



# Validation Report

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Reference Number: PVR-478  
Project Numbers: 42235-013 and 42235-023  
Loan Numbers: 2877 and 3213  
December 2016

## Viet Nam: Microfinance Development Program (Subprograms 1 and 2)

Independent Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
CCF	–	Central Credit Fund
CIC	–	Credit Information Center
CIL	–	Credit Institution Law
DMF	–	Design and monitoring framework
IRRs	–	Implementing Rules and Regulations
IT	–	Information Technology
MDP	–	Microfinance Development Program
MFI	–	Microfinance Institution
PCF	–	people's credit fund
SBV	–	State Bank of Viet Nam
TA	–	Technical Assistance
VBSP	–	Viet Nam Bank for Social Policies

## NOTE

In this report, "\$" refers to US dollars.

### Key Words

adb, asian development bank, central credit fund, credit fund, microfinance development program, microfinance development strategy, microfinance institutions, validation, vietnam, vietnam bank for social policies

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### PROGRAM BASIC DATA

<b>Project Numbers</b>	42235-013 and 42235-023	<b>PCR Circulation Date</b>	30 Jun 2016	
<b>Loan Numbers</b>	2877 and 3213	<b>PCR Validation Date</b>	Dec 2016	
<b>Project Name</b>	<b>Microfinance Development Program (Subprograms 1 and 2)</b>			
<b>Sector and subsector</b>	Finance	Inclusive finance		
<b>Theme and subtheme</b>	Economic growth	Widening access to markets and economic opportunities		
<b>Safeguard categories</b>	Environment	C		
	Involuntary Resettlement	C		
	Indigenous Peoples	C		
<b>Country</b>	Viet Nam		<b>Approved</b> (\$ million)	<b>Actual</b> (\$ million)
<b>ADB Financing</b> (\$ million)	<b>ADF:</b> 40.00 (Loan 2877) 50.00 (Loan 3213)	<b>Total Project Costs</b>	90.0	87.2
	<b>OCR:</b> 0.00	<b>Loan</b>		
		Loan 2877 (SDR equivalent, million)	40.0 (25.9)	39.8 (25.9)
		Loan 3213 (SDR equivalent, million)	50.0 (33.7)	47.4 (33.7)
		<b>Borrower</b>	0.0	0.0
		<b>Beneficiaries</b>	0.0	0.0
	<b>Others</b>	0.0	0.0	
<b>Cofinancier</b>		<b>Total Cofinancing</b>	0.0	0.0
<b>Approval Date:</b> Loan 2877 Loan 3213	5 Jul 2012 9 Dec 2014	<b>Effectiveness Date</b> Loan 2877 Loan 3213	7 Dec 2012 27 Jun 2015	7 Jan 2013 15 Jul 2015
<b>Signing Date</b> Loan 2877 Loan 3213	7 Sep 2012 27 Mar 2015	<b>Closing Date</b> Loan 2877 Loan 3213	31 Mar 2013 30 Jun 2015	31 Mar 2013 30 Sep 2015
<b>Project Officer</b>	E. Sasaki	<b>Location</b>	<b>From</b> Oct 2012	<b>To</b> Sep 2015
<b>IED Review Director</b>	B. Nguyen, Officer-in-Charge, IED2			
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ADB = Asian Development Bank; ADF = Asian Development Fund; IED = Independent Evaluation Department; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; PCR = program completion report; SDR = special drawing right.

## I. PROGRAM DESCRIPTION

### A. Rationale

1. During the program preparation stage, it was estimated that rural areas in Viet Nam received only 17% of total bank credit and less than 20% of the rural population had access to formal financial services. The lack of access to finance was regarded as one of the major constraints to enterprise development and employment creation, particularly in the rural areas. To ease the financing constraints of rural households, the government heavily intervened in the

delivery of microfinance services through the Viet Nam Bank for Social Policies (VBSP), which resulted in the crowding out of private sector players and hampering the growth of diverse, market-oriented microfinance providers. In turn, this limited the choices of the rural poor in accessing a wider range of sustainable financial services, including credit, savings, money transfer, and micro insurance. The increasingly heavy fiscal burden that resulted from supporting VBSP through financing operations, interest rate subsidies, and budget allocation—which reached 1.4% of gross domestic product in 2009—was difficult to sustain, resulting in persistent budget deficits since 2009.

