SECTOR ASSESSMENT (SUMMARY): MICROFINANCE

1. Sector Performance, Problems, and Opportunities

1. **Poverty reduction objectives and measures***.* Viet Nam has significantly reduced its poverty incidence from 58% in 1993 to only 10% in 2013.[1] This is largely attributed to the successful implementation of the government's National Poverty Reduction Program, which focused on modernizing agriculture and value-added agroprocessing, promoting non-farm household businesses, and increasing employment opportunities through geographically dispersed industrialization and the promotion of small and medium-sized enterprises. However, in 2012, the Ministry of Labour, Invalids and Social Affairs reported that 2.1 million poor households and 1.5 million near poor households remain vulnerable to external shocks. Poverty Incidence is disproportionately higher in rural areas and among ethnic minorities. Likewise, only about 11% of the poorest 40% of the population has an account in a formal financial institution.[2]

2. **The finance sector.** In 2013, Viet Nam's formal banking system comprised the State Bank of Vietnam (SBV, the central bank), 49 commercial banks (2 wholly state-owned, 4 joint ventures, 5 wholly foreign-owned, and 38 joint stock banks), 50 foreign bank branches, 2 state-owned policy banks: Vietnam Development Bank and Vietnam Bank for Social Policies (VBSP); one cooperative bank (Cooperative Bank transformed from Central People's Credit Fund), 1,130 people's credit funds (PCFs), and 2 licensed microfinance institutions (MFIs). At the end of 2012, the system had $240 billion of total assets, with commercial banks having an 89% share. VBSP, the dominant player in microfinance, had total assets of $6.03 billion (2.5% share), Cooperative Bank $691 million, the PCF system $2.5 billion, and 2 licensed MFIs $5 million.

3. **Microfinance subsector**. The coexistence of market-based and state-driven approaches to the provision of financial services to poor and rural households characterizes microfinance in Viet Nam. Two state-owned financial institutions: Vietnam Bank for Agriculture and Rural Development (VBARD) and VBSP involve in microfinance with 1,130 member-based PCFs, 2 licensed MFIs, and about 50 major semiformal MFIs supported mostly by mass organizations, as well as social funds of local governments, and donors.

4. **Financial institutions involved in microfinance**. As of the end of 2013, VBSP and VBARD collectively accounted for about 82% of total microfinance clients and total microloans outstanding. VBSP alone accounted for 67% of total borrowers and 65% of outstanding loans. Major MFIs (formal and semiformal) and PCFs have steadily taken over VBARD's market share, increasing their collective share of clients from 12.5% to 18%, and share of loans from 12% to 18.7% during 2010–2013, against VBARD's 60.3% reduction in clients and 53.4% reduction in loans. VBSP's extensive outreach resulted in increasing government subsidies and limited entry of other participants into microfinance, preventing healthy competition. Table 1 provides an overview of microfinance lending and savings in Viet Nam.

5. **Enabling policy and regulatory framework.** The Credit Institution Law, enacted in 2010 (CIL 2010), is a landmark law that integrates microfinance into the formal banking system. However, implementing rules and regulations (IRRs) relevant to microfinance are needed to make the CIL 2010 effective.

[1] Government Statistics Office estimate 2014.
[2] World Bank. 2011. Financial Inclusion Database. Washington, DC.

Table 1: Microfinance Lending and Savings in Viet Nam[a] ($ million)

Institution	Number of Borrowers			Outstanding Loans ($)			No. of Depositors		Amount of Deposits ($)	
	2010	**2012**	**2013**	**2010**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
VBSP	7.80	5.76[b]	6.98[b]	4,398	4,142	5,350	4.61	6.88	110	133
VBARD	3.20	1.63	1.49	3,500	1,452	1,390	1.13	1.05	1,252	1,164
PCFs	0.95	1.07	1.12	1,006	1,051	1,294	1.26	1.31	1,218	1,467
MFIs	0.55	0.73	0.77	122	180	189	0.51	0.56	44	48
Total	**12.50**	**9.19**	**10.36**	**9,026**	**6,825**	**8,223**	7.51	9.80	2,624	2,812

