broaden access to finance. In supporting financial sector development, ADB coordinates with a wide range of bilateral and multilateral donors through a donor coordination committee. Active partners include the World Bank, which provides parallel support to capital market development, including upgrades to the State Bank of Vietnam (SBV) management information systems; and Global Affairs Canada, which is providing substantial levels of assistance to strengthen banking supervision by the SBV .

7. **The policy-based loan and budget support.** ADB will use a programmatic, policy-based lending modality to support the government's reform agenda. This approach, which combines extensive policy dialogue with technical assistance (TA), recognizes the long-term time horizon required for financial sector development, the need to sequence reforms, and the catalytic role played by ADB.

B. Impacts, Outcome, and Outputs

8. The program is aligned with SEDS 2011–2020 and will support the government's efforts to increase the role of the nonbank financial sector and deepen the financial markets in Viet Nam. The program's outcome will be a deeper, more inclusive financial sector.

⁶ The government intends to sign the European Union–Viet Nam Free Trade Agreement and the Trans-Pacific Partnership.

⁷ ADB. 2014. *Completion Report: Third Financial Sector Program in Viet Nam*. Manila.

9. **Output 1: Financial sector stability increased.** Output 1 will facilitate financial sector development by increasing investor confidence. Under subprogram 1, the government will develop a framework to launch a financial stability function. The SBV will take steps to modernize and increase the effectiveness of its monetary policy. VAMC's capacity to resolve NPLs will be enhanced through infrastructure upgrades and capacity development. At the same time, the pool of potential investors for NPLs will be deepened by relaxing foreign ownership limitations in select industries. Risk management and capital adequacy standards for large domestic commercial banks will be strengthened through the continuing phased implementation of Basel 2. Under subprogram 2, a financial stability committee will commence operations and a macro-prudential policy framework will be introduced along with a set of macro-prudential indicators. A dedicated supervisory regime will be provided for systemically important banks. VAMC will begin resolving NPLs through a systematic resolution regime and its activities will be subject to increased transparency. Basel 2 will be fully implemented.

10. **Output 2: Nonbank financial sector deepened.** Output 2 will provide concurrent support to capital market development to increase intermediation. Under subprogram 1, the government will launch a basic primary dealer system and continue to foster the development of a "risk-free" yield curve. A legal framework will be developed to guide the introduction commodity price derivatives, including those listed on overseas exchanges. Regulations will be issued requiring all state-owned enterprises and all private companies conducting initial public offerings to register and list on the exchange. Under subprogram 2, the government will provide more permanent short-term benchmark interest rates and establish a formal primary dealer system. A plan to deepen the capital market by encouraging the participation of the contractual savings sector will be completed and loans granted to the social security pension fund will be converted into tradable government bonds to boost market liquidity. The cash settlement leg of government securities transactions will be transferred to the SBV, and Viet Nam Accounting Standards will largely mirror International Financial Reporting Standards.

11. **Output 3: Financial inclusion promoted.** Output 3 will broaden the availability of banking services and credit thereby increasing financial inclusion. Under subprogram 1, implementation of the Viet Nam Microfinance Development Strategy will continue and the government will formally evaluate its role in the delivery of microcredit. Under subprogram 2, the government will encourage private entities to provide an increasing share of microcredit. People's Credit Funds will be strengthened and supported by an online supervisory system. More microfinance institutions will come under formal supervisory oversight and a framework to support micro-insurance will be implemented. A roadmap for emerging noncash payment instruments and agent banking will be developed.

C. Program Costs and Financing

12. The program will consist of 2 subprograms, each envisaged as single-tranche policy-based loans reflecting the government's development financing needs. The government's total external borrowing needs are expected to reach \$5 billion annually for 2016 and 2017, with a majority of the financing gap provided by official development assistance. Program size has been increased in line with the increasing complexity and cost of reforms, such as infrastructure upgrades and efforts to resolve NPLs. The government has requested a loan of \$200 million, financed equally by ADB ordinary capital resources (50%) and the Asian Development Fund (50%), to help finance subprogram 1, with an equivalent amount expected for subprogram 2.

