



Asian Development Bank

Memorandum

Southeast Asia Department

13 October 2015

FOR APPROVAL

To: James Nugent, Director General, SERD *14 Oct 2015*

Through: Eric Sidgwick, Country Director, VRM

Kelly Bird, Director, SEPF

From: Aaron Batten, Country Economist, VRM *abatten*

Juan Luis Gomez, Principal Public Management Specialist, SEPF

Subject: VIE (49341-001): S-PATA for Public Financial Management in Viet Nam
- Approval of Small-scale Policy and Advisory Technical Assistance (PATA)

A. INTRODUCTION

1. Background. Weaknesses in public financial management (PFM) have been identified as a binding constraint to more inclusive and sustainable economic growth in the Public Sector Management Assessment and Sector Roadmap (ASR) prepared for the upcoming Viet Nam Country Partnership Strategy (CPS), 2016-2020. The proposed small-scale policy and advisory technical assistance (S-PATA) addresses urgent and specific PFM reform challenges identified through policy dialogue with the Ministry of Finance (MOF) and other stakeholders. The S-PATA will fund initial activities to begin before the end of 2015, with a larger follow-on technical assistance planned for 2016. The Government has expressed willingness to consider the development a programmatic approach, including a series of policy-based loans, to further support these reforms over the medium term. The technical assistance (TA) Design and Monitoring Framework is in Attachment 1.

B. ISSUES

2. PFM reform progress. Over the past two years the Government of Viet Nam has approved a number of landmark reforms to its system of PFM. This has included the passage of the Public Investment Law (PIL) in 2014 and more recently the passage of the State Budget Law (SBL) in June 2015. This is the first revision of the SBL since 2002. Recent reforms aim to incorporate generally regarded international good practices to Viet Nam's public financial management system. These include: a) introducing medium-term expenditure and revenue

planning; b) increasing the fiscal autonomy of provincial governments (particularly with regards to debt management); c) introducing output-based budgeting practices; d) reducing the extent of off-budget expenditure; e) strengthening the management of public assets; and enhancing budget accountability and transparency. Over time, these measures have the potential to significantly improve the efficiency and effectiveness of public expenditure in Viet Nam.

3. The legal framework for the country's PFM system is being further improved. In 2015, the National Assembly is expected to approve the Law on Accounting, and a new draft Law on Public Asset Management (PAML) will be submitted for consideration in 2016. The latter has important implications for budget formulation (both recurrent and investment components) and important linkages to all of the other elements of the PFM system, with the management of public assets being better integrated with financial management information systems.

4. **Priority assistance needs.** In light of recently passed and forthcoming legislative initiatives, the Government is faced with significant implementation challenges. An important number of decrees and circulars are needed to clarify how the high-level principles of the PIL, SBL and the upcoming PAML will be put to work. Significant capacity development and training is also required at national, provincial government levels to ensure officials are fully aware of, and able to implement, new requirements. Extensive consultations with the MOF, Ministry of Planning and Investment (MPI), the National Assembly's Committee for Financial and Budgetary Affairs (CFBA), as well as other development partners already active in PFM¹ have identified three priorities for immediate support, (i) Provincial Government debt management, (ii) public asset management, and (iii) Parliamentary budget oversight.

5. A major component of SBL (2015) reform is to grant all 63 provincial (and two first class city) governments the power to run fiscal deficits and to mobilize debt to finance these deficits subject to prescribed debt burden ceiling limits. Over time, significant regulatory and analytical work is required to develop the capacity of these authorities to undertake these new responsibilities in an efficient manner. More immediately however the MOF Banking and Financial Institutions Department (BFID), which is jointly responsible with the Department of Debt Management and External Finance for sub-national debt mobilization and management have requested assistance for the completion of an assessment of the compatibility of existing financial management information system requirements to adequately monitor Provincial debt mobilization.² This review is vital to ensure national government can maintain an adequate oversight on Provincial debt mobilization and management following the commencement of SBL (2015) on 1st January 2017. The review is also expected to contribute to the design of a more substantial program of technical and capacity support to be undertaken directly with Provincial Governments in support of these reforms.

6. The revised PAML is expected to introduce modern concepts and approaches to public asset management in Viet Nam. To implement these principles however will require the drafting of a large number of supporting Decrees to guide the implementation of the Law at the sector level. The draft law is expected to be submitted to Government in mid-2016, with

¹ This includes the Australian Department of Foreign Affairs and Trade (DFAT), the European Union (EU), Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ) and the World Bank.