2. The government also owned the Central Credit Fund (CCF)—the apex institution for the people’s credit funds (PCFs), which were financial cooperatives in Viet Nam. As result of the government’s ownership, about 50% of CCF’s portfolio was outside the PCF network, with loans to state-owned enterprises, small and medium-sized enterprises, entities, and individuals who were not PCF members. Thus, CCF has not been effective as a member-based apex institution and was unable to adequately serve its members. PCFs had a weak membership base with an average of 1,700 members per PCF in 2009. In reality, a typical PCF has less than 50 core members, usually from higher-income households that provide the core capital. These households form the board and with tight control of operations, they can set barriers to entry for new core members, resulting in the exclusion of other potential members. The microfinance institutions (MFIs) have also been constrained by the lack of legal and regulatory framework for licensing and for their transformation into formal and regulated institutions. As institutions outside the supervisory framework of the State Bank of Viet Nam (SBV), MFIs were not allowed to take deposits, which constrained the expansion of their operations. MFIs have also limited outreach and capacity to offer competitive financial services to low-income households.

3. In June 2010, the new Credit Institution Law (CIL) was passed. It was a landmark legislation that called for sector-wide reforms aimed at transitioning the microfinance delivery system—from one that is state-dominated to that of a market-oriented system that provides sustainable financial services and effective financial intermediation. The Microfinance Development Strategy 2011–2020,<sup>1</sup> which was formulated with Asian Development Bank (ADB) support,<sup>2</sup> was approved by the Prime Minister in December 2011. The strategy aims to promote the private sector’s role in microfinance and gradually reduce the role of government in the delivery of microfinance services.

4. The Microfinance Development Program (MDP) was formulated to support government efforts in improving the overall quality and capacity of microfinance, focusing on (i) an improved policy and regulatory environment, (ii) increased operational and supervisory capacities, and (iii) financial infrastructure development in line with the national Microfinance Development Strategy. The MDP consisted of two subprograms to address existing constraints in the sector that included (i) lack of supportive policy and regulatory environment, (ii) inadequate regulatory and supervisory capacity, (iii) weak MFIs, and (iv) inefficient financial infrastructure. Subprogram 1 focused on policy and regulatory reforms, supervisory capacity building, operational and institutional development, and financial infrastructure development.<sup>3</sup> Subprogram 2<sup>4</sup> followed through with the achievements of subprogram 1 and continued to support the government’s comprehensive reforms—covering the same broad areas as subprogram 1—to achieve

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<sup>1</sup> Government of Viet Nam. 2011. *Viet Nam Microfinance Development Strategy, 2011–2020*.

<sup>2</sup> ADB. 2010. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Microfinance Sector Development Program*. Manila.

<sup>3</sup> ADB. 2012. *Viet Nam: Microfinance Development Program Subprogram 1 and Technical Assistance*. Manila.

<sup>4</sup> ADB. 2014. *Viet Nam: Microfinance Development Program Subprogram 2*. Manila.

self-sustaining microfinance operations leading to improved financial services, greater financial inclusion, and deepened finance sector.

## **B. Expected Impact, Outcomes, and Outputs**

5. The stated impact, outcome, and output statements in the design and monitoring framework (DMF) were the same for both subprograms 1 and 2. The envisaged impact was greater financial inclusion and deepened finance sector. The expected outcome was increased access of low-income clients to diverse, sustainable, and affordable microfinance services. The expected outputs were (i) a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector, (ii) strengthened supervisory and regulatory capacities of the microfinance sector regulators, (iii) strengthened credit institutions involved in microfinance so these could provide affordable and sustainable services to the poor, and (iv) developed infrastructure for the microfinance sector.

## **C. Provision of Inputs**

6. ADB approved a \$40 million loan for MDP subprogram 1 on 5 July 2012. It was declared effective on 7 January 2013 and disbursed on 23 January 2013. The \$50 million loan for subprogram 2 was approved on 9 December 2014 and became effective on 15 July 2015. It was disbursed on 9 September 2015. Disbursements for both loans were made on schedule. The loan proceeds were used on a retroactive basis to finance part of the costs incurred in undertaking the agreed policy actions specified in the policy matrix.