MFIs=(formal and semiformal) microfinance institutions, PCFs=People's Credit Funds, VBARD=Vietnam Bank for Agriculture and Rural Development, VBSP=Vietnam Bank for Social Policies.
[a] Based on loans up to D30 million ($ 1,423) per SBV circulars and insurable deposits of up to D50 million ($2,372).
[b] VBSP number of borrowers for 2012 and 2013 were lower than 2010 mainly because of consolidation of individual accounts into household accounts. Exchange rates: $1 = D20,828 in 2012; and D21,080 in 2013.
Source: Asian Development Bank, Cooperative Bank, Microfinance Working Group, State Bank of Vietnam, VBARD, and VBSP.

6. **Strengthening major microfinance participants.** Ongoing capacity development initiatives are vital for microfinance stakeholders to help ensure a cohesive understanding of basic principles and good practices for developing inclusive and viable microfinance. Support is needed by regulatory and supervisory agencies over microfinance, VBSP, PCFs and its apex institution: Cooperative Bank, and MFIs. VBSP needs assistance to attain self-sustainability and deepen its financial services. PCFs and MFIs need to strengthen their banking skills and institutions, while staying competitive in the microfinance market.

7. **Supportive financial infrastructure**. Increasing number of microfinance stakeholders requires more qualified management and staff, especially in the area of information-technology-enhanced microfinance products and services. As the sector develops, systemic risk will increase due to potential overlaps and overfinancing as microfinance-operating credit institutions are targeting the same clients. A cost-effective credit information exchange system is needed to mitigate credit risk. Also, concerns for client protection and overall safety and stability of the finance sector will increase**.** Financial literacy programs can help address these concerns by raising stakeholders' awareness of financial services.

2. Government's Sector Strategy

8. The government initiated major policy shift starting with enactment of CIL 2010 integrating microfinance into the formal banking sector. This was followed by Decision 2195 of June 2011, approving the Vietnam Microfinance Development Strategy, 2011–2020. In March 2014, the Prime Minister's Decision 381/QD-TTg set up the Microfinance Working Committee to provide policy advice and coordination[3] to the work plan of the strategy. The policy thrusts aim to develop an inclusive, responsive, and sustainable microfinance market.

9. To implement the provisions of CIL 2010, SBV issued relevant IRRs for sound and responsive microfinance operations, covering: (i) ownership, governance, licensing, prudential

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[3] Comprising SBV governor, chair; SBV vice governor, vice chair; senior representatives from the ministries of finance; agriculture and rural development; planning and investments; justice; interior; and labour, invalids and social affairs; as well as the Office of the Government; Vietnam Women's Union; Vietnam Farmers Association; and presidents and chief executive officers of VBARD, VBSP, and Cooperative Bank.

norms for MFIs and PCFs, and transparency in interest rate setting; (ii) promotion of pro-poor innovations on e-banking; (iii) microcredit client data; (iv) customer protection (e.g., deposit insurance, client rights, transparency in transactions); and (v) an interim regulation for microinsurance prior to setting up the microinsurance regulatory framework by 2015. Fiscal incentives were also provided by reducing income tax for MFIs.

10. Supervision guidelines consistent with the new IRRs under CIL 2010 are developed to fit the labor-intensive nature of microfinance that deals with a great number of small accounts with highly frequent transactions. A pool of qualified supervisors from various supervisory entities, i.e., SBV, Ministry of Finance, and Ministry of Planning and Investment are trained, with ADB assistance, to effectively supervise credit institutions offering microfinance.

11. PM Decision No. 852/QD-TTg sets VBSP's development strategy, 2011–2020, which also aims for self-sustainability by gradually raising interest rates close to market rates; enhancing information technology solutions for core banking services; consolidating individual accounts by household for better monitoring; and developing more products and services.

12. SBV Circular No. 31 /2012/TT-NHNN transformed Central People's Credit Fund into Cooperative Bank as an apex institution to strengthen member PCFs. The government increased the Cooperative Bank's chartered capital to D3 trillion ($142 million) and infused additional equity of D948 billion ($45 million). It was deputized by SBV to supervise PCFs.