² Through the ongoing Financial Sector Deepening program (44251-013) ADB will also be provide complementary support to the BFID for the preparation of a manual on municipal bond issuance that supports the implementation of Circular 100/2015/TT-BTC on the topic. The BFI will also receive support for the drafting of a new circular which will regulate additional debt raising modalities for sub-national governments, including access to direct credit from commercial banks. This will include the provision of advisory assistance on the regulatory framework for local government borrowing, but also with the preparation of an associated implementation manual.

implementation commencing in 2018. The Ministry of Finance Public Assets Management Department (PAMD) has requested ADB technical assistance to assist in the preparation of associated Decrees that will guide the implementation of the revised PAML, paying particular attention to the future management of state infrastructure assets. Initially this will include the preparation of Decrees on metro and rail asset management however this is expected to lead to a larger program of work looking at other infrastructure sub-sectors such as roads, ports, airports and power assets. The draft PAML and its associated decrees will also require the implementation of a modern information management system for strategic public asset management. This will include the development of a complete national database of assets (domestic and ODA funded), and the effective link of the system to other elements of the public financial management information systems. In this context, the PAMD has requested an initial assessment of the system functionalities that will be required for the implementation of the provisions of the law lined to strategic public asset management. Future assistance in this area will likely be targeted at the implementation of the recommendations offered by this technical review.

7. The SBL (2015) endows the National Assembly with enhanced authorities over budget approval and oversight. These new authorities extend to the approval of government bonds (previously off-budget) and budget norms (on recurrent and capital expenditure). In light of these new demands, the National Assembly's CFBA has requested assistance for the preparation of a manual for new National Assembly members and officials that clarifies and provides guidance on the general and new requirements that the SBL poses on the role of the National Assembly. This manual will be an important component of the National Assembly's efforts to understand and enforce SBL (2015) requirements as well as to update the knowledge of budget-related Commissions of Provincial People's Councils (PPC's). Looking forward, and this initial technical input is also expected to contribute to the design of a larger capacity support program with the National Assembly and the PPC's to enhance their overall ability to implement SBL (2015) requirements.

C. THE PROPOSED TECHNICAL ASSISTANCE

1. Impact and Outcome

8. The impact of the TA is aligned with the Ministry of Finance's Finance Sector Strategy (2011-2020)¹ goal to strengthen the efficiency and accountability of public financial management systems in Viet Nam. The Outcome of the SSTA will be to enhance the Government's knowledge and implementation capacity in selected PFM reform areas.

2. Methodology and Key Activities

9. The TA will have four Outputs: (i) assessment of financial management information system requirements for monitoring of debt mobilization of sub-national governments completed; (ii) drafting of Decree on Infrastructure Asset Management facilitated; (iii) assessment on information system requirements for public asset management prepared; and (iv) manual on National Budget oversight functions of the National Assembly, following SBL (2015), drafted.

10. TA activities will include a mix of: a) direct advisory assistance through a mix of international and national consultants; and b) capacity development activities (including

¹ The Ministry of Finance, Viet Nam. 2012. Finance Sector Strategy 2011-2020.

specialized workshops on best international practices, new legislation dissemination seminars, training events, etc.). Final design and implementation of TA activities will use a consultative approach where all relevant stakeholders will be involved, including national and local government agencies, development partners, and private sector among others.

11. In light of the clear links of the proposed activities to other elements of the ADB portfolio (road and metro projects for instance), the TA will seek input from relevant ADB officers in informing the design of activities, including the definition of detailed terms of reference of consultants, commentary on draft reports, etc.

3. Cost and Financing

12. The total cost of the TA is estimated at \$225,000 and will be funded on a grant basis from ADB's Technical Assistance Special Fund (TASF-V). Detailed cost estimates are in Attachment 1.

4. Implementation Arrangements

18. ADB will be the executing agency and the Vietnam Resident Mission (VRM) within the Southeast Asia Department will be the focal point. VRM will work closely with the MoF Departments of Banking and Financial Institutions, Public Asset Management, and Debt Management and External Finance; and with the National Assembly's CFBA in the implementation of activities. Three international consultants (total of 5.0 person-months), and two national consultant (8.0 person-months) will be recruited by the ADB on an individual basis to implement the TA activities in accordance with ADB's Guidelines on the Use of Consultants (2013 as amended from time to time). Disbursements under the TA will be made in accordance with the ADB's Technical Assistance Handbook (2010, as amended from time to time). The TA will commence on 1 November 2015 and will be completed on 30 September 2016. The consultants' terms of reference are attached as Appendix 4.

5. Preliminary Risk Assessment

19. Overall, risk is considered low, as the TA will be limited to direct advisory services for the development of regulatory instruments for public financial management, and the organization of capacity development activities. The Ministry of Finance and the Ministry of Planning and Investment have shown full support to the proposed TA and to the development of a medium-term program of assistance from ADB to public financial management reforms, including additional TA and policy-based lending.