7. ADB provided a \$500,000 policy and advisory technical assistance (TA) attached to subprogram 1. The TA grant was designed to support the implementation of the MDP by helping achieve a medium-term agenda in microfinance, and to provide the government with policy advice. The TA grant helped (i) draft the implementing rules and regulations (IRRs) on the new CIL provisions on microfinance, (ii) develop a microfinance credit information exchange system, (iii) review and help improve the micro insurance regulations, (iv) monitor the delivery of the agreed policy actions, (v) provide policy advice to the government, and (vi) develop inputs for the subprogram 2 loan documents. These activities were assessed by the TA completion report *successful*.<sup>5</sup> It was assessed highly relevant and effective in supporting the government in formulating the regulatory framework necessary for developing the microfinance sector. It also helped strengthen the financial infrastructure by supporting for the development of the microcredit information exchange system.

8. The program was classified as Category C for all safeguard categories—environment, involuntary resettlement, and indigenous peoples.

## **D. Implementation Arrangements**

9. The SBV was the executing agency for the program. The implementing agencies were the following: SBV, Ministry of Finance, VBSP, Cooperative Bank, Credit Information Center (CIC), and Banking Academy. These agencies were responsible for carrying out their assigned policy actions, preparing program reports, and discussing implementation issues with SBV. SBV established a program management unit to (i) oversee loan implementation, (ii) coordinate with the concerned agencies on their respective policy actions and on TA activities, (iii) undertake

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<sup>5</sup> ADB. 2015. *Viet Nam Technical Assistance Completion Report on Supporting Microfinance Development Program*. Manila.

program administration, and (iv) communicate with ADB on behalf of the government. The implementation arrangements were adequate in achieving the agreed policy actions and in the delivering the expected outputs.

10. The 16 policy actions of subprogram 1 were all achieved. These policy actions included (i) the approval by the Prime Minister of the National Microfinance Development Strategy, (ii) inclusion in the CIL of MFIs as credit institutions under the SBV, (iii) preparation of a draft Manual of Supervision for MFIs, (iv) actions initiated to reform and restructure VBSP to achieve sustainable market-oriented operations, (v) a draft IRR to transform the CCF into a cooperative bank, and (vi) inclusion in the CIL of a provision that will require microcredit information to be submitted to the CIC.

11. The 21 policy actions under subprogram 2 were likewise achieved. These policy actions included the (i) implementation of the National Microfinance Strategy, (ii) issuance of IRRs on the ownership and governance structure of PCFs and MFIs, (iii) implementation of the Manual of Supervision for MFIs, (iv) approval of the Development Strategy for VBSP toward 2020, (v) issuance and implementation of IRRs to ensure that PCF operations are in accordance with generally accepted cooperative principles and practices, (vi) establishment of microfinance center within the Banking Academy, and (vii) development of a credit information system for microfinance at CIC.

12. The PCR stated that all loan conditions and covenants were complied in full and on time. However, the compliance status on the loan covenants, which are usually presented in the Appendix, was not included in the PCR and neither was there any discussion on key covenants that were complied with.

## II. EVALUATION OF PERFORMANCE AND RATINGS

### A. Relevance of Design and Formulation

13. The PCR assessed the MDP *highly relevant*. The development of the microfinance sector was identified as a key target for ADB assistance under the Country Partnership Strategy for Viet Nam, 2011–2015.<sup>6</sup> The program was closely aligned with the government's Microfinance Development Strategy and helped in its implementation. Together with the TA grant, the program supported the government in formulating the necessary policies and regulations for microfinance development and improving capacities in microfinance operations and supervision. The policy-based loan modality was considered by the PCR highly relevant in supporting the government's policy reforms under its Microfinance Development Strategy, enabling key stakeholders to effectively pursue the strategy's objectives. These objectives include: (i) supporting the development of policy and regulatory environment, (ii) enhancing supervisory capacity, (iii) strengthening financial institutions, and (iv) developing supportive financial infrastructure. The PCR also noted that the MDP complemented the assistance from other development partners in strengthening the capacity of SBV's Banking Supervision Agency to supervise microfinance operations.