D. Indicative Implementation Arrangements

13. Subprogram 1 will be implemented from June 2015 to February 2017 and subprogram 2 will be implemented from March 2017 to June 2018. The inclusion of a third subprogram will be discussed with the authorities during program implementation and, if used, would be implemented from July 2018 to December 2019. The executing agency will be the SBV. The implementing agencies will be the SBV, Ministry of Finance, State Securities Commission, Hanoi Stock Exchange, Viet Nam Securities Depository, Cooperative Bank, Viet Nam Bank for Social Policies, Vietnam Women's Union, and the Banking Academy.

II. DUE DILIGENCE REQUIRED

14. The sector assessment will be supplemented by an assessment of risks to reforms arising from the political economy, and a public financial management assessment describing risks as well as the government's medium-term expenditure framework. A program impact assessment will be completed and will describe the link between the program's reforms and benefits arising from finance sector development, as well as a description of the costs of the reforms. The initial poverty and social analysis is in Appendix 4. The program is expected to be classified as category C for all safeguard aspects.

III. PROCESSING PLAN

A. Risk Categorization

15. The program is considered complex due to its size.

B. Resource Requirements

16. The program will be supported by project preparatory TA (Appendix 3) and three ongoing TA grants that are supporting the development of financial markets, microfinance and micro-insurance.⁸ The aggregate estimated internal resource requirements are: mission leader, 8 months; finance sector economist, 3 months; principal country economist, 3 months; legal counsel, 6 weeks; national officers and analysts, 4 months; and operations assistant, 5 months.

C. Processing Schedule

Proposed Processing Schedule	
Milestones	Expected Completion Date
Concept paper approval	April 2016
Fact-finding mission	February 2017
Management review meeting	April 2017
Loan negotiations	July 2017
Board consideration	September 2017

Source: Asian Development Bank

IV. KEY ISSUES

18. There are no key issues.

⁸ ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam for Supporting Microfinance Development*. Manila; ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam for Strengthening Microfinance Sector Operations and Supervision*. Manila, and; ADB. 2014. *Technical Assistance to Viet Nam for Strengthening Financial Markets*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with: The program is aligned with the Socio-Economic Development Strategy (SEDS) 2011–2020 and will support the government’s efforts to increase the role of the nonbank financial sector and deepen the financial markets in Viet Nam.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome A deeper, more inclusive financial sector</p>	<p><u>By 2020:</u></p> <p>a. Nonbank financial sector increases to 65% of GDP. (Baseline: 48% in 2014)</p> <p>b. Volume of government bonds held by contractual savings sector increases to 22%.^a (Baseline: 14% in 2014)</p> <p>c. At least 60 new companies listed on HNX. (2014 baseline: 680)</p> <p>d. At least one new alternative retail payment system launched used by over 5,000 people. (Baseline: 0 in 2014)</p> <p>e. Proportion of adults in the bottom 40% of income holding an account at a formal financial institution increases to 25% (2015 baseline: 18.9%)</p>	<p>a. Website; WFE and ADB-Asian Bonds Online</p> <p>b. ADB; Asian Bonds Online MOF; custom report</p> <p>c. Website: HNX</p> <p>d. SBV Website; SBV Regulatory pronouncements</p> <p>e. The Global Findex Database, World Bank</p>	<p>Global economic conditions depress prices and demand for capital market products.</p> <p>Global monetary and regulatory actions undermine the development of the domestic capital market.</p> <p>Economic pressures prevent the government from reducing and rationalizing its intervention in the delivery of credit to low-income segments.</p>
<p>Outputs 1. Financial sector stability increased</p>	<p><u>By 2018:</u></p> <p>1a. VAMC disposes of at least 15% of NPLs. (2014 baseline: VND123 trillion)</p> <p>1b. Basel 2 implementation completed. (2014 baseline: not completed)</p> <p>1c. Framework for financial stability completed. (2014 baseline: not completed)</p>	<p>1a. Website; VAMC</p> <p>1b. Press release; SBV</p> <p>1c. Website; SBV</p>	<p>Government efforts to reform SOEs and SCOBs are restrained by vested interests.</p> <p>Government debt policies preclude efforts to develop a continuous yield curve through primary issuance at all key tenors.</p> <p>The government is unable to strengthen the legal framework supporting problem asset resolution (e.g. creditors’ rights).</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p><u>By 2016 (Subprogram 1):</u> 1d. Regulatory framework for financial stability completed (2014 baseline: not completed)</p> <p>1e. VAMC launches a comprehensive diagnostic of structure, capacity and holdings as part of a systematic effort to address NPLs. (2014 baseline: no foreign participation)</p>	<p>1d. Website; SBV</p> <p>1e. Website; VAMC New releases</p>	<p>Market development efforts outstrip financial inclusion and education programs.</p> <p>Adequate resources are not provided to support policy and regulatory reform.</p>
2. Nonbank financial sector deepened	<p><u>By 2018:</u> 2a. Framework and self-regulatory structure for a short-term benchmark interest rate completed (2014 baseline: not completed)</p> <p>2b. At least 4 primary dealers identified and a system of responsibilities and privileges established. (2014 baseline: not established)</p> <p>2c. Cash settlement leg of government securities transactions transferred to SBV. (2014 baseline: cash settlement by SOCB)</p> <p><u>By 2016 (Subprogram 1):</u> 2d. Bond market participants begin regular disclosure of indicative price quotes. (2014 baseline: no regular disclosure)</p> <p>2e. Government pilots the issue of a 20-year government bond. (2014 baseline: no tenors longer than 15 years)</p>	<p>2a. SBV; regulatory issuances VAMC; self-regulatory guidelines</p> <p>2b. MOF website; MOF regulations</p> <p>2c. SBV website; Consultant reports</p> <p>2d. Website; MOF</p> <p>2e. Custom reports; MOF</p>	
3. Financial inclusion promoted	<p><u>By 2018:</u> 3a. At least 5 MFIs licensed under the new licensing requirements. (2014 baseline: 0)</p>	<p>3a. SBV website; SBV regulatory pronouncements</p>	

