

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB) has been providing assistance for the development of microfinance in Viet Nam since 2001. The first two technical assistance (TA) projects in 2001 and 2007 led to the formulation of the fundamental legal and regulatory framework for developing microfinance. In 2009, TA and supplementary matching funds helped transform semiformal microfinance programs into formal regulated microfinance institutions. Continuing ADB assistance led to (i) the recognition of microfinance institutions as an integral part of the finance sector as provided for in the Credit Institutions Law (2010); and (ii) the formulation and issuance of the Vietnam Microfinance Development Strategy, 2011–2020 in 2011.

2. In response to the government's commitment to develop market-oriented microfinance, ADB approved the policy-based Microfinance Development Program (MDP) in 2012. It included policy advisory and TA to assist the government in accomplishing the policy commitments under the MDP. Both the MDP and the TA provide continuing support to the development of a vibrant and sustainable microfinance system through the implementation of the Vietnam Microfinance Development Strategy, 2011–2020. Subprogram 2 of the MDP seeks to provide continuing assistance to the government in strengthening microfinance. It takes into account assistance provided by other development partners to ensure synergies with their work.

3. Major development partners providing assistance for microfinance include the Agence Française de Développement (AFD) the International Finance Corporation (IFC), and the World Bank (WB). AFD provides complementary TA to the State Bank of Vietnam (SBV) to improve and strengthen the legal framework and improve the supervisory and regulatory capacity of SBV for developing a commercially viable microfinance industry.

4. As part of the Rural Finance Project III, which closed in December 2013, the World Bank provided a \$10 million microfinance loan fund for on-lending to selected microfinance institutions to facilitate enhanced access of the rural poor to microfinance services. It also provided TA and training to participating financial institutions on financial operation and risk management. The World Bank is implementing the Financial Sector Modernization and Information Management System Project, which provides assistance to SBV and its Credit Information Center (CIC) to improve their business processes and information and communication technology platform.

5. IFC and the International Development Association are providing TA for microfinance to ensure greater financial inclusion in the country. In particular, IFC is providing TA to microfinance associations for updating, developing, and implementing business plans geared to more sustainable and transparent operations. IFC also provides assistance to selected microfinance institutions on areas related to institutional strengthening (e.g., corporate governance, management capacity building, financial management, and operations). IFC is conducting a diagnostic study on responsible finance, which among other things, reviews the legal framework for consumer protection in microfinance and identifies issues that need to be addressed. In addition, IFC is providing advice to help expand access of small and medium-sized enterprises (SMEs) to finance through the Viet Nam Bank Advisory Project. With co-financing from the Swiss Confederation State Secretariat for Economic Affairs (SECO), IFC is implementing a project that provides TA for the development of a legal framework for secured transaction. SECO is also providing assistance for financial infrastructure development, which includes the credit bureau and payments system, development of banking system strategy, and monitoring and capacity building.

6. The Japan International Cooperation Agency (JICA) is implementing the SME Finance Project III, which aims to enhance SME access to finance. The International Fund for Agricultural Development (IFAD) is implementing a \$20 million development project focusing on ethnic minorities in the poor communes of Dak Nong Province. Similar to the practice in microfinance, the project promotes the establishment of joint liability groups and support for mobilizing and forming savings and credit groups among poor ethnic minority groups. Such groups are used as conduits for the project's credit component. Table 1 provides a list of major development partners and their projects in microfinance development.