14. This validation notes that some of the key issues identified at program formulation were not adequately addressed. First, the elimination of the subsidized lending of VBSP was not sufficiently addressed in the policy actions. The continued existence of subsidized lending, with VBSP as a dominant player, fragmented the market and discouraged the entry of private sector

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<sup>6</sup> ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

players. Second, the ownership of the Cooperative Bank was not appropriately addressed in the policy actions. The government continued to retain almost complete ownership of the bank, affecting its effectiveness in better serving its members. The government's ownership of the Cooperative Bank is not in line with the standard practice of a cooperative owned by members. The outcome indicators in the DMF were supposed to be the number of individual microfinance borrowers, disaggregated by sex. However, the baseline data did not provide a disaggregated number of male and female borrowers. In subprogram 2, the indicator was changed—from individual to household borrowers—making it impossible to disaggregate microfinance access by sex. While there were shortcomings in the design, the program, nonetheless, provided timely support to the government in undertaking policy and regulatory reforms and in improving capacities in microfinance operations and supervision. On the whole, this validation assesses the MDP *relevant*.

## **B. Effectiveness in Achieving Program Outcomes and Outputs**

15. The PCR rated the program *effective*. The expected outcome was increased access of low-income clients to diverse, sustainable, and affordable microfinance services. The outcome indicators were (i) number of microfinance household borrowers to increase by 5% in 2014, disaggregated by sex (2010 baseline: 12.5 million);<sup>7</sup> and (ii) number of microfinance savings accounts increased by 10% in 2014, disaggregated by sex (2010 baseline: 9.7 million). The PCR indicated that these indicators were technically not achieved because VBSP consolidated the individual accounts into households, which changed the way data was presented—from individual accounts to household accounts. Thus, as presented in the PCR, the reported number of microfinance borrowers declined to 10.42 million and that for savers declined to 8.51 million due to the consolidation of the accounts. However these numbers denote household accounts and are not comparable to baseline figures, which refer to individual accounts and hence, it is incorrect to conclude that the number of borrowers declined. Nonetheless, the PCR noted that the total VBSP, PCF, and MFI outstanding microfinance lending grew by 41% during 2010–2014 (PCR, para. 39). This validation is of the view that this growth in outstanding loans indicates the increased access of low-income households to microfinance services.

16. On outputs, all the targets were achieved. The three indicators for a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector were achieved (output 1). First, the indicator for the National Microfinance Development Strategy was achieved with the approval by the Prime Minister of the strategy in December 2011, which was followed through by an implementation plan and the setting up of a microfinance working committee. Second, the target number of licensed MFIs and cooperatives was met with three MFIs and one cooperative bank granted with license to operate. Third, the required reporting of microfinance client data, which was to be disaggregated by sex, was realized through the issuance of an SBV circular and a CIC letter providing guidance to MFIs and PCFs on how to implement this requirement.

17. Output 2 pertained to strengthening the supervisory and regulatory capacities of the microfinance sector regulator. The sole indicator of at least 30% of regulators trained through

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<sup>7</sup> In subprogram 1, the indicator was number of male and female microfinance borrowers increased by 10% in 2014, disaggregated by sex (2010 baseline: 12.5 million). In subprogram 2, the indicator was changed to number of microfinance household borrowers increased by 5% in 2014. The change in the indicator was due to the change in VBSP client account management that consolidated many individual accounts into household accounts. This change, however, makes it impossible to track microfinance access by sex.

the Microfinance Center was achieved. The training was supported under an ADB capacity development TA.<sup>8</sup>

18. Output 3 was to strengthen the credit institutions involved in microfinance so they could provide affordable and sustainable services to the poor. The three indicators were achieved. The first indicator—the strategy for reforming VBSP—was achieved when the Prime Minister approved the strategy on 10 July 2012. Second, the operational self-sufficiency ratio of VBSP reached 101% in 2014, exceeding the target of 90%. Third, the number of PCF members increased to 1.97 million, exceeding the target of 1.20 million under the program.