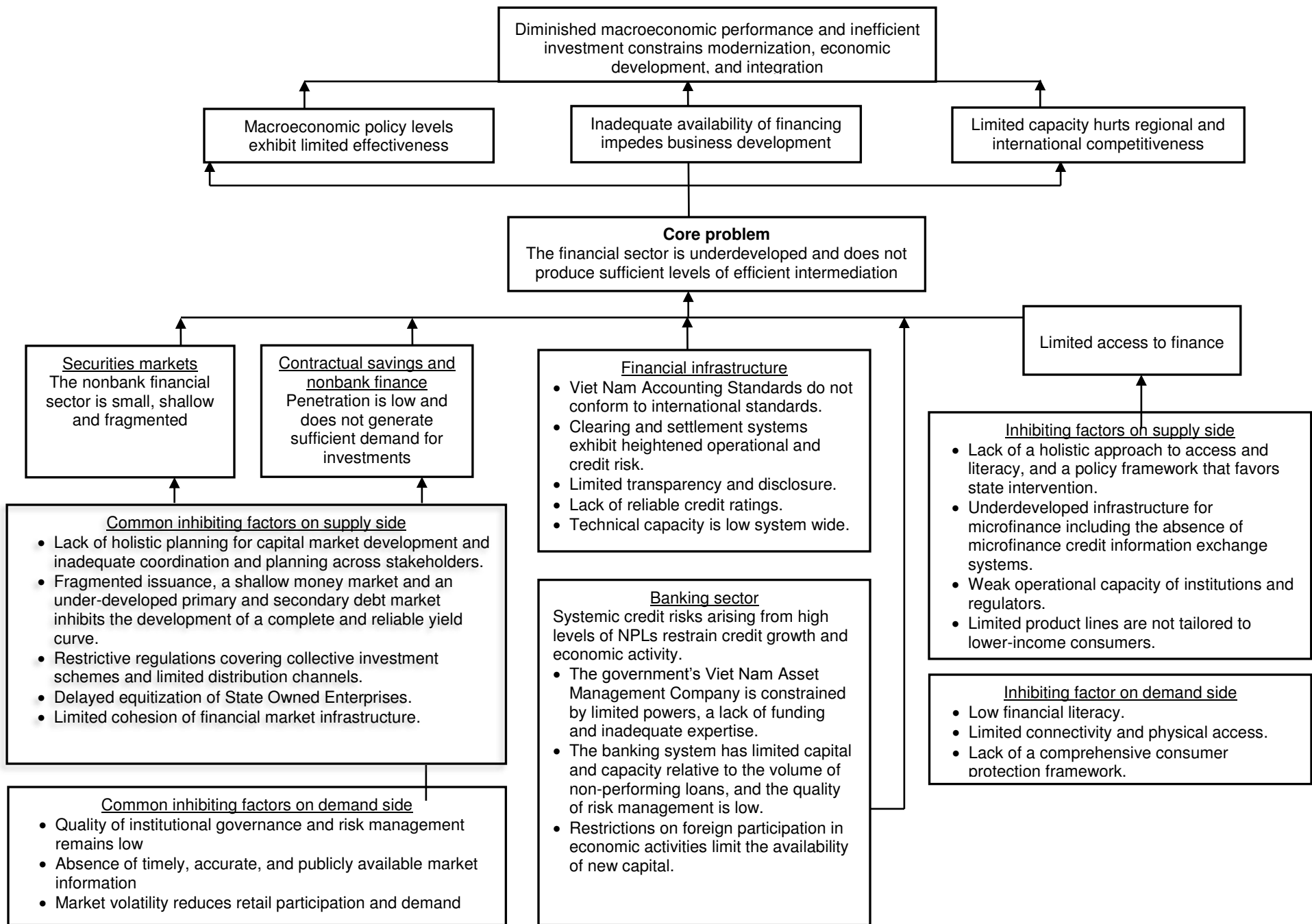
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	3b. Roadmap for emerging noncash payment instruments and agent banking developed. 3c. SBV online supervision system developed. <u>Subprogram 1 (by 2016)</u> 3d. Comprehensive review of government's role in delivery of microcredit completed. (2014 baseline: not completed)	3b. SBV website; SBV Regulatory pronouncements 3c. SBV program progress report; ADB missions 3d. MOF website; Published ADB consultant report	
Key Activities with Milestones Not applicable.			
Inputs ADB: \$200,000,000 Subprogram 1 (\$100,000,000 from OCR and \$100,000,000 from ADF) \$200,000,000 Subprogram 2 \$900,000 project preparatory technical assistance (TASF-V)			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, HNX = Hanoi Stock Exchange, MFI = microfinance institution, MOF = Ministry of Finance, NPL = nonperforming loan, OCR = ordinary capital resources, SBV = State Bank of Viet Nam, SOCB = state-owned commercial bank, SOE = state-owned enterprise, VAMC = Viet Nam Asset Management Company, WFE = World Federation of Exchanges.