Table 1: Major Development Partners

| Development Partner | Project Name | Duration | Amount (million) |
|----------------------------|---|-----------------|-------------------------|
| ADB | Preparing the Framework for Microfinance Development | 2001–2004 | \$0.30 |
| | Implementing the Regulatory and Supervisory Framework for Microfinance | 2007–2008 | \$0.25 |
| | Formalizing Microfinance Institutions | 2009–2011 | \$1.50 |
| | Preparing the Microfinance Sector Development Program for Viet Nam | 2010–2011 | \$0.50 |
| | Microfinance Development Program (Subprogram 1) | 2008–2012 | \$40.00 |
| | Second Small and Medium-Sized Enterprises Development Program (Subprogram 2) | 2010–2013 | \$50.00 |
| | Supporting Microfinance Development Program | 2012–2014 | \$0.50 |
| | Strengthening Microfinance Sector Operations and Supervision | 2014–2017 | \$1.00 |
| AECID- ICO | Microfinance Project of Spanish Government | 2006–2018 | \$24.14 |
| AFD | Financial support to the development of PCF network in poor regions and strengthening the network CCF–PCF | 2009–2014 | €20.00 |
| | TA to the Cooperative Bank: Institutional Support to PCFs (including risk management) | 2009–2014 | €0.50 |
| Government of Canada | Banking Regulation and Supervision Support | 2013–2018 | Can\$14.00 |
| IDF–OPEC Fund | Fund for the Rural Poor Project | 1999–2015 | \$10.00 |
| IFAD | Project for the Economic Empowerment of Ethnic Minorities in Poor Communes of Dak Nong Province | 2010–2016 | \$20.00 |
| IFC, IDA | Microfinance Program (including policy and regulatory advisory, and support to MFI development) | 2012–2016 | \$4.00 |
| IFC, SECO | Secured Transactions Legal Framework | 2008–2016 | \$1.00 |
| JICA | SME Finance Project III | 2009–2013 | ¥17,379.00 |
| Rabobank Foundation | Technical Assistance Project for CCF–PCF Network | 2011–2013 | \$3.00 |
| SECO | Banking Sector Strategy Development and Monitoring and Capacity Building | 2010–2015 | SwF1.30 |
| SECO | Financial Infrastructure Development (including credit bureau and payment system) | 2011–2016 | \$1.35 |
| SECO | Green Credit Trust Fund | 2007–2017 | \$5.00 |
| WB | Rural Finance III | 2010–2032 | \$200.00 |
| WB | Financial Sector Modernization and Information Management System Project | 2009–present | SDR38.20 |

ADB = Asian Development Bank, AECID = Spanish Agency for International Development Cooperation, AFD = Agence Francaise de Developpement, CCF = Central People's Credit Fund, IDA = International Development Association, ICO = Official Credit Institute, IFAD = International Fund for Agricultural Development, IFC = International Finance Corporation, JICA = Japan International Cooperation Agency, MFI = microfinance institution, PCF = People's Credit Fund, SECO = Swiss Confederation State Secretariat for Economic Affairs, TA = technical assistance, WB = World Bank

Note: Given the number of active development partners in the finance sector, only a limited number of projects are included.

Sources: Asian Development Bank.

B. Institutional Arrangements and Processes for Development Coordination

7. Concerned development partners, including ADB, conduct regular finance sector aid coordination meetings (chaired by the World Bank) to share information on current and future support programs, including support for microfinance. ADB is also an active participant in subgroup meetings on financial inclusion, which is spearheaded by IFC.

8. ADB continues to cooperate and collaborate with other development partners engaged in microfinance. In preparing and processing subprogram 2 of the MDP, ADB consulted with AFD, IFC, the Government of Canada, and the WB. The consultations were to ensure that activities under the proposed programs, projects, and TA complement the initiatives and activities of the other partners. To maximize the gains in developing microfinance and strengthen areas of collaboration and complementation, ADB will continue to dialogue and consult with the other development partners engaged in providing assistance for microfinance.

C. Achievement and Issues

9. Continuing dialogue and coordination with key development partners resulted in regular information exchange. Under subprogram 1 of the MDP, ADB and AFD conducted consultation meetings to ensure synergy and consistency in the TA on supervision and regulation to be provided by both development partners to SBV and the Banking Supervision Agency. Implementation of the TA for strengthening microfinance operations and supervision will be closely coordinated with the AFD project to ensure synergy. ADB and AFD have agreed to conduct regular coordination meetings to ensure that program and project activities are synchronized and complementary.

10. ADB is also working closely with IFC to conduct a diagnostic study on responsible finance in Viet Nam. The ADB TA will use results of the study to develop appropriate training modules related to financial literacy and consumer protection.

D. Summary and Recommendations

11. The scope, coverage, and objectives of the proposed program to develop microfinance in Viet Nam were formulated in close coordination with key development partners, including AFD, the Government of Canada, and the World Bank resulting in complementary programs and projects. Given the results thus far achieved, the proposed program is timely and relevant to the development policy thrust of the Government of Viet Nam and the development of its microfinance industry.