19. Output 4 focused on the development of infrastructure for the microfinance sector. The two indicators were (i) a microfinance center within the Banking Academy established to provide training, research, consultancy, and other services related to the microfinance sector; and (ii) an information technology-based and cost-effective credit information exchange system for microfinance developed at the CIC. Both indicators were achieved. The Microfinance Center was established within the Banking Academy in 2012.<sup>9</sup> The credit information exchange system for microfinance was realized with support from the TA associated with MDP.

20. The policy actions under subprograms 1 and 2 created an appropriate policy and regulatory environment for microfinance, strengthened supervisory and regulatory capacities, strengthened credit institutions, and supported the development of infrastructure for the sector. The expected outputs were delivered and the envisaged outcome of increased access to low-income clients to diverse, sustainable, and affordable microfinance services was realized. Therefore, the program is assessed *effective*.

### **C. Efficiency of Resource Use in Achieving Outcomes and Outputs**

21. The PCR assessed the MDP *efficient*. The loans for subprograms 1 and 2 were fully disbursed. The agreed policy actions were achieved and expected outputs delivered. Subprogram 1 was closed as planned on 31 March 2013. The closing date of subprogram 2 was 30 September 2015, slightly delayed by 3 months from the original schedule due to prolonged government procedures. This validation considers the program *efficient*.

### **D. Preliminary Assessment of Sustainability**

22. The PCR rated the program *likely sustainable*. Many of the reforms carried out formed part of the legal and regulatory frameworks that provide the foundation for developing the sector beyond the program period. Key institutions, particularly the Banking Supervision Agency, the Microfinance Center, the Banking Academy, and the CIC were strengthened. The PCR noted that these institutions form an important part of microfinance development and they will continue to provide the necessary supervision, capacity development, and credit management support. The policy and regulatory reforms achieved under the program improved the operating environment for microfinance and will support the continued implementation of the national Microfinance Development Strategy.

23. This validation notes that VBSP continues to provide subsidized interest rate to social policy lending clients. This fragments the market and undermines the sustainability of VBSP as it continues to play a dominant role in the provision of microcredit. The PCR reported that VBSP

<sup>8</sup> ADB. 2013. *Socialist Republic of Viet Nam: Strengthening Microfinance Sector Operations and Supervision*. Manila.

<sup>9</sup> State Bank of Viet Nam. 2012. *SBV Decision No. 278/QĐ-HV-TCCB of 27 December 2012*.



has crossed the break-even point with operational self-sufficiency exceeding 100%. However, it is not clear if it will be able to sustain the value of its capital relative to inflation, and to expand its operations without subsidies in the long term. While VBSP has begun to raise its interest rates near market level and even above market for some its loans, it should push the pricing of its loans at market rates for all products to achieve financial sustainability and to level the playing field in the microfinance sector.

24. Despite VBSP's lending that is not fully aligned with market rates, the legal and regulatory reforms were significant developments in improving the environment for microfinance. These reforms will have a lasting effect on the sector and the strengthened capacity of institutions will support the ongoing microfinance strategy of the government. The development of a credit information exchange system will improve credit management and, thus, contribute to the sustainability of microfinance operations. This validation assesses the program *likely sustainable*.

## **E. Institutional Development**

25. The PCR did not rate the institutional development of the program. This validation considers the institutional development of MDP *significant*. The capacity of SBV and the Ministry of Finance to supervise and regulate microfinance operations was strengthened by the formulation of supervisory guidelines for microfinance, training of supervisors, and placing a number of qualified and experienced supervisors to be in charge of microfinance operations. The VBSP, PCFs, and MFIs were also strengthened. The strategy to develop VBSP during 2011–2020 will help transform it into a more self-sustaining financial institution and the training support strengthened its ability toward market-oriented operations. The PCF system was strengthened with the role of CCF converted into the Cooperative Bank with larger equity base, clearer mandates, and enhanced authority. The Cooperative Bank takes deposits from PCFs and also provides them with credit. Further, the Cooperative Bank has been given the mandate to strengthen the institutional and operational capacities of PCFs. The enabling environment developed under the program and the assistance provided by an earlier ADB project<sup>10</sup> has helped major MFIs to expand their client base by 92%.