^a These performance targets are based on MOF targets, which cover 2011–2020. MOF's bond market development targets represent performance goals but are not considered firm commitments of the government.

Source: Asian Development Bank

PROBLEM TREE



PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. To achieve the targets of the Socio-Economic Development Plan (SEDS) 2011–2020, the Government of Viet Nam has established the strategic objective of developing financial markets that provide efficient and inclusive intermediation, and that are safely operated, efficiently managed and effectively supervised. A specific reform agenda has been set out under the SEDS 2011–2020, the bond market development road map and the government’s action plan to address deficiencies identified by the Financial Sector Assessment Program (footnote 3). The proposed Financial Sector Development and Inclusion Program will support the implementation of these plans and the proposed project preparatory technical assistance (TA) will support the program by developing select areas of the capital market, furthering the government’s financial inclusion agenda, and enhancing the capacity of implementing agencies to undertake the proposed reforms.

B. Major Outputs and Activities

2. The scope of the project preparatory TA parallels the components of the proposed program as presented in the preliminary design and monitoring framework (Appendix 1). The project preparatory TA will; (i) increase financial sector stability, (ii) deepen the nonbank financial sector, and (iii) promote financial inclusion. The TA will encompass initiatives to achieve measurable reductions in systemic risk through non-performing loan (NPL) resolution. In addition, sequenced reforms will prioritize the establishment of a more highly developed government debt market to serve as the foundation for a corporate debt market. New initiatives will be introduced to engage the contractual savings sector in this process and eventually provide stable and sophisticated institutional demand for long-term asset classes. The project preparatory TA will promote financial inclusion by enhancing the role of microfinance and micro-insurance, providing more inclusive access to the payment system, and introducing agent banking. The major outputs and activities are summarized in Table A1.