13. In line with initiatives under the Vietnam Microfinance Development Strategy, 2011–2020, the government provided fiscal support for strengthening supervisory agencies; strengthening major financial institutions engaged in microfinance (i.e., VBSP and the Cooperative Bank–PCF network); and establishing supportive financial infrastructure (e.g., microfinance training, microcredit information exchange, and financial literacy programs).

14. Provisions under the national strategy and CIL 2010 set the directions for developing a microinsurance industry by 2015. Two licensed MFIs that earlier set up semiformal insurance schemes had to stop operating such schemes when SBV cited them for violating CIL 2010. As an interim measure, Insurance Supervisory Agency of the Ministry of Finance issued a pilot microinsurance guideline in December 2013 (MOF 16037/BTC-QLBH) solely for the Community Finance Resource Center, in response to its request. The interim license allows the center to serve clients of M7, a licensed MFI, and only until the regulatory framework is set up in 2015. The insurance entity affiliated to TYM, another licensed MFI, acquired a similar interim license.

15. To maximize the gains from an enabling policy and regulatory environment for sustainable microfinance, the government helped develop supportive financial infrastructure:

(i) SBV Decision No. 278 (December 2012) set up the Microfinance Center within the Banking Academy with the government providing an initial budget of D7.9 million ($0.376 million) for 2013–2014. The center is envisioned to be the training hub for the industry, linked with training units of other major participants, to ensure cohesive adoption of proven good practices among stakeholders (e.g., policy-makers, regulators, credit institutions, supporting entities);

(ii) SBV Circular No. 03/2013/TT-NHNN (January 2013) requires credit institutions to report all credit accounts regardless of size (previously loans above D50 million were reported). National Credit Information Center of Vietnam Letter No. 671/TTTD-NCPT (November 2013) prescribes the guidelines for PCFs and MFIs requiring far less information for microcredit accounts than for regular bank loans.

A unique feature of the microfinance information exchange system is the use of the official national identification numbers and household passbook numbers to identify accounts. This allows information exchange by individual and household accounts, mitigating the risks of overfinancing by microfinance credit institutions;

(iii) With fiscal support from the government, VBSP and Cooperative Bank implemented advocacy and financial literacy programs to provide a common view of sustainable microfinance operations among their clients, credit and savings group leaders, PCFs, relevant government agencies, people's credit councils, insurance companies, and mass organizations. This will also empower clients to have informed choices, thus have better access to services.

