



Completion Report

Project Number: 42235-013, 42235-023
Loan Number: 2877, 3213
June 2016

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

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit	–	Dong (D)
	At Appraisal	At Program Completion
	10 Feb 2012	30 September 2015
D1.00	=	\$0.000047
\$1.00	=	D20,875
		\$0.000044
		D22,487

ABBREVIATIONS

ADB	–	Asian Development Bank
CCF	–	Central Credit Fund
CIL	–	credit institution law
GAP	–	gender action plan
IRRs	–	implementing rules and regulations
IT	–	information technology
JFPR	–	Japan Fund for Poverty Reduction
MFI	–	microfinance institution
NGO	–	nongovernment organization
PCF	–	People's credit fund
PMU	–	project management unit
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
VBARD	–	Viet Nam Bank for Agricultural and Rural Development
VBSP	–	Viet Nam Bank for Social Policies

NOTE

- (i) In this report, "\$" refers to US dollars.

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CONTENTS

	Page
BASIC DATA	i
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	1
A. Relevance of Design and Formulation	1
B. Program Outputs	2
C. Program Costs	7
D. Disbursements	7
E. Program Schedule	7
F. Implementation Arrangements	7
G. Conditions and Covenants	7
H. Related Technical Assistance	7
I. Consultant Recruitment and Procurement	8
J. Performance of Consultants, Contractors, and Suppliers	8
K. Performance of the Borrower and the Executing Agency	9
L. Performance of the Asian Development Bank	9
III. EVALUATION OF PERFORMANCE	9
A. Relevance	9
B. Effectiveness in Achieving Outcome	10
C. Efficiency in Achieving Outcome and Outputs	10
D. Preliminary Assessment of Sustainability	10
E. Impact	11
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	11
A. Overall Assessment	11
B. Lessons	11
C. Recommendations	12
APPENDIXES	
1. Design and Monitoring Framework with Achievements	16
2. Policy Matrix and Medium-Term Direction	20
3. Technical Assistance Completion Report	26
4. Contribution the ADB Results Framework	28

BASIC DATA

A. Loan Identification

1.	Country	Viet Nam	
2.	Loan Number	Loan 2877-VIE (SF) Subprogram 1 Loan 3213-VIE (SF) Subprogram 2	
3.	Program Title	Microfinance Development Program	
4.	Borrower	Government of Vietnam	
5.	Executing Agency	State Bank of Vietnam	
6.	Amount of Loan	Subprogram 1 \$40,000,000 (SDR 25,919,000)	Subprogram 2 \$50,000,000 (SDR 33,723,000)
7.	Program Completion Report Number	1565	

B. Loan Data

1.	Appraisal	Subprogram 1	Subprogram 2
	– Date Started	29 April 2011	18 March 2014
	– Date Completed	15 July 2011	15 May 2014
2.	Loan Negotiations		
	– Date Started	26 April 2012	6 October 2014
	– Date Completed	26 April 2012	7 October 2014
3.	Date of Board Approval	5 July 2012	9 December 2014
4.	Date of Loan Agreement	7 September 2012	27 March 2015
5.	Date of Loan Effectiveness		
	– In Loan Agreement	7 December 2012	27 June 2015
	– Actual	7 January 2012	15 July 2015
	– Number of Extensions	1	1
6.	Closing Date		
	– In Loan Agreement	31 March 2013	30 June 2015
	– Actual	31 March 2013	30 September 2015
	– Number of Extensions	0	1
7.	Terms of Loan		
	– Interest rate	(Subprogram 1) 1% per annum during the grace period and 1.5 % per annum thereafter	
		(Subprogram 2) 2% per annum during the grace period and thereafter	

	Subprogram 1	Subprogram 2
– Maturity (number of years)	24	25
– Grace Period (number of years)	8	5

8. Terms of Relending (if any): Not Applicable

9. Disbursements

a. Dates

	Initial Disbursement	Final Disbursement	Time Interval
Subprogram 1	23 January 2013	23 January 2013	0
Subprogram 2	9 September 2015	9 September 2015	0
	Effective Date	Original Closing Date	Time Interval
Subprogram 1	7 January 2013	31 March 2013	2.7 months
Subprogram 2	15 July 2015	30 September 2015	2.5 months

b. Amount (\$)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Subprogram 1	40,000,000				39,830,000	0
Subprogram 2	50,000,000				47,380,000	0
Total	(SDR 59,642,000)				(SDR 59,642,000)	0

10. Local Costs (Financed)

- Amount (\$)	None
- Percent of Local Costs	None
- Percent of Total Cost	0

C. Program Data

1. Program Cost (\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost		
Subprogram 1	40,000,000	39,830,000
Subprogram 2	50,000,000	47,380,000
Total	90,000,000	87,210,000

2. Financing Plan (\$)

Cost	Appraisal Estimate	Actual
Implementation Costs		
ADB Financed Subprogram 1	40,000,000 (or SDR25,919,000)	39,830,000 (or SDR25,919,000)
Subprogram 2	50,000,000 (or SDR33,723,000)	47,380,000 (or SDR33,723,000)
Total	90,000,000 (SDR59,642,000)	87,210,000 (SDR59,642,000)

ADB = Asian Development Bank, IDC = interest during construction.