Table A1: Summary of Major Outputs and Activities

Major Activities	Expected Completion Date	Major Outputs	Expected Completion Date
A. Financial sector stability increased	June 2018	1.1 Enhanced prudential and supervisory framework for systemically important banks	August 2016
		1.2 Decrees and circulars to establish Committee for National Stability	September 2017
		1.3 Administrative and capacity upgrades for VAMC	December 2018
B. Nonbank financial sector deepened	June 2018	2.1 Corporate bond market diagnostic	December 2016
		2.2 Repo market and securities lending facility established	June 2017
		2.3 Insurance sector roadmap and enabling environment	June 2018
C. Financial inclusion promoted	June 2018	1.1 Diagnostic of government’s role in delivery of microcredit	December 2016
		1.2 Roadmap for alternative noncash payment systems and agent banking	June 2018

VAMC = Viet Nam Asset Management Company.
Source: Asian Development Bank.

C. Cost Estimate and Proposed Financing Arrangement

3. The TA is estimated to cost \$1,000,000 equivalent, of which \$900,000 will be financed on a grant basis by the Asian Development Bank (ADB) Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff, provision of office space, and other in-kind contributions with an estimated value of 10% of the total cost of the TA. A detailed cost estimate is in Table A2.

Table A2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (19 person-months)	404.0
ii. National consultants (16 person-months)	102.0
b. International and local travel	255.0
c. Reports and communications	2.0
2. Equipment (computer, printer, etc.) ^b	20.0
3. Workshops, training, seminars, and conferences ^c	
a. Workshops	26.0
b. Training program	5.0
c. Foreign study tour	20.0
4. Miscellaneous Administration and Support Costs	6.0
5. Contingencies	60.0
Total	900.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Equipment consists of a Reuters software upgrade.

^c Workshops, training, seminars, and conferences include (i) development of a corporate governance blueprint at a cost of \$20,000, to be held in Hanoi and/or Chi Minh City; and (ii) development of a framework for emerging payment systems at a cost of \$6,000, also to be held in Hanoi and/or Ho Chi Minh City.

Source: Asian Development Bank

D. Consulting Services

4. International consultants (19 person-months) and national consultants (16 person-months) will be recruited as individual consultants, except that expertise relating to mobile banking and payments (5 person-months) will be recruited through a firm. The firm will be recruited using quality and cost-based selection (QCBS) using a quality–cost ratio of 80:20 and biodata technical proposals. ADB will select and engage consultants in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). The outline terms of reference for the project preparatory TA consultants are described below.

Table A3: Summary of Consulting Services Requirement

Positions	Person-Months Required
International	
Supervision expert–financial stability	4
Supervision expert–complex banking organizations	3
Problem asset resolution expert	2
Securities lending, repurchase market, money market expert	1
Payment systems expert–automated clearing house	1
Capital markets expert–contractual savings	2

Payments system expert—mobile banking and payments	5
Financial inclusion expert	3
National	
Bond market researcher	10
Inclusive finance expert	6