26. The program also helped strengthen the support infrastructure for the microfinance sector. The establishment of the Microfinance Center is expected to enhance the ability of policy makers, regulators, and practitioners to adopt best practices in microfinance operations and supervision. The establishment of the IT-based microcredit information exchange system at the CIC will help credit institutions avoid the need for costly individual credit investigations, improve client selection, and strengthen their credit portfolios.

## **F. Impact**

27. The PCR discussed the program's impact but did not provide a rating. The envisaged impact of greater financial inclusion and deepened finance sector was partly realized with two of the three impact indicators achieved, and one partly achieved. The targeted increase of 20% in savings mobilized by MFIs was surpassed as actual savings increased substantially by 315% in 2014. The target of 10% increase in the M2/gross domestic product ratio was exceeded with the ratio increasing by 14% in 2014. However, the targeted 20% increase in the share of rural

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<sup>10</sup> ADB. 2009. *Proposed Grant Assistance to the Socialist Republic of Viet Nam for Formalizing Microfinance Institutions*. Manila.

areas in total loans outstanding was not fully realized with the share increasing only to 18.8% in 2014.

28. The program also called for greater financial inclusion in the finance sector. In this regard, a policy action required credit institutions to submit reports disaggregated by sex to SBV. However, the gender impact of the program was not presented in the PCR. On the long-term impact of the measures supported by the program, this validation shares the view of the PCR that these will lead to a sound, stable, competitive, and more inclusive financial system. Considering the improvement in the policy and regulatory environment and the achievement of most impact targets, this validation assesses the impact of the program *satisfactory*.<sup>11</sup>

### III. OTHER PERFORMANCE ASSESSMENTS

#### A. Performance of the Borrower and Executing Agency

29. The PCR assessed the performance of SBV as executing agency *satisfactory*. It coordinated effectively with concerned ministries and agencies in implementing the program and ensured that agreed policy actions were met. SBV showed strong ownership of the program and demonstrated the capacity to implement the program effectively. It coordinated well with ADB during review mission and provided the necessary support. This validation also considers the performance of SBV *satisfactory*.

#### B. Performance of the Asian Development Bank

30. The PCR assessed the performance of ADB *satisfactory*. ADB fielded three review missions and one program completion review for subprogram 1. For subprogram 2, ADB fielded one review mission, two consultation missions, one loan negotiation mission, and one program review mission. The monitoring and supervision of the program by ADB was adequate. The staffs concerned at the ADB headquarter and at the Viet Nam Resident Mission worked closely with SBV and the stakeholders in ensuring that the agreed policy actions were achieved. This validation views the performance of ADB *satisfactory*.

### IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

#### A. Overall Assessment and Ratings

31. The PCR rated the MDP *successful* overall on account of the achievement of most of the indicator targets. This validation also rates the program *successful*. It rates the program *relevant* for supporting the government's efforts in developing a conducive policy and regulatory environment for microfinance and for improving the operating capacities of institutions. The PCR rated the program *effective* for delivering the expected outputs and achieving the envisaged outcome of increased access to low-income clients to diverse, sustainable, and affordable microfinance services. This validation rates the program *efficient* since the loans were fully disbursed on time and there were no substantial delays in meeting the agreed policy actions. It rates the program *likely sustainable* since most of the reforms were entrenched in the legal and regulatory frameworks while the institutions that were strengthened will support the ongoing

<sup>11</sup> Beginning May 2016, IED adopts the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations on development impacts. In this terminology, a *satisfactory* rating coincides with the *significant* rating that was used before.

microfinance strategy of the government. This validation further assesses the institutional development of the program *satisfactory* on account of the institutions strengthened in supervision and microfinance operations and the support infrastructure set in place under the program. It rates the impact *satisfactory* since most of the impact indicator targets were achieved. The achievements realized so far will lead to more stable, sound, and sustainable microfinance operations.

### Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Relevant	There were shortcomings in the design. Key issues identified were not adequately addressed (para.14).
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Efficient	Efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
<b>Overall assessment</b>	<b>Successful</b>	<b>Successful</b>	
Institutional development	Not rated	Significant	
Impact	Not rated	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Refer to para. 37.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.