3. Cost Breakdown by Program Component (\$):– not applicable

4. Program Schedule

Item	Appraisal Estimate	Actual
Disbursement		
Subprogram 1	7 December 2012	23 January 2013
Subprogram 2	27 June 2015	9 September 2015

5. Program Performance Report Ratings

Ratings	
Implementation Period	
Subprogram 1 7 September 2012– 31 March 2013	On Track
Subprogram 2 July 2012– September 2014	On Track

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Subprogram 1				
Inception mission for MDP (Loan 2877 and TA 8108)	20–28 September 2012	3		
Review mission for MDP (Loan 2877 and TA 8108)	28 January–1 February 2013	1		
Review mission for MDP (Loan 2877 and TA 8108)	27 May–3 June 2013	1		
Review mission for MDP (Loan 2877 and TA 8108)	18–27 September 2013	1		
Program completion review	29 February–4 March 2016	3	5	Senior financial sector specialist and TA consultants
Subprogram 2				
Fact-finding mission for MDP SP2	12–21 November 2013	1		
Review mission for MDP SP2	18–25 March 2014	1		
Consultation mission for MDP SP2	19–22 May 2014	2		
Consultation mission for MDP SP2	9–11 June 2014	1		
Loan negotiation for MDP SP2	6–7 October 2014	2		
Program completion review	29 February–4 March 2016	3	5	Senior financial sector specialist and TA consultants

MDP = Microfinance Development Program, SP = subprogram, TA = technical assistance.

I. PROGRAM DESCRIPTION

1. A special evaluation study by the Asian Development Bank (ADB) on its microfinance development strategy¹ found that 75% of the poor in Viet Nam had received microcredit as of 2010. This is a much higher penetration rate than the average achieved by ADB's other developing member countries. Most of this microfinancing was provided by the Vietnam Bank for Social Policies (VBSP), which had reached almost 7 million borrowers through its nationwide network. Most of VBSP's microcredit operations and all of its administration costs are funded by the government. The continual expansion of these operations has imposed a growing fiscal burden on the state. The government's recurring budget deficits since 2009 have raised major concerns over the sustainability of the state-driven approach to delivering microcredit through VBSP. The government's continuing support of VBSP has also created an uneven playing field that discourages market-based financial institutions from entering the microfinance sector or expanding their current microfinance operations.

2. To address these concerns, the government integrated microfinance into the formal banking system under the Credit Institutions Law (CIL) amended in 2010. The law represented a policy shift meant to address the fiscal concerns related to government support for VBSP and to respond to rising demand from low-income clients for diverse financial products and services tailored to their particular needs. CIL called for sector-wide reforms aimed at transitioning the microcredit delivery system from state domination to a market basis and providing financial services and effective financial intermediation to meet a wider variety of client needs.

3. ADB approved a \$40 million policy-based loan for subprogram 1 the Microfinance Development Program (MDP) in 2012, along with \$0.5 million in piggy-backed technical assistance (TA).² This was a significant addition to ADB's support for tackling challenges in the finance sector. During 2001–2005, ADB approved two technical assistance projects that focused on transforming semi-formal grassroots microfinance operations into formal microfinance institutions (MFIs). The MDP supported broad government initiatives under the Vietnam Microfinance Development Strategy for 2011–2020³ that had been formulated earlier with ADB TA support.⁴ This strategy aims to promote the private sector's role in microfinance and gradually reduce direct involvement by the government. Based on achievements made under the MDP's subprogram 1, ADB approved MDP subprogram 2 in 2014. It continued ADB's support for the implementation of the government's comprehensive microfinance sector reforms and sought to develop self-sustaining microfinance operations and improve the overall quality of microfinance services to broaden and deepen financial inclusion in Viet Nam.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. ADB's country partnership strategy for Viet Nam for 2011–2015⁵ identified microfinance sector development as a key target for ADB assistance. The country partnership strategy was

¹ Independent Evaluation Department. 2012. Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare. Manila: ADB.

² ADB. 2012. *Programmatic Approach, Policy-Based Loan for Subprogram 1, and Administration of Technical Assistance Grant for Socialist Republic of Viet Nam: Microfinance Development Program*. Manila (Loan 2877-VIE, and TA 8108-VIE).

³ The Government of Viet Nam. 2011. *Viet Nam Microfinance Development Strategy, 2011–2020*.

⁴ ADB. 2010. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Microfinance Sector Development Program*. Manila (TA 7499-VIE).

⁵ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila. (para. 29).

aligned with the government's socioeconomic development strategy for 2011–2020, which focuses strongly on poverty reduction. It was consistent with the government's Vietnam Microfinance Development Strategy for 2011–2020 that also aims to reduce poverty. The MDP was in line with government policies to address development issues in the microfinance sector. The MDP aimed to do this by (i) supporting the development of policy and the regulatory environment, (ii) enhancing supervisory capacity, (iii) strengthening financial institutions, and (iv) developing supportive financial infrastructure. The MDP's design and monitoring framework is in Appendix 1. The policy matrix and medium-term direction is provided in Appendix 2.

B. Program Outputs

5. The program's policy actions and midterm direction are shown in the policy matrix in Appendix 3. The MDP provided the subprogram 1 loan as budget support through retroactive financing of the activities and efforts undertaken by the government to formulate policy actions aiming to achieve the corresponding results during January 2008–April 2012. The subprogram 2 loan was approved upon the government's compliance with the agreed policy actions during May 2012–September 2014. The government substantially met the policy action requirements for delivering the program outputs during each implementation period (paras. 6–19).

6. **Output 1: A policy and regulatory environment conducive to an inclusive, sustainable, and market-oriented microfinance sector established.** During the period covered by subprogram 1, the government passed the landmark 2010 CIL, which recognized microfinance as an integral part of the formal banking system. In December 2011, the government approved the Vietnam Microfinance Development Strategy, 2011–2020 (footnote 3). These breakthrough policy actions laid the foundation for developing a robust, self-sustaining, and responsive microfinance sector. The CIL designated MFIs as credit institutions to be supervised by the State Bank of Vietnam (SBV), set the requirements for the ownership structures of MFIs and people's credit funds (PCFs), and allowed these formal financial institutions to fix and negotiate loan and deposit interest rates.