Source: Asian Development Bank

5. **Supervision expert—financial stability** (international, 4 person-months, individual). The expert will support the government's efforts to establish a Committee for Financial Stability by providing inputs regarding the committee's composition, responsibilities, logistics and administrative arrangements. The expert will prepare draft decrees and circulars to strengthen the government's efforts to promote financial stability and macro-prudential policies, and will provide recommendations to the State Bank of Viet Nam (SBV) to strengthen its early-warning system. The expert will have an advanced degree in economics with financial sector supervisory experience.
6. **Supervision expert—systemically important banking organizations** (international, 3 person-months, individual). The expert will provide assistance to establish a regulatory framework to identify and supervise systemically important credit institutions, as well as shadow banking. The expert will have an advanced degree in finance with relevant financial sector supervisory experience.
7. **Problem asset resolution expert** (international, 2 person-months, individual). To begin a more rational and efficient resolution effort, the expert will assist the VAMC in designing and implementing a methodology to screen NPLs and categorize them according to severity. In addition, the expert will provide training to strengthen the technical skills of VAMC's staff to conduct problem borrower rehabilitation. The expert should have an advanced degree in economics or finance, or a master's degree in business administration, and significant experience in problem asset resolution.
8. **Securities lending, repurchase market, money market expert** (international 1 person-month, individual). The expert will assist the government's efforts to launch a primary dealer system by supporting the development of a securities lending facility and repo market. In addition, the expert will develop a framework to reduce systemic risk in the inter-bank lending market. The expert will have an advanced degree in a relevant field with significant experience in money market activities.
9. **Payment systems expert—automated clearing house** (international, 1 person-month, individual). The expert will develop a legal framework and regulatory guidelines for the governance and oversight of an automated clearing house. The expert should have an advanced degree in a related field and significant experience in the establishment and operation of payments systems either from a regulatory or commercial perspective.
10. **Capital markets expert—contractual savings** (international, 2 person-months, individual). The expert will provide TA to support the development of the insurance sector road map for 2016–2020, which will provide an enabling environment for the insurance sector to participate in the development of the government bond market. The expert should have an advanced degree in economics or finance and significant experience in market development, with a focus on contractual savings.

11. **Payments system expert–mobile banking and payments** (international, 5 person-months, firm). The firm will support the SBV as it develops a master plan for the promotion of non-cash payments during 2016–2020. In conjunction with this effort, the firm will develop an overall regulatory framework for emerging payment instruments (e.g., mobile and internet payments), especially by non-bank payment service providers. In addition, the firm will draft a legal framework and regulatory guidance for agent banking. The firm should have significant experience working with alternative payment systems in developing markets.

12. **Financial inclusion expert** (international, 3 person-months, individual). In close consultation with concerned government agencies, the expert will draft a status report on the Viet Nam Microfinance Development Strategy, 2011–2020. In addition, the expert will update the sector road map and identify sequenced development priorities to broaden financial inclusion by addressing binding constraints in institutional and policy and regulatory environments. The expert will have an advanced degree in a related field, with significant professional experience in financial inclusion, including microfinance.

13. **Inclusive finance expert** (national, 6 person-months, individual). The expert will assist the international financial inclusion expert and provide analytical inputs to the status report on the Viet Nam Microfinance Development Strategy, 2011–2020 and the sector road map. The expert will also provide administrative and logistical support to ADB missions, including arranging meetings with government agencies and stockholders and attending meetings, as required. The expert will have a degree in relevant field with recognized professional experience in financial inclusion and microfinance.

14. **Bond market researcher** (national, 10 person-months, individual). The expert will support the government's efforts to develop the corporate bond market. Research will be combined with surveys focused on potential issuers to identify impediments to development. The expert will support consensus building and identify solutions. The expert will also support ADB's overall engagement in support of capital market development by completing ad hoc research, surveys, and market outreach. The expert should have an advanced degree in economics or finance, or an master's degree in business administration, with experience in a global bank or international financial institution.

D. Implementation Arrangements

15. The executing agency will be the SBV. The implementing agencies will be the SBV, Ministry of Finance, State Securities Commission, and the Hanoi Stock Exchange. The SBV will establish an advance payment facility to support study tours. The TA will be implemented from 30 September 2016 to 30 September 2019. The proposed TA processing and implementation schedule is in Table A4.

Table A4: Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Concept paper approval	April 2016
Commencement	September 2016
Physical completion	September 2019
Financial closure	December 2019