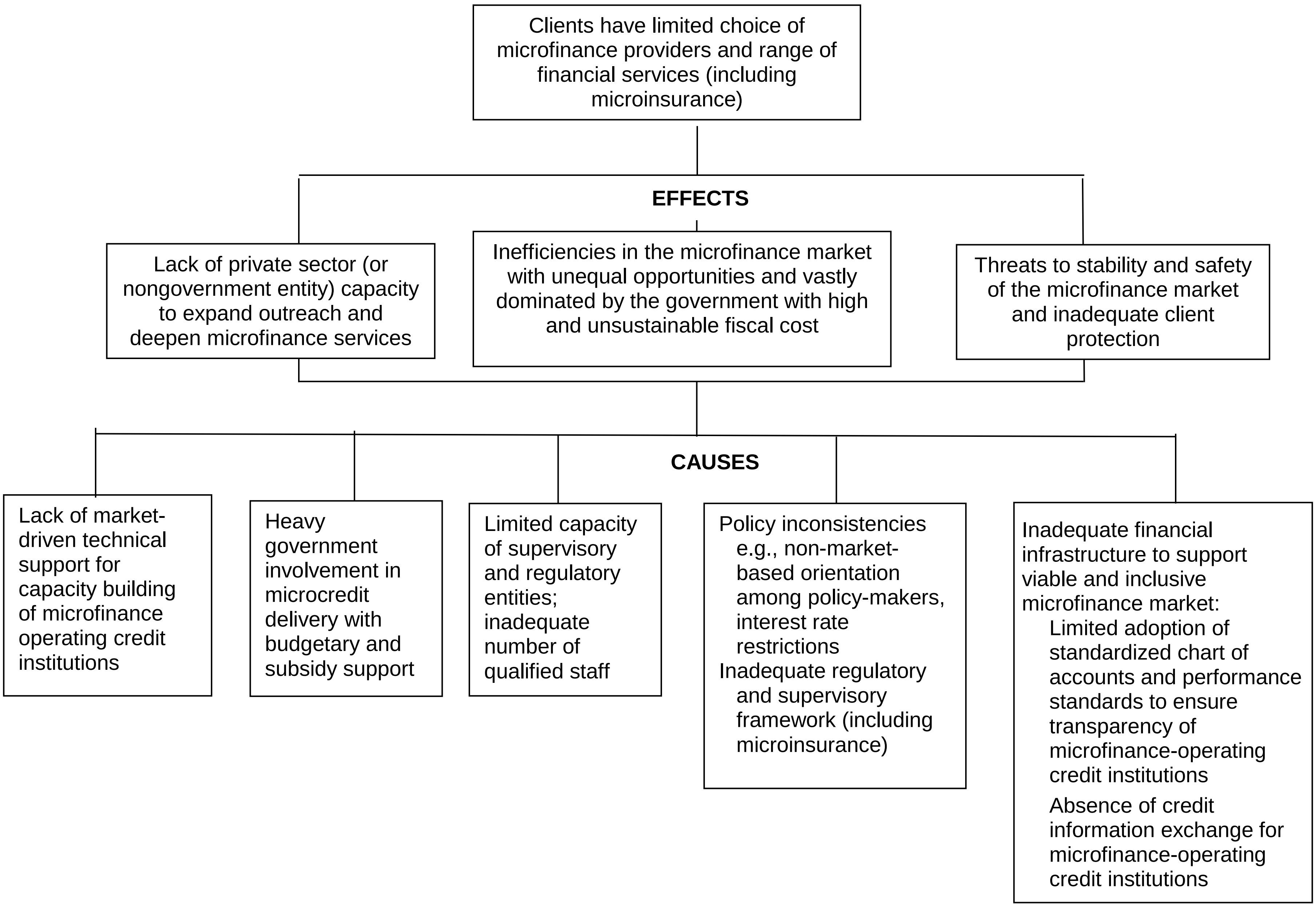
3. ADB Sector Experience and Assistance Program

16. ADB had been providing support to microfinance in Viet Nam, starting as early as 2001, preparing the foundation for fundamental reforms aiming to create responsive, sustainable, and market-oriented microfinance services. ADB technical assistance (TA) project in 2001 for preparing the framework for microfinance development (TA3741-VIE), and TA project in 2005 for improving the regulatory and supervisory framework for microfinance (TA4638-VIE) helped formulate the initial microfinance legal framework through Decree 28.205/ND-CP, which defined MFI organization and operation; and Decree No.165/2007/ND-CP, which improved on Decree 28. In 2009, the ADB provided a Japan Fund for Poverty Reduction grant to support implementation of decrees, as well as provide a broad range of training and supplementary matching funds to help semiformal microfinance programs transform into licensed MFIs. In 2010, ADB TA for preparing the microfinance sector development program (TA7499-VIE) conducted an assessment of microfinance and assisted in formulating the Microfinance Development Program (MDP). The MDP provided $40 million subprogram 1 loan to the government in 2012. The MDP has been assisting the government in (i) creating a policy and regulatory environment conducive to developing an inclusive and sustainable market-oriented microfinance system, including microinsurance; (ii) strengthening supervisory and regulatory capacity; (iii) strengthening credit institutions involved in microfinance to provide affordable and viable services; and (iv) developing supportive infrastructure for microfinance. Complementing the MDP is policy and advisory TA for supporting Microfinance Development Program (TA8108-VIE) that provided policy and technical advice to the government in complying with policy actions stipulated in the MDP subprogram 2 policy matrix. The TA also supported development of a microcredit information exchange system at the National Credit Information Center of Vietnam in SBV. Also, capacity development TA for strengthening microfinance sector operation and supervision (TA8391-VIE) aims for sector-wide capacity development.