D. RECOMMENDATION

20. Pursuant to the authority delegated to heads of departments and offices to approve small-scale technical assistance, your approval is requested to provide a small-scale PATA for Supporting Public Financial Management in Viet Nam in an amount not exceeding the equivalent of \$ 225,000 on a grant basis from the ADB's TA funding program (TASF-V).

21. Such approval will be reported to the Board in the Quarterly Summary Report on Small-Scale and Supplementary Technical Assistance Projects Not Exceeding \$225,000.

Attachment:

- (1) Design and Monitoring Framework; Cost Estimates and Financing Plan; Terms of Reference;
- (2) TA Registration
- (3) Comments Matrix
- (4) OGC Clearance

cc: Vice President (Operations 2); Directors General, IED, OSFMD, SDCC; General Counsel; Controller; Chief Economist and Director General, ERCD; Head, OCO; Deputy Director General, SDCC, SERD; Deputy General Counsel; Deputy Chief Economist and Deputy Director General, ERCD; Assistant General Counsel; Assistant Controller; Directors, OSP2, IED2, OCO, PSIF2, SDAS, SDES, SDGG; Senior Advisor to VPO2; S. Tukuafu, SEOD; D. Mellor/A. Nguyen, VRM.

DESIGN AND MONITORING FRAMEWORK

Impact The efficiency and accountability of public financial management systems in Viet Nam improved (Finance Sector Strategy 2011-2020 ¹)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome The Government's knowledge and implementation capacity in selected PFM reform areas are enhanced	By 2017: a. Detailed instructions issued to Provincial Governments on enhanced debt reporting requirements (Baseline: 0, 2015) b. Draft Decree on Infrastructure Public Asset Management submitted to Government (Baseline: 0, 2015) c. 32 National Assembly CFBA committee members trained in SBL (2015) responsibilities (Baseline: 0, 2016)	a. MOF Public Asset Management Department reports b. MOF Banking and Financial Institutions Department reports c. National Assembly CFBA training reports	Changes to the composition of the National Assembly during 2016 affect the legislative priorities as currently defined Political cycle delays approval of the required regulations Complex PFM information systems make integration of upgraded public asset and debt management databases into existing systems challenging
Outputs 1. Assessment of management information systems for monitoring debt mobilization of Provincial governments prepared	By 2016: 1a. Final assessment completed (Baseline: 0, 2015)	1a. MoF and consultant reports	
2. Background papers for the drafting of Decree on Infrastructure Asset Management prepared	2a. Final Public Infrastructure Asset Management background papers completed (Baseline: 0, 2015)	2a. MoF and consultant reports	
3. Assessment on information system requirements for public asset management prepared	3a. Final public asset management information system assessment completed (Baseline: 0, 2015)	3a. MoF and consultant reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
4. Manual on Budget Oversight Functions of the National Assembly, following State Budget Law (2015) prepared	4a. Manual on Budget Oversight Functions of the National Assembly completed (Baseline: 0, 2015)	4a. NA and consultants reports	
Key Activities with Milestones <ol style="list-style-type: none"> Assessment of financial management information system requirements for monitoring of debt mobilization of Provincial governments prepared <ol style="list-style-type: none"> Consultants recruited and deployed (November 2015). Draft of the assessment on information system requirements for debt monitoring completed (March 2016) Consultation and finalization of the assessment completed (June 2016) Background papers required for the drafting of Decree on Infrastructure Asset Management prepared <ol style="list-style-type: none"> Consultants recruited and deployed (November 2015). Draft of background papers required for the drafting of decrees on infrastructure asset management completed (March 2016) Consultation and finalization of draft background papers completed (June 2016) Assessment on information system requirements for public asset management prepared <ol style="list-style-type: none"> Consultants recruited and deployed (November 2015) Draft of the assessment on information system requirements for public asset management completed (March 2016) Consultation and finalization of draft assessment completed (June 2016) Manual on Budget Oversight Functions of the National Assembly, following the State Budget Law (2015) prepared <ol style="list-style-type: none"> Consultant recruited and deployed (November 2015) First draft of the manual completed (January 2016) Consultation and finalization of the manual completed (March 2016) 			
Inputs ADB: \$225,000 grant Government: The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.			
Assumptions for Partner Financing Not Applicable			

MoF = Ministry of Finance, NA = National Assembly, PFM = public financial management.

¹ Finance Sector Strategy, 2011-2020, Ministry of Finance, 2012.

Source: Asisan Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	93.00
ii. National consultants	58.80
b. International and local travel	20.20
c. Reports and communications	12.00
2. Workshops, meetings	35.00
3. Miscellaneous admin and support costs	3.00
4. Contingency	3.00
Total	225.00

Note: the technical assistance (TA) is estimated to cost \$225,000 funded from the Asian Development Bank (ADB) Technical Assistance Special Fund (TASF-V).