7. The promulgation of the CIL and the formulation of the microfinance development strategy under the MDP's subprogram 1 required the government to issue implementing rules and regulations (IRRs) on sound microfinance operations, governance structure, and prudential standards to guide MFIs and PCFs and enable them to provide low-income clients with the financial services they needed. Under subprogram 2, the Banking Supervisory Agency (BSA) of the SBV drafted IRRs to enhance the governance and operations of the PCFs and MFIs. This was in line with the CIL and the microfinance development strategy, which had called for these institutions to be subject to sound microfinance prudential requirements. In March 2015, the SBV issued a circular on PCF operations that included requirements on licensing, prudential compliance, governance, membership, branching, and risk management that must be fully complied with by the end of 2018. Draft IRRs for MFI licensing, governance, and operations had been circulated to stakeholders for their comments by 2015. The IRRs are scheduled to be finalized and issued after the Prime Minister's Decision on the operations and transformation of prudentially unlicensed microfinance programs and projects into MFIs. The government aims to ensure consistency between the regulations for microfinance programs and projects and those for MFIs. The government imposes a comparatively low corporate income tax rate on MFIs and PCFs as an incentive for growth in the microfinance sector.⁶

⁶ The corporate income tax rate for MFIs and PCFs is 17%, while that for banks is 20%.

8. In 2013, the government responded to the growing insurance needs of the country's low-income population by changing regulations to allow insurance companies and sociopolitical organizations such as the Vietnam Women's Union, labor organizations and farmers' organizations to provide microinsurance products and services. The Insurance Supervisory Agency (ISA) of the Ministry of Finance (MOF) made these operations legal under the country's insurance law and issued guidelines for microinsurance projects by sociopolitical organizations on a pilot basis. The ISA is now studying possible amendments to the insurance law to develop permanent regulations and prudential guidelines for microinsurance activities by these organizations.

9. **Output 2: The supervisory and regulatory capacities of microfinance sector regulators strengthened.** The MDP has strengthened the capacity of SBV and MOF to supervise and regulate the microfinance operations of MFIs, PCFs, and VBSP. Under subprogram 1, the SBV prepared draft supervisory guidelines for MFIs and provided SBV regulators with training to upgrade their skills and knowledge. Subprogram 2 continued to build this capacity at the SBV and the MOF by (i) supervisory guidelines for microfinance; (ii) training supervisors under the associated ADB capacity development TA,⁷ and (iii) placing a number of qualified and experienced supervisors to be in charge of microfinance operations. Because the MFIs and PCFs are allowed to accept and mobilize deposits in their operations, they are required to follow prudential regulations based on international banking standards to ensure their stability and protect their depositors. The SBV's supervisory practices and procedures were made to fit the particular features of microfinance operations, including smaller loans than those offered by banks and a larger number of borrowers. This demands that efficient loan administration be achieved through borrower group meetings and the delegation of account management to leaders of the groups of borrowers. Microfinance lending is not collateralized. Loan approvals are based on an applicant's cash flow, which requires lenders to monitor the credit standing of borrowers more rigorously than when collateral is involved.

10. **Output 3: Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor.** The MDP has strengthened three types of financial institutions in Viet Nam's microfinance sector—VBSP, the PCFs, and the MFIs (paras. 11–15).

a. Viet Nam Bank for Social Policies

11. VBSP has dominated microcredit delivery. It accounted for 66% of total microcredit clients and 67% of outstanding microcredit lending at the end of 2014. VBSP covers 99% of the country's communes and serves 6.9 million households, or 33% of all households in Viet Nam. It reaches almost all of the country's 3.8 million poor households through a government social lending program that targets the poor. However, VBSP has been overly dependent on government resources for social policy lending and to finance its administrative and operational costs. The overdependence and heavy government support has had several adverse impacts on VBSP and the sector:

- (i) The growing fiscal burden on the government could restrict future support and pose a serious threat to VBSP's financial sustainability.
- (ii) Government support has encouraged VBSP to focus mainly on credit delivery, which in turn has meant that it has provided only limited savings and other fee-

⁷ ADB. 2013, *Socialist Republic of Viet Nam: Strengthening Microfinance Sector Operations and Supervision*. Manila. (TA 8391-VIE).

based financial services for its clients (e.g., payment, remittance, or insurance services). Providing these services would not only help meet unfilled client needs but would also help VBSP become financially self-sustaining.

- (iii) The government subsidies to VBSP have created an uneven playing field that inhibits the microfinance sector's expansion and development. This special treatment discourages nonsubsidized players from entering the sector and prevents the growth of the sound competition that could benefit Viet Nam's underserved low-income population.

12. To address these issues, the government undertook two policy actions under the MDP. These were (i) the Prime Minister's approval under subprogram 1 of a strategy to develop VBSP during 2011–2020 and transform it into a more self-sustaining financial institution, and (ii) support for training and advocacy under subprogram 2 to strengthen the ability of VBSP and its savings and credit groups to carry out market-based operations. The associated ADB TA also supported training in this effort (footnote 7). The VBSP development strategy calls on the government to closely monitor and review its role in microcredit delivery during a 2011–2020 transition period to ensure that VBSP operations become more self-sustaining and market-oriented. VBSP began implementing the strategy over the medium term during 2011–2015 by

- (i) increasing its efforts to mobilize deposits through its credit and savings groups;
- (ii) enhancing information technology (IT) to meet core banking needs and increase efficiency;
- (iii) gearing its operations to provide financial services in addition to lending, such as payment and remittance services, as well as electronic banking; and
- (iv) applying higher, near-market interest rates in some social policy lending programs.

b. People's credit funds

13. In addition to traditional support for day-to-day liquidity management, the government strengthened the PCF system by establishing an apex institution to support the capacity development of member PCFs. Under the MDP, the government strengthened the role of the Central People's Credit Fund, which was converted into the Cooperative Bank and given a larger equity base, much clearer mandates, and enhanced authority. The plan for the conversion was drafted during subprogram 1 and fully implemented under subprogram 2. The Cooperative Bank takes deposits from PCFs and provides them with credit. It also has a mandate now to help them strengthen their institutional and operational capacities through technical and financial assistance. Under the MDP policy actions to strengthen the PCF system, the government provided the Cooperative Bank with a \$45 million new capital. The associated ADB TA has been helping make the PCFs more effective community-based financial cooperatives.

