



Viet Nam: Microfinance Development Program Subprogram 2

Project Name	Microfinance Development Program Subprogram 2
Project Number	42235-023
Country	Viet Nam
Project Status	Closed
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	Loan 3213-VIE: Microfinance Development Program Subprogram 2 concessional ordinary capital resources lending / Asian Development Fund US\$ 50.00 million
Strategic Agendas	Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	Finance - Finance sector development
Gender Equity and Mainstreaming	Some gender elements
Description	The programmatic approach consists of two subprograms sequenced to support the government in developing a sustainable market-oriented microfinance along the line with the Vietnam Microfinance Development Strategy, 2011_2020, focusing on the: (i) creation of a supportive policy and regulatory environment; (ii) enhancement of the supervisory and regulatory capacities; (iii) strengthening of microfinance involved financial institutions; and (iv) development of financial infrastructure. The proposed policy-based loan will support subprogram 2. The Country Partnership Strategy 2011_2015 of the Asian Development Bank (ADB) highlights the microfinance sector as a key area for ADB assistance.

Project Rationale and Linkage to Country/Regional Strategy

ADB Special Evaluation Study on Microfinance Development Strategy found that as of 2010, Viet Nam attained a much higher penetration rate of 75% of microcredit delivery amongst the poor relative to comparable Asian countries. Microcredit outreach of the Vietnam Bank for Social Policies (VBSP) is remarkable having presence in 98% of 11,000 communes with almost 7 million borrowers, of which 50% are categorized as poor. VBSP has a dominant share of 67% of total microfinance borrowers and 65% of outstanding microfinance loans in 2010. The notably high outreach of microcredit delivery has, however, resulted in adverse impacts: (i) increased fiscal burden through financing operations and interest rate subsidies, and budget allocation to lending resources, making the system unsustainable; and (ii) uneven playing field with the state driven approach discouraging the entry and expansion of market-based financial institutions. With persistent budget deficit recorded since 2009, the sustainability of VBSP came at risk.

To address this risk, the government refocused microfinance as a formal banking service from a social protection tool in 2010. This policy change was a timely response to the rising demands of low-income household and microenterprise clients needing diverse financial services suitable to them. The new direction called for a sector wide reform aiming to transform the state-led credit delivery to a wider variety of market-driven financial services including savings, credit, remittances and insurance. It was against this background that the Vietnam Microfinance Development Strategy, 2011-2020 was formulated with ADB assistance and announced by the Prime Minister in December 2011. The national strategy provides a roadmap to a market oriented sector, relying more on the self-sustaining players in providing market based financial services, while the government providing an enabling environment through regulations and supervision, capacity development, and financial infrastructure supportive to microfinance. The implementation of the Vietnam Microfinance Development Strategy, 2011-2020 is guided by high level Microfinance Working Committee to provide policy advice and coordination to the microfinance development work plan.

On 5 July 2012, ADB approved Microfinance Development Program Programmatic Approach and \$40 million policy-based loan for subprogram 1 and \$0.5 million piggy-backed TA. It was the first full scale ADB assistance after over a decade long technical assistance in nurturing formal microfinance institutions (MFIs). The program supports the government's initiatives to develop a vibrant microfinance sector and improve access to formal financial services for the poor, especially in rural areas. It aims to promote a fair competition among diverse financial institutions, and support the market orientation in microfinance, thereby gradually reducing the government's direct involvement in microfinance operations.

Following the achievements in Subprogram 1, Subprogram 2 has continued to support the government in implementing the comprehensive microfinance sector reform by focusing on the 4 broad areas above, aiming to achieve self-sustaining operations and improved financial services, leading to greater financial inclusion, and deepened financial sector.

Impact	Greater financial inclusion and deepened financial sector
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Project Outcome

Description of Outcome	Increased access of poor women and men to sustainable and affordable microfinance services
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Progress Toward Outcome

Implementation Progress

Description of Project Outputs	<ul style="list-style-type: none"> Creating a policy and regulatory environment conducive to an inclusive, sustainable and market-oriented microfinance sector Strengthening the supervisory and regulatory capacities of microfinance sector regulators Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor Developed infrastructure supportive of the microfinance activities
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Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location

Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Stakeholder Communication, Participation, and Consultation

During Project Design	<p>The program is a programmatic approach comprising two single-tranche subprograms. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per annum during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement. The proceeds of the policy based loan will be disbursed upon loan effectiveness in accordance with the provisions of ADB's Simplification of Disbursement Procedures and Related requirements for Program Loans. The government will use the local currency counterpart funds generated by the loan proceeds to meet program expenditures and associated costs of reform, and will provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the program.</p> <p>The program programmatic approach has supported reforms outlined in the development policy letter and policy matrix. The loan amount is determined by the significance of the microfinance sector to the overall economy, the expected development impact of the policy package, the adjustment costs, and the development financing needs of the government, including costs for: (i) developing the formal MFI sector to improve services to clients; (ii) assisting the VBSP to increase its self-sustainability along its development strategy; (iii) supporting the transformation of the CCF to the Cooperative Bank and improving the PCFs capacity to better serve their clients; and (iv) helping the Banking Academy establish the Microfinance Center to provide capacity building services to the microfinance sector.</p>
During Project Implementation	<p>SBV is the executing agency. It establishes a steering committee to provide overall policy direction and coordination for implementation of the program. The steering committee is chaired by the SBV deputy governor, with high officials representing the concerned stakeholders including MOF, VBSP, the Cooperative Bank, CIC and the Banking Academy as members. The SBV also establishes a program management unit to provide technical support to the steering committee. The unit oversees loan implementation, taking and confirming policy actions, coordinating associated TA activities among implementing agencies, undertaking program administration, and communicating with ADB on behalf of the government.</p> <p>The implementing agencies will be SBV, MOF, VBSP, the Cooperative Bank, CIC, and the Banking Academy, each of which is responsible for compliance of policy actions tasked for, program reporting and discussing implementing issues with SBV.</p>

Responsible Staff

Responsible ADB Officer	Sasaki, Eiichi
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SERD
Executing Agencies	<i>State Bank of Vietnam ADB@GOSBV.ORG 47-49 Ly Thai To Street Hanoi Vietnam</i>

Timetable

Concept Clearance	-
Fact Finding	12 Nov 2013 to 21 Nov 2013
MRM	15 May 2014
Approval	09 Dec 2014
Last Review Mission	-
Last PDS Update	09 Oct 2014

Loan 3213-VIE

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
09 Dec 2014	27 Mar 2015	15 Jul 2015	30 Jun 2015	30 Sep 2015	30 Sep 2015

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	50.00	Cumulative Contract Awards			

ADB	50.00	09 Dec 2014	47.38	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	09 Dec 2014	47.38	0.00	100%

Project Page <https://www.adb.org/projects/42235-023/main>

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