Source: Asian Development Bank

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Viet Nam	Project Title:	Financial Sector Deepening and Inclusion Program
Lending/Financing Modality:	Policy-Based Programmatic Approach	Department/ Division:	Southeast Asia Department Financial Sector, Public Management, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Viet Nam's growth during 1993–2008 reduced poverty: gross domestic product (GDP) per capita increased by an average of 6.1% annually, and poverty fell by an average of 2.9 percentage points per year, to well below 10% by 2010.^a These reductions are largely attributable to sustained business-led growth in output and employment, complemented by targeted poverty reduction interventions. Both economic growth and poverty reduction have moderated, however. Returning Viet Nam to high and sustained economic growth will require macroeconomic stability, structural reforms, and development of a more efficient capital market. To meet these goals, the Socio-Economic Development Strategy (SEDS) 2011–2020 seeks to transform Viet Nam into a modern, productive, and equitable market economy with a 2%–3% average annual reduction in the number of poor households.^b Within this framework, the government has embarked on an ambitious goal of restructuring state-owned enterprises (SOEs), addressing the large overhang of non-performing loans, and alleviating bottlenecks that impede capital market growth. The sector road map for the strategic development of the Vietnamese capital market, which is part of the SEDS 2011–2020, serves as a master plan for long-term capital market development. The road map includes measures to improve money market efficiency and deepen the capital market for enhanced financial intermediation, which are essential for equitizing SOEs and raising economic efficiency and competitiveness. In addition, the government has recognized that economic growth must be more inclusive. The government has also identified microfinance and micro-insurance as key components of its financial inclusion agenda.

The Asian Development Bank (ADB) Interim Country Partnership Strategy, 2016 and the Financial Sector Development and Inclusion Program are aligned with the SEDS 2011–2020 and aim to strengthen the legal and regulatory framework, market infrastructure, and institutional capacity to sustain the financing of productive investment.^c The program will help reduce heightened systemic risks, which are an overall impediment to market development. In addition, it will continue fundamental reforms in the money and government bond markets, which are a prerequisite to wider capital market development. Development of the money market will help the government better manage inflation through monetary interventions, while a deeper government bond market will anchor commercial financing, provide funding to equitize SOEs, and provide long-term funding for vital infrastructure projects and social expenditures. The program will also increase financial inclusion by encouraging private sector provision of microfinance and micro-insurance.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)
The program represents a general intervention that provides an enabling environment for wider capital market development; this will over time increase the availability and lower the cost of capital to the private sector. The program includes a component focused on financial inclusion, which contains specific pro-poor features. For example, the program will encourage the wider provision of microcredit and micro-insurance to the poor; it also contemplates the introduction of alternative banking channels, such as agent and mobile banking, which will increase the accessibility of finance, especially to rural areas with a high proportion of poor relative to the population.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. A specific target group of beneficiaries was not identified as this program is a broad-based general intervention. However, recent analysis indicates that poverty in Viet Nam is mainly a rural phenomenon. An estimated 72% of the population lives in rural areas, and the rural poor account for 90% of the total number of poor people in the country.^d One of the constraints to poverty reduction has been limited availability of financial services in rural areas. Bank credit granted to rural areas represents only 17% of total bank credit, and less than 20% of the population in rural areas has access to any kind of institutional financial services. Therefore, the program provides a focus on inclusion through alternative (e.g. mobile) banking channels that by default will provide a higher benefit to the poor that reside in isolated geographic areas.

2. Impact channels and expected systemic changes. Financial sector development helps reduce poverty through at least three channels: (i) **Higher economic growth.** The link between economic growth and financial sector development, as measured by private credit and stock market liquidity, is well known and has been empirically supported. It has been calculated that, on average, a one-standard-deviation increase in initial stock market liquidity would increase a country's per capita growth by 0.8 percentage points per year over the study period,^e and a one-

standard-deviation increase in initial banking development would increase output growth by 0.7 percentage points per year. Combining stock market liquidity and banking development would have increased real per capita GDP by 31%. Contractual savings also play a significant role in fostering economic development. Using this same data set, research indicates that a one-standard-deviation increase in total insurance premiums to GDP would increase real GDP per capita growth by 0.47%, with even higher effects in countries with low to middle levels of development;^f (ii) **Financial sector inclusiveness.** The second channel, access to finance, is direct. Financial sector development reduces information and transaction costs and therefore (a) allows more entrepreneurs, especially those less well off, to obtain external finance; (b) improves the allocation of capital; and (c) exerts a particularly large impact on the poor. When the poor have greater access to financial services, they can increase their lifetime incomes through the use of basic savings products; and (iii) **Financial sector stability.** The third channel is indirect. Financial sector development generally increases financial sector stability, which benefits the poor as financial sector crises typically have an outsized negative impact on the poor and force the near poor into poverty.