c. Microfinance Institutions

14. Licensed MFIs and unlicensed microfinance programs and projects accounted for only 7% of all microfinance clients in 2014 but have been growing rapidly with government support and ADB assistance since 2010. Five of the major players that received assistance during the 2-year implementation of an earlier ADB project⁸ expanded their client base by 92%, their

⁸ ADB. 2009. *Proposed Grant Assistance to the Socialist Republic of Viet Nam for Formalizing Microfinance Institutions*. Manila (Grant 9140-VIE, financed by the Japan Fund for Poverty Reduction).

credit provision by 180% and their savings deposits by 364%. Other microfinance programs and projects that participated in the project increased their outreach to clients by 20%. This expansion is expected to continue using the MDP post-program framework under the Viet Nam Microfinance Development Strategy (footnote 3). Their robust development is a result of the achievements of the MDP's outputs 1 and 2 to develop a new policy and regulatory framework, strengthen supervisory capacity for the formal MFIs and semiformal microfinance operations, and enhance institutional capacity.

15. Table 1 shows the microfinance lending and savings during 2010–2014 by major financial institutions in the microfinance sector in Viet Nam. The operations of all three types of financial institutions supported under the MDP—VBSP, the PCFs, and the MFIs—have grown steadily.

Table 1: Microfinance Lending and Savings in Viet Nam, 2010–2014^a

Institution	Number of Borrowers (million)			Outstanding Loans (\$ million)			Number of Depositors (million)		Average Amount of Deposit (\$)	
	2010	2012	2014	2010	2012	2014	2012	2014	2012	2014
VBSP	7.80	5.76 ^b	6.90 ^b	4,398	4,142	6,093	4.61	6.88	24	21
VBARD	3.20	1.63 ^c	1.49 ^c	3,500	1,452 ^c	1,390 ^c	1.13	1.05	1,108	1,109
PCFs	0.95	1.07	1.23	1,006	1,051	1,477	1.26	1.31	967	1,402
MFIs	0.55	0.73	0.80	122	180	198	0.51	0.56	86	95
Total	12.50	9.19	10.42	9,026	6,825	9,158	7.51	9.80	349	327

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 State bank of Vietnam circulars and deposits of up to D50 million (\$2,372).

^b The number of VBSP borrowers for 2012 and 2014 was lower than 2010 mainly because many individual accounts were consolidated into household accounts.

^c The number of VBARD microfinance customers fell from 3.2million in 2010, because more than half of the clients during the period expanded from microenterprises into small enterprises that required different types of loans and financial services.

Exchange rates: \$1 = D19,497 in 2010; \$1 = D20,828 in 2012; and D21,246 in 2014.

Sources: Asian Development Bank, Cooperative Bank, Microfinance Working Group, State Bank of Vietnam, VBARD, and VBSP.

16. **Output 4: Development of infrastructure to support the microfinance sector.** With the activities under the associated TA, the MDP helped develop financial infrastructure to support microfinance in Viet Nam through training, credit management, and programs to increase financial literacy.

a. The Microfinance Center

17. Under subprogram 2, the SBV set up the Microfinance Center within Viet Nam's Banking Academy in 2012.⁹ The government complied with an MDP policy action requiring it to provide fiscal support to the Microfinance Center in 2013 and 2014. It allocated D2.359 billion for the center's initial operations in 2013 and D7.95 billion in 2014. The Microfinance Center is designed to be the training hub for the microfinance industry. It will be linked with other training institutes, including those operated by VBSP, the Cooperative Bank, MFIs, and the Viet Nam

⁹ SBV. 2012. SBV Decision No. 278/QD-HV-TCCB of 27 December 2012.

Microfinance Working Group, the microfinance association. The center is expected to enhance the overall ability of policy makers, supervisors, and practitioners to adopt and carry out best practices in policy decisions, regulation, supervision, and operations. The associated TA has been supporting the center and other stakeholders in the design of a national microfinance training network and in strengthening capacity. These Microfinance Center activities are consistent with the objectives of MDP policy actions that call for

- (i) the training of VBSP oversight agencies, including the MOF;
- (ii) the training of an adequate pool of regulators for credit institutions engaged in microfinance operations;
- (iii) the institutional strengthening of the Cooperative Bank and the PCF network;
- (iv) the execution of a financial literacy program for the microfinance sector (para 19); and
- (v) the development of a nation-wide system for certifying formal microfinance training.

b. Microcredit information exchange system

18. The CIL promulgated under subprogram 1 required that credit institutions submit microcredit information to the National Credit Information Center (CIC). This requirement was partly implemented during subprogram 2 under a 2013 SBV circular instructing all credit institutions to report all credit accounts regardless of loan size. Previously, only loans above D50 million had to be reported, which excluded microcredit accounts. A microcredit information exchange system was set up within the CIC in 2013 that gave all financial institutions involved in microfinance access to an extensive, accurate, up-to-date, and reliable credit information database covering the microfinance borrowers of all formal credit institutions. This is expected to minimize the risk of overlaps in microcredit clients and excessive lending to individual borrowers. It also provides microfinance operators with a cost-effective, IT-based credit checking system. This will help them avoid the need for costly individual credit investigations, improve their client selection, and strengthen their credit portfolios. The TA associated with the MDP helped the CIC design and install modules to enable PCFs and MFIs to access the CIC system via the internet. As of 30 September 2015, 75% of the country's PCFs had submitted the required credit information to the CIC. Those that had not were prevented from doing so mainly by such local infrastructure constraints as poor internet access and unstable power supplies. About two-thirds of MFIs had submitted the required credit information. The compliance rate will increase as more credit institutions are connected to the CIC system.

c. Formulation and implementation of financial literacy programs

19. The government complied with the MDP subprogram 2 policy action that required it to allocate budget resources to VBSP and the Cooperative Bank to implement programs to advocate the importance of sustainable microfinance among stakeholders and improve working knowledge of microfinance principles and operations. The associated ADB TAs (footnotes 2 and 7) helped organize workshops for stakeholders on good practices in microfinance and microinsurance. The advocacy and financial literacy programs focused on the importance of sustainable microfinance operations, awareness of the relevant rules and regulations, consumer protection, truth and lending requirements, and transparency in financial services operations. Among those targeted were the concerned government agencies, major microfinance providers, private insurance companies, mass organizations, and microfinance clients. The financial literacy initiatives helped promote a better understanding of market-oriented microfinance operations.