17. The seamless assistance provided by ADB showed that the development of a robust, inclusive, and sustainable microfinance system requires the establishment of the appropriate policy and regulatory environment to enable and encourage all microfinance stakeholders to provide viable and responsive microfinance services. Such policies and regulations need to be harmonized with the general banking prudential norms to ensure safety and soundness of microfinance operations, while recognizing the peculiar characteristics of microfinance operations, including the need for consumer protection for low-income clients.

18. ADB collaborates closely with major development partners providing assistance to microfinance. Agence Française de Développement and the International Finance Corporation have current programs focusing on microfinance. The World Bank, and the Government of Canada mainly work to strengthen the supervisory capacity of SBV's Banking Supervisory Agency for the banking system complementing the ADB assistance to microfinance.

PROBLEM TREE: MICROFINANCE



Sector Results Framework: Microfinance (2008–2014)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	**Indicators with Targets and Baselines**	**Outputs with ADB Contribution**	**Indicators with Incremental Targets**	**Planned and Ongoing ADB Interventions**	**Main Outputs from ADB Interventions**
Greater financial inclusion and deepened finance sector Increased access of poor women and men to sustainable and affordable microfinance services	Rural areas share of total outstanding loans increased to 20% by 2014 (2010 baseline: 17%) Number of male and female microfinance borrowers to increase by 10% in 2014, disaggregated by sex (2010 baseline: 12.5 million) Savings mobilized by MFIs increased by 20% in 2014 (2010 baseline: D248.65 billion) Number of microfinance savings accounts increased by 10% in 2014, disaggregated by sex (2010 baseline: 9.7 million) M2/GDP ratio increased by 10% in 2014 (2010 baseline: 133% of GDP	IRRs to implement CIL 2010 provisions for microfinance formulated; policy actions for sustainable and responsive microfinance services (including micro-insurance) in place Adequate number of microfinance regulators (including of VBSP oversight entities) trained VBSP, MFIs, and Cooperative Bank trained to provide affordable and sustainable services to the poor Infrastructure supportive of the microfinance activities set up: knowledge-sharing system for microfinance microfinance information exchange system	National Microfinance Development Strategy approved by Dec 2011; VBSP Strategy for 2020 approved in 2012 Licensed MFIs and cooperative banks increased (2010 baseline: 2 MFIs, 0 cooperative banks) At least 30% of regulators trained through the Microfinance Center by 2014, (disaggregated by sex) 90% of VBSP operations are self-sufficient (2010 baseline: 77%) PCF membership increased to 2.0 million in 2014 (2010 baseline: 1.7 million) Microfinance Center at Banking Academy set up for training, research, consultancy, and other related sector services IT-based and cost-effective microcredit information exchange system in place at CIC; sex disaggregated clients	**Planned key activity areas** Assist in formulating regulatory framework for microinsurance industry Strengthen supervisory and regulatory capacity of microfinance regulators Enhance sustainability of VBSP operations; assist in restructuring PCF ownership and governance **Pipeline projects with estimated amounts** Microfinance Development Program Subprogram 2 ($50 million, indicative) **Ongoing projects with approved amounts** Microfinance Development Program Subprogram 1 ($40 million) Technical Assistance ADB TA 8108-VIE: Supporting Microfinance Development Program ($0.5 million) ADB TA 8391-VIE: Strengthening Microfinance Sector Operations and Supervision ($1.0 million) ADB TA 8587-VIE: Supporting Microfinance Development ($0.6 million)	**Planned key activity areas** Microinsurance industry set up and functioning Trained regulators (i.e., SBV, MOF-ISA, MPI, MOLISA) performing effectively **Pipeline projects** VBSP and PCFs strengthened for effective and viable delivery of services **Ongoing projects** IRRs formulated to implement CIL 2010 provisions for microfinance At least 30% of regulators trained through the Microfinance Center by 2014 (disaggregated sex) Microfinance Center at Banking Academy providing capacity-building services to stakeholders CIC microcredit information exchange system operating

ADF = Asian Development Fund, CIC = Credit Information Center, CIL = Credit Institutions Law, GDP = gross domestic product, IRR = implementing rules and regulations, IT = information technology, JFPR = Japan Fund for Poverty Reduction, MFI = microfinance institution, PCF = People's Credit Fund, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.
Source: Asian Development Bank.