Note: This report uses the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations.

Source: ADB Independent Evaluation Department.

## B. Lessons

32. The lessons identified by the PCR are valid. First, program implementation needs to allocate adequate time for policy actions relating to issuances of IRRs since the government adopted a consensus-building approach in formulating regulations. Second, there is urgent need for enhancing the IT capabilities of the PCFs and MFIs to improve credit reporting and information exchange. While the program assisted SBV in standardizing reporting requirements and in setting the microfinance information exchange system within CIC, the majority of the small credit institutions lack the skills and system to properly comply with the new reporting standards. This made the consolidation and analysis of reports from these institutions difficult.

## C. Recommendations for Follow-Up

33. The recommendations presented in the PCR are sound. To succeed in attaining access to market-based and affordable financial services, this will require long-term monitoring of government's implementation of the Microfinance Development Strategy. In the medium term, initiatives are also needed to further develop policies and regulations, enhance supervisory capacity, strengthen operational capacity of institutions, and develop the financial infrastructure.

34. This validation agrees with the points noted by the PCR in terms of future ADB monitoring. Progress in the issuance of SBV's delayed circular on licensing requirements for MFIs should be closely monitored. The consolidation of small, highly regionalized, unregulated operations into fewer capable, well-resourced formal MFIs should be encouraged. The capacity of PCFs to comply with the new regulations need to be strengthened. There is urgent need for government to issue a policy framework and IRR on micro insurance to meet this specific need among the vulnerable, poor, and low-income households. It is also crucial for the government to develop an appropriate policy and regulatory framework for digital finance, which will have an important role in achieving greater financial inclusion. ADB should closely monitor these processes. ADB should also follow up on the VBSP reforms undertaken under the program in line with VBSP's development strategy and the government's Microfinance Development Strategy. These include following up and monitoring the status of social policy lending, elimination of interest rate subsidies, improving loan products, and increasing the range of financial services.

35. On additional ADB assistance, this validation agrees with the PCR's suggestion that ADB should consider providing additional assistance to address remaining issues and challenges in the microfinance sector. These include (i) developing an online PCF supervision support system, (ii) assisting the government in making the Cooperative Bank a more effective institution by increasing the equity participation of the PCF members, (iii) developing wholesale lending institutions to support microfinance operations, (iv) expanding microfinance advocacy and financial literacy, (v) developing literacy and awareness on microinsurance, (vi) promoting commercial bank involvement in the microfinance sector, and (vii) formulating policy and regulatory framework for digital finance.

## **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

### **A. Monitoring and Evaluation Design, Implementation, and Utilization**

36. The SBV monitored the program and ensured that all policy actions were carried out. Monitoring of the program was based on the policy matrix and the DMF. No disaggregated data by gender as conceived in the DMF was presented. The program had gender benefits and data disaggregated by sex could have provided insightful information on the extent women were reached by microfinance services.

### **B. Comments on Project Completion Report Quality**

37. The quality of the PCR is *satisfactory*. It was well written and follows the ADB Project Administration Manual Instruction 6.07a.<sup>12</sup> The main text was consistent with the appendixes. However, the appendixes did not include a presentation on the status of the loan covenants, which could have been informative. The discussion on the implementation of the program and the outputs delivered was comprehensive. There was adequate evidence to substantiate the ratings for relevance, effectiveness, efficiency, and sustainability. An analysis was made on the program's impact but a rating for impact was not given. The actual achievements vis-à-vis the expected outcome and outputs were clearly presented in Appendix 1. The policy matrix in Appendix 2 that presented the policy actions achieved was informative. The lessons were drawn from the findings and the recommendations were sound.

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<sup>12</sup> ADB. 2009. *Project Completion Report for Sovereign Operations: Project Administration Instructions (PAI) 6.07a*. Manila.

**C. Data Sources for Validation**

38. Sources for this validation were the report and recommendation to the President and linked documents, PCR, back to office reports, TA completion report, and minutes of management review meetings.

**D. Recommendation for Independent Evaluation Department Follow-Up**

39. None is recommended.