C. Program Costs

20. ADB approved the \$40 million loan for the MDP subprogram 1 on 5 July 2012 and the \$50 million loan for subprogram 2 on 9 December 2014, both from the Asian Development Fund. Both subprogram loans were disbursed 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 MDP policy matrix. In support of MDP implementation, ADB also provided a \$0.5 million policy and advisory TA grant attached to the subprogram 1 loan (footnote 2).

D. Disbursements

21. The MDP subprogram 1 loan was declared effective on 7 January 2013 and disbursed on 23 January 2013. The MDP subprogram 2 loan was declared effective on 15 July 2015 and disbursed on 9 September 2015. The appraisal disbursement schedule was realistic, and the disbursements were made on schedule.

E. Program Schedule

22. The subprogram 1 loan was closed as originally planned on 31 March 2013. The subprogram 2 loan was expected to be closed on 30 June 2015, but the closing date was extended due to prolonged government procedures. The actual closing date was 30 September 2015.

F. Implementation Arrangements

23. As the executing agency, the SBV established a program management unit to provide overall direction and coordination for the program's implementation. The unit oversaw loan implementation, confirmed that policy actions were taken, coordinated the activities of the various implementing agencies under the associated TA, undertook program administration, and communicated with ADB on behalf of the government. The implementing agencies were the SBV, the MOF, VBSP, the Cooperative Bank, the CIC, and the Banking Academy. Each was responsible for carrying out the policy actions with which it was tasked, preparing program reports, and discussing implementation issues with the SBV. The implementation arrangements worked adequately in delivering the program outputs and achieving the program objectives.

G. Conditions and Covenants

24. The government complied with all program subprogram 1 and 2 loan conditions and covenants in full and on time. This full compliance laid a sound foundation for sustainable microfinance development in the subprogram 1 period before contributing to the development of the needed regulations, operational and supervisory capacity, and financial infrastructure under subprogram 2. Details are provided in the policy matrix and medium-term direction in Appendix 2.

H. Related Technical Assistance

25. In response to a government request, ADB approved TA of \$500,000 on a grant basis along with the subprogram 1 loan. The TA grant was financed by the Japan Fund for Poverty Reduction. The TA supported the MDP by helping achieve a medium-term reform agenda in the microfinance sector and providing the government with policy advice. The TA was designed to help (i) formulate draft IRRs for the new CIL provisions on microfinance; (ii) study and make

recommendations for fiscal and regulatory incentives for operating microfinance credit institutions; (iii) plan, develop, and provide training for a microfinance credit information exchange system at the CIC; and (iv) review and improve the current insurance regulations to support the development of microinsurance. The technical assistance completion¹⁰ report is in Appendix 3.

26. The TA helped provide inputs and policy advice based on globally proven good practices in microfinance to SBV, and advice on good microinsurance practices to the ISA. This helped the government customize financial regulations in Viet Nam. It also helped the CIC develop a microcredit information exchange system. The TA achievements are as follows:

- (i) **IRRs on microfinance regulations drafted.** The TA supported the review of relevant laws and regulations and included advice to help the BSA prepare the IRRs for microfinance.
- (ii) **Microfinance credit information exchange system developed.** The TA supported the CIC in hiring an IT firm to design and install a web-based information exchange module and in facilitating access to the CIC system by PCFs and MFIs. The module went into use in September 2014.
- (iii) **Review and improvement of the microinsurance regulations.** The TA project provided policy advice and helped formulate microinsurance regulations for the microinsurance technical working group established at the ISA. The TA consultants presented the proposed regulatory framework to stakeholders.
- (iv) **Others.** The TA project also involved close monitoring of the government's delivery of the policy actions called for in the MDP policy matrix; the provision of policy advice on the VBSP reform, PCF development, and SBV supervision of microfinance; and the development of inputs for the MDP subprogram 2 loan documents.

27. The TA is rated *successful*.

I. Consultant Recruitment and Procurement

28. The TA supporting the implementation of the MDP engaged individual consultants recruited according to ADB's Guidelines on the Use of Consultants (April 2010, as amended from time to time). Inputs of 10 person-months of international consultant services and 12 person-months of national consultant services were required during the September 2012–May 2014 implementation period. No major recruitment issues were encountered.

29. TA procurement of office equipment for the TA project office was undertaken in accordance with ADB's Procurement Guidelines (April 2010, as amended from time to time).

J. Performance of Consultants, Contractors, and Suppliers

30. The TA generated specific reports on MFI licensing requirements, the microinsurance regulatory framework, VBSP reform, the strengthening of the Cooperative Bank and the PCF

¹⁰ ADB. 2016. *Technical Assistance Completion Report: Socialist Republic of Viet Nam: Supporting Microfinance Development*. Manila.

network, and the development of a microcredit information exchange system. These reports were included in the TA final report and disseminated for discussion at the TA stakeholders' workshops.

31. The TA consultant team delivered reports and conducted consultations effectively. Its overall performance was satisfactory.

K. Performance of the Borrower and the Executing Agency

32. The SBV provided the good support required of it as the executing agency throughout the MDP implementation period. It also displayed strong program ownership. All SBV officers and staff assigned to the program were capable and effective. SBV played a key role in coordinating program implementation with other ministries and agencies and was responsive in providing administrative support when needed. It collaborated well with ADB review missions and was forthcoming with the necessary data and information. The SBV helped ADB assess government compliance with the required policy actions and in a final assessment of the MDP.