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE

A. International Consultants

1. **Public Debt Supervision Specialist** (international, 1.5 person-month, continuous) (Key activity 1.2). The public debt supervision specialist will have an internationally recognized economics, public finance management or related degree, with at least 10 years of professional experience, focusing on information systems for public debt management. Experience in Southeast Asia, especially knowledge of Viet Nam's public debt management systems is an advantage. Under direct guidance of MoF's Banking and Financial Institutions Department (BFID), the public debt supervision specialist will undertake the following tasks:

- (i) Meet government agencies concerned, particularly MOF's BFID, Public Debt Management and External Finance Department, Ministry of Planning and Investment's Department of National Economic Issues and selected Provincial departments involved in public debt management to understand existing public debt information systems in Viet Nam;
- (ii) Share international good practice models of public debt information systems covering provincial public debts with relevant government agencies; and
- (iii) Prepare a report detailing Viet Nam's public debt information system, illustrating good international practice and proposing immediate and medium-term solutions for improvement.

2. **Public Asset Regulation Specialist** (international, 1.5 person-months, intermittent) (Key activity 2.2). The public asset regulation specialist will have graduate qualifications in economics, public finance management or a related degree, with at least 10 years of recognized professional experience in public asset management, focusing on infrastructure asset management. Experience in Southeast Asia, especially knowledge of Viet Nam's public asset management is an advantage. Under the direct guidance of MoF's Public Asset Management Department and in close consultation with government agencies concerned particularly ministries and provinces/cities who are managing large public infrastructure assets (e.g. railways including metro lines, roads, irrigation systems, and power plants), the public asset regulation specialist will undertake the following tasks:

- (i) Undertake desk study on existing regulations and ongoing reforms on infrastructure public asset management in Viet Nam;
- (ii) Prepare a synthesis report on good international practices in managing public infrastructure assets; and
- (iii) Present the key findings and recommendations for the government agencies involving in managing infrastructure asset management in Viet Nam. .

3. **Public Asset Supervision Specialist** (international, 2 person-month, intermittent) (Key activities 3.2). The public asset supervision specialist will have an internationally recognized economic, public financial management or related degree, with at least 10 years of professional experience, focusing on information systems for public asset management. Experience in Southeast Asia, especially knowledge of Viet Nam's public asset management systems is an

advantage. Under direct guidance of MoF's Public Asset Management Department, the public asset supervision specialist will undertake the following tasks:

- (i) Meet government agencies concerned, particularly ministries and provinces/cities who are managing large public infrastructure assets to understand the existing public asset information system in Viet Nam;
- (ii) Consolidate international good models of public asset information system to share with government agencies concerned; and
- (iii) Prepare an assessment on Viet Nam's public asset information system with proposed immediate and medium-term solutions for improvement.

B. National Consultants

4. **Public Asset Management Specialist** (national, 6 person-months, intermittent) (Key activities 2.2 and 3.2). The public asset management specialist will have a graduate degree in economics, public financial management or a related degree, with at least 10 years of recognized professional experience in public asset management, focusing on infrastructure asset management in Viet Nam. Under the direct guidance of MoF's Public Asset Management Department and working closely with the international specialists on public asset regulation and supervision, the national public asset management specialist will undertake the following tasks:

- (i) Compile existing regulations, information, data, and documents relating to public asset management and prepare summaries in English to share with the international public asset regulation and supervision specialists;
- (ii) Assist the international specialists in analyzing existing regulations and ongoing reforms in infrastructure asset management in Viet Nam;
- (iii) Assist PAMD in preparing background papers for the drafting of Decree on Infrastructure Assets Management;
- (iv) Arrange meetings with government agencies concerned and participate in policy dialogue; and
- (iv) Provide translation and/or interpretation of information, data, documents, and meetings for the international specialist, as required.

5. **State Budget and Fiscal Management Specialist** (national, 2 person-months, intermittent) (Key activity 4.2). The state budget management specialist will have a graduate degree in economics, public finance management or related degree, with sound understanding of regulatory reforms in state budget management in Viet Nam and at least 10 years of recognized professional experience in state budget management in Viet Nam. Under the direct guidance of the National Assembly's Committee for Financial and Budgetary Affairs and in close consultation with MoF's Department of State Budget and MPI's Department of National Economic Issues, the state budget management specialist will undertake the following tasks:

- (i) Compile recent regulatory reforms in state budget management and analyze detailed requirements for implementation;
- (ii) Conduct consultation meetings with relevant staff of the National Assembly to understand their capacity constraints, and with relevant government agencies to clarify new requirements for state budget management; and
- (iii) Draft a manual on state budget oversight by the National Assembly in close consultation with government agencies concerned.