3. Focus of (and resources allocated in) the PPTA or due diligence. The project preparatory technical assistance (TA) is based on existing due diligence that includes the findings of the Financial Sector Assessment Program⁹ as well as diagnostics used to support completion of the bond market development road map. However, the project preparatory TA will also support the development of a framework for mobile payment systems and agent banking. To support this objective, the TA will provide for outreach to key stakeholders including regulatory bodies, providers of microcredit, and beneficiaries through civil society organizations such as the Viet Nam Women's Union.

4. Specific analysis for policy-based lending. Overall, finance sector development has been found to provide direct benefits to the poor. An International Monetary Fund working paper estimated the quantitative impact of finance sector development on poverty in 65 developing countries and found that it directly reduces poverty by raising the investment and interest incomes of the poorest 20% of the population. Further, instability in the finance sector directly reduces the incomes of the poor, thereby raising poverty. Therefore, finance sector reforms that aim to mitigate risks of finance sector instability help reduce the vulnerability of the poor, or the likelihood that the near poor will fall into poverty as a result of finance sector crises.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Viet Nam has a strong national commitment to gender equality. The National Strategy for Gender Equality, 2011–2020 provides specific targets for credit institutions to provide credit to 80% of female laborers in poor areas and ethnic minority regions by 2015, and 100% by 2020. Increasing equality of access to appropriate microfinance services for women plays a significant catalytic role in promoting women's economic empowerment as well as positive flow-on impacts to women's and families' livelihoods and well-being. Microfinance has traditionally involved strong participation by women, with the Viet Nam Women's Union serving as a conduit or direct provider. At the end of 2008, 94% of active microfinance clients were female. However, women's access to formal large-scale financial services remains unequal, as reflected by the fact that in 2010 only 35% of borrowers from the Viet Nam Bank for Social Policy were women.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No The program will promote access to finance through microfinance, micro-insurance, alternative payment channels and agent banking. This focus is expected to provide a significant contribution to the promotion of gender equity by virtue of already high participation rates of women. However, an information gap exists due to a lack of sex-disaggregated data. Improved data collection is required before a survey can be implemented to provide an empirical evaluation of effectiveness.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No The program provides for an expansion in access to finance supported by consultations and the development of an informed master plan. Given existing participation rates, and the active involvement of civil society, it is unlikely that the program will increase gender inequality with regard to access to financial services.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. The program's primary stakeholders are government financial supervisors and regulators, financial institutions, market participants and consumers. They will participate in the project design through consultations, surveys, and participation in workshops under the project preparatory TA.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the

<p>poor and excluded? Reforms are directed primarily at high-level policy reforms and fundamental building blocks of market development. However, financial inclusion targets the poor and underserved directly. Reforms will be informed by surveys and stakeholder consultations.</p>
<p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? <input checked="" type="checkbox"/> Information generation and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Development of a master plan for noncash payments, as well as alternative payment methodologies will require inputs from the target beneficiaries. The project preparatory TA includes a budget for workshops and surveys to support stakeholder consultations.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The program is a general, nationwide intervention.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design? Not applicable. <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? Not applicable.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Not applicable.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? The PPTA includes the retention of a financial inclusion expert.</p>

^a A joint effort between the World Bank and the General Statistics Office that incorporated current expenditure patterns into Viet Nam's monitoring systems found that while poverty rates have continued to decline, poverty levels in today's terms were higher than previous estimates; 20.7% in 2010 declining to 17.2% in 2012.

^b By 2020 the government aspires to achieve higher middle-income status, with per capita income of at least \$3,000, as well as significant improvements in human development and poverty reduction.

^c ADB. 2015. *Interim Country Partnership Strategy: Viet Nam, 2016*. Manila.

^d In 2012 poverty rates in rural areas were 14.4%, 3.7 times higher than the 3.9% poverty in urban areas.

^e R. Levine and S. Zervos. 1998. Stock Markets, Banks, and Economic Growth. *The American Economic Review*. 88(3), pp. 537–558.

^f M. Arena. 2008. Does Insurance Market Activity Promote Economic Growth? A Cross-Country Study for Industrialized and Developing Countries. *The Journal of Risk and Insurance*.

^g The World Bank. 2012. *Financial Sector Assessment: Viet Nam*. Washington, D.C.