33. The SBV's performance is rated *satisfactory*.

L. Performance of the Asian Development Bank

34. ADB loan approvals and disbursements were timely. ADB monitored the MDP's progress regularly and undertook review missions throughout the implementation period.

35. Staff from ADB's headquarters and its Viet Nam Resident Mission worked closely with the SBV and the government and private sector stakeholders to ensure that the policy actions were accomplished in a timely manner. The associated TA was administered flexibly. SBV expressed satisfaction with ADB's performance.

36. ADB's performance is rated *satisfactory*.

III. EVALUATION OF PERFORMANCE

A. Relevance

37. The MDP is rated *highly relevant*. The program helped the government carry out its Viet Nam Microfinance Development Strategy, 2011–2020 (footnote 3). The following achievements underline the MDP's high degree of relevance:

- (i) The MDP was closely aligned with the country's socioeconomic development strategy and helped in the strategy's implementation. This strategy aims to develop a viable, sustainable microfinance sector that will provide a diverse range of financial products and services and be accessible to the country's low-income population.
- (ii) Along with the associated TA, the program helped the government formulate appropriate policies and regulations for microfinance development and enhanced capacities in microfinance operations and supervision.
- (iii) The use of the policy-based loan modality for the MDP was highly relevant to the government plans for policy reforms under its microfinance development strategy

for 2011–2020. The MDP was instrumental in enabling key stakeholders, particularly policy makers and regulators, to effectively pursue the strategy’s objectives.

- (iv) The MDP complemented assistance from other development partners active in the sector. It correlated particularly well with support from Agence Française de Développement and the World Bank to strengthen the BSA’s supervision of microfinance operations by the PCF system and MFIs.

B. Effectiveness in Achieving Outcome

38. The MDP is rated *effective* in achieving its outcome. Most of the outcome indicator targets in the design and monitoring framework were met (Appendix 1).¹¹

39. The program’s help in the government’s implementation of its microfinance development strategy and its adoption of planned policy and regulatory measures strengthened the microfinance industry in Viet Nam. Total VBSP, PCF, and MFI microfinance lending outstanding grew by 41% during 2010–2014. The total number of microfinance borrowers declined slightly during the period, but this was primarily due to the consolidation of many of VBSP’s individual borrower accounts into household accounts.

40. While VBSP continued to dominate the microfinance market, the number of PCF borrowers increased by 29% during this period. That of MFIs grew by 45%. In terms of total loans outstanding, the PCF market share rose from 11.0% to 16.0%, and the MFIs’ share grew from 1.4% to 2.2%.

41. Savings deposits also grew. The total number of depositors was up by 13%, and the total deposit amount expanded by 22%.

C. Efficiency in Achieving Outcome and Outputs

42. The MDP is rated *efficient* in achieving its targeted outcomes and outputs. The loans for subprograms 1 and 2 were fully disbursed. The project review considers the delays in implementing some policy actions to have been minor. All policy actions called for under the subprograms were achieved in time.

D. Preliminary Assessment of Sustainability

43. Based on a preliminary assessment, the outcome and outputs of the MDP are rated *likely sustainable*. Most of the reforms undertaken under the MDP are entrenched in legal and regulatory frameworks that will continue to guide the sector’s development beyond the program’s implementation period. The MDP also strengthened key institutions such as the SBV’s BSA, the Microfinance Center of the Banking Academy, and the CIC. These institutions will play a part in the future expansion of a viable and sustainable microfinance industry in Viet Nam through the appropriate supervision, ongoing capacity development, and effective credit management they will provide. The policy and regulatory reforms undertaken under the MDP

¹¹ Two indicator targets were not met. The share of rural areas in total loans outstanding increased from 17.0% in 2010 to 18.8% in 2014, against a 2014 target of 20.0%. The total number of microfinance borrowers and microfinance depositors declined from 2010 to 2014 due to an ongoing change in VBSP client account management that consolidated many individual accounts into household accounts. The target had been a 10% increase.

paved the way for an expansion of microfinance, the development of a robust and viable microfinance industry, and greater financial inclusion nationwide. They will aid in the ongoing implementation of the government's microfinance development strategy.

E. Impact

44. The long-term impact of the measures supported by the MDP—including the SBV circulars for the development of MFIs and PCFs, the VBSP reforms, and the financial infrastructure development—are expected to lead to the emergence of a sound, stable, competitive, and more inclusive financial system in Viet Nam. This system will offer a wide and diverse array of financial services to all the country's people, including those who are poor or whose incomes are low. By focusing on the low-income segment of the population, the microfinance development supported by the MDP will continue to be a core part of future initiatives to improve financial inclusion.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

45. The MDP is rated *successful* overall. The program achieved most of its indicator targets (Appendix 1).

B. Lessons

46. Through its compliance with the agreed MDP policy actions, the government made remarkable progress during 2008–2014 in creating a conducive policy and regulatory environment for developing inclusive and sustainable microfinance. Despite this, the issuing of IRRs related to the licensing requirements for MFIs is still pending. The government attributes the delay to its desire to await a Prime Minister Decision on unlicensed microfinance operations. This seems necessary for a holistic approach to be taken so that licensed and unlicensed microfinance operations can achieve their full potential in reaching unserved and underserved clients and to clearly demarcate the regulations on licensed and unlicensed microfinance entities.

47. A lesson learned from this delay and the MDP's implementation overall is the need to allocate ample time when deciding policy actions for IRRs to be issued in Viet Nam, due the consensus-building approach the government has adopted toward regulatory formulation. It also took longer than expected for the IRRs for PCFs to be issued. The SBV has been cautious during this process to ensure that new regulations are appropriate; and that they are endorsed by the SBV departments involved, as well as by the ministries concerned (e.g., the Office of the Government, the MOF, and the Ministry of Planning and Investment) and other stakeholders.

48. Implementation has also revealed an urgent need to enhance the IT capabilities of the PCFs and MFIs so that the credit reporting and information exchange can be improved. The MDP helped the SBV standardize the reporting requirements for PCFs and MFIs and set up the microfinance information exchange system within the CIC. However, a majority of these small-sized credit institutions lack the skills and standard IT systems to properly comply with the new reporting standards. This makes it difficult to consolidate and analyze reports from these credit institutions effectively.

C. Recommendations

49. Microfinance development in Viet Nam was initiated by the government during the MDP implementation period with ADB assistance. The government aims to integrate the microfinance subsector into the banking system under prudential norms. The new policy of trying to make banking services available to all, including low-income citizens, is a major change from the previous government approach, which was based on providing the low-income population with state assistance. Successful pursuit of the development path toward nationwide access to market-based, competitive, and affordable financial services will require long-term monitoring of the government's implementation of its development plan. Further initiatives will also be needed in the medium term to further develop policies and regulations, improve supervisory capacity, strengthen operational capacity and institutions, and develop financial infrastructure.

1. Future ADB monitoring

50. **SBV circular on MFI licensing requirements.** Progress toward the issuing of the SBV's delayed circular on licensing requirements for MFIs should be closely monitored. This circular will help transform a number of large microfinance programs and projects into formal MFIs and help in providing more reliable, responsive, and accommodative financial services to low-income clients.

51. **Scaling up microfinance operations.** Following the Prime Minister's Decision on regulations for unlicensed microfinance programs and projects, many small unsustainable microfinance operations may need to be consolidated or merged. This is particularly necessary of those operated by the same mass organization. Consolidating small, highly regionalized unregulated operations into fewer capable, well-resourced formal MFIs should be promoted. A plan by the Vietnam Women's Union provides an example of this approach. The union intends to merge the licensed MFIs and unlicensed microfinance programs and projects it supports and to set up a women's bank to provide wholesale lending to microfinance institutions. This should be closely monitored and possibly encouraged with future ADB assistance.

52. **Strengthening PCF capacity to comply with the new regulations.** Existing PCFs were given until the end of 2018 to fully comply with the new IRRs, including requirements to substantially increase their memberships and individual member's equity, reduce deposits by non-members to a maximum 50% of total deposits, and meet requirements for inter-commune and inter-district branching. Several PCFs have reported that they will find it difficult to comply with the IRRs within the required transition period and have asked for technical assistance. In addition, the IRRs are largely patterned on international best practices for financial cooperatives, and many PCFs need to strengthen their institutional capacity to execute this business model, which ADB can support.

53. **Developing a microinsurance regulatory framework.** The government urgently needs to issue a policy framework and IRRs on microinsurance. ADB should closely monitor this process. Several insurance companies are keen to provide microinsurance, but they cannot begin to become fully active providers until these IRRs are finalized. In addition, financial institutions that have large networks providing financial services to the low-income population have indicated that they cannot become a channel for distributing insurance to the poor without clear rules. This means that the large demand from vulnerable, poor, and low-income households for microinsurance protection continues to be unmet.

54. **Formulating digital finance development policy and regulations.** Viet Nam also urgently needs appropriate development policy and regulations for digital finance, which will play an increasingly important role in achieving greater financial inclusion. The ongoing policy and advisory TA¹² will provide initial inputs to the SBV on formulating the policy and these regulations. The TA will focus on consumer protection and anti-money laundering measures. The associated capacity development TA (footnote 7) can strengthen regulatory capacity for digital finance development.

55. **Reforms at Viet Nam Bank for Social Policies.** ADB should follow up on the VBSP reforms that were undertaken with MDP support in line with both VBSP's development strategy and the government's Viet Nam Microfinance Development Strategy, 2011–2020. Monitoring and follow-up should focus on the following aspects:

- (i) **Social policy lending.** The government will need to fine-tune the definition of “social policy lending groups”—i.e., groups that currently need state support—to determine which groups will need continued government subsidies or direct support through social safety nets in addition to the new access to microcredit they are expected to gain from the development of the microfinance sector. Policy lending to certain target groups can still be justified as a state investment in the public good but should be carefully managed to avoid a risk for financial institutions' undertaking. One possible approach to this issue is for the government to bear the ultimate financial risk, rather than VBSP. VBSP could instead act as the agent for delivering social policy lending separately from its own operations and balance sheet. Population groups that have graduated from poverty can be served entirely by market-oriented microfinance service providers.
- (ii) **Eliminating interest rate subsidies.** The marginal cash benefit delivered to VBSP's policy lending clients through the interest subsidy cannot justify the heavy fiscal burden this financing places on the government. Raising the currently subsidized interest rate closer to the market interest rate can be achieved with little impact on the affected clients. By reducing the interest rate advantage this subsidy has given VBSP, it will also level the playing field in the microfinance sector and encourage the entry of private sector players. The fair competition that will result will make financial services more accessible and affordable for low-income clients. VBSP has already raised its interest rates to near or even above the market rates for some of its loans, and no adverse reaction from clients has been reported. It should pursue this approach for all of its products.
- (iii) **Improving loan products.** VBSP should continuously review its lending products. It should seek shortened loan maturities and amortization of loan principals to interest payments. This would make payments more affordable for clients, while improving VBSP's cash inflows.
- (iv) **Increasing range of services.** VBSP should view its credit and savings groups not only as a credit delivery and collection tool but also as a platform for new deposit, payment, remittance, and insurance products and services. This will widen the choice of financial services for clients and make VBSP more self-

¹² ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam for Supporting Microfinance Development*. Manila. (TA 8587-VIE)

sustaining by increasing its savings base and adding revenue from new banking services. The credit and savings groups can be consolidated and transformed into member-based financial cooperatives or into village banks. VBSP should also consider offering e-banking services and pursue tie-ups with banks. This would allow it to provide daily banking services rather than the once-a-month transactions for loan collections and disbursements currently offered.

2. Additional ADB assistance

56. To help add to the gains achieved under the MDP, ADB should consider providing additional assistance to help address the following issues and challenges in Viet Nam's microfinance sector:

- (i) **Developing online PCF supervision support system.** The current PCF online systems are fragmented because connected PCFs and the SBV use different information systems. This makes it extremely difficult for SBV to conduct real-time sector-wide supervision. To overcome this problem, the PCFs must adopt a unified online SBV information and reporting system similar to that now employed in bank supervision. Future ADB assistance can help SBV improve its supervisory support system for real-time PCF supervision, which will ultimately strengthen the institutional and operational capacity of PCFs.
- (ii) **Making the Cooperative Bank an effective apex institution.** The government's almost complete ownership of the Cooperative Bank conflicts with the standard notion of a cooperative owned by its members. The government needs to study, prepare, and implement a strategy to end state ownership of the Cooperative Bank by increasing the equity participation of PCF members. This will make the Cooperative Bank more supportive of member-owner PCFs by strengthening the PCFs' financial services and providing them with capacity building assistance. It will also relieve the government of the financial burden of supporting what is supposed to be a self-sustaining cooperative system. TA support for both the Cooperative Bank and the PCF network would be needed to achieve this. Institutional strengthening based on the best practices currently used internationally by financial cooperatives and their apex institutions will be particularly important.
- (iii) **Developing wholesale lending institutions to support microfinance operations.** Viet Nam lacks the wholesale institutions needed to support and expand the microcredit operations of MFIs and PCFs, which currently rely mainly on short-term deposits to finance lending. This limits their ability to provide longer maturities. These institutions also need to make capital investments to enhance their IT and other technological capabilities and develop digital finance operations. Both will require long-term funding. The government needs to study ways to set up wholesale lending institutions to help meet these needs. The government may explore development partner funding for long-term onlending by a wholesale lending institution to financial institutions engaged in microfinance to support their operations and capacity development.
- (iv) **Expanding microfinance advocacy and financial literacy.** The microfinance advocacy and financial literacy efforts begun under subprogram 1 through VBSP and the Cooperative Bank should be expanded into continuing nationwide programs. The coverage should also be extended to include all relevant

government agencies—e.g., the SBV; the MOF; the Ministry of Planning and Investment; the Ministry of Labor; mass organizations such as the women's, youth, and farmers' unions; and local government people's committees down to the commune level. This would help establish a unified vision and common understanding of the basic principles and good practices of inclusive financial services. It would enable the poor and low-income clients to make informed choices on the use of financial services and have better access to them. Government and development partner support may be needed for this massive undertaking.

- (v) **Developing literacy and awareness on microinsurance.** An effective microinsurance literacy and awareness campaign is needed. Insurance is a vital risk protection tool for the low-income population, but they are not always aware of it or do not fully understand the related processes and benefits. Private insurance providers need to be made aware of the huge market potential of microinsurance and encouraged to enter it.
- (vi) **Promoting commercial bank involvement in inclusive finance.** The government has not yet taken measures to promote the entry of commercial banks into the microfinance sector. This is limiting growth in the sector and preventing the increased competition that would boost efficiency, reduce costs, and provide a wider choice for clients. Most commercial banks already have the extensive networks and technology needed to provide inclusive financial services. The government could provide fiscal and regulatory incentives for banks to become more involved in the microfinance market, particularly in remote and underserved areas.
- (vii) **Formulating policy and a regulatory framework for digital finance development.** Rapid development of digital finance and technology-driven banking services can make microfinance services more accessible and affordable. It can also lower the transaction costs for service providers and make the mass microfinance market business more viable. However, this will require a policy and regulatory environment that is appropriate and constantly updated. The government needs to strengthen regulation so that it can respond to the rapid pace of change in digital finance services. Viet Nam urgently needs assistance to formulate a development policy for digital finance and a regulatory framework to govern it. This will help ensure stability in the financial system and protect consumers overall and vulnerable microfinance clients in particular.

DESIGN AND MONITORING FRAMEWORK WITH ACHIEVEMENTS

Design Summary	Performance Targets and Indicators with Baselines	Achievements	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Greater financial inclusion and deepened finance sector</p>	<p>Rural areas share of total loans outstanding increased to 20% by 2014 (2010 baseline: 17%).</p> <p>Savings mobilized by MFIs increased by 20% in 2014 (2010 baseline: D248.65 billion)</p> <p>M2/GDP ratio increased by 10% in 2014 (2010 baseline: 133% of GDP was revised to 114.85% with updated data. 2014:131.5% of GDP)</p>	<p>Not fully achieved: 2014: 18.8% 2015: 18.1%</p> <p>Achieved: Increased by 315%</p> <p>Achieved: Increased by 14%</p>	<p>SBV banking statistics</p> <p>SBV banking statistics</p> <p>National statistics, International Monetary Fund reports, and <i>ADB Key Development Indicators</i></p>	<p>Assumptions Macroeconomic and political stability is maintained.</p> <p>Economic growth remains positive in 2011–2014.</p> <p>Risk Effects of external shocks not addressed amicably and thus affects the overall economy.</p>
<p>Outcome Increased access of low-income clients to diverse, sustainable, and affordable microfinance services</p>	<p>Number of microfinance household borrowers to increase by 5% in 2014, disaggregated by sex (2010 baseline: 12.5 million)</p> <p>Number of microfinance savings accounts increased by 10% in 2014, disaggregated by sex (2010 baseline: 9.7 million)</p>	<p>Technically not achieved: Number of microfinance borrowers declined to 10.42 million in 2014, disaggregated by sex, due to VBSP consolidation of individual accounts into household accounts</p> <p>Technically not achieved: Total microfinance savers declined to 8.51 in 2014, disaggregated by sex, due to VBSP consolidation of individual accounts into household accounts</p>	<p>SBV reports</p> <p>SBV reports</p>	<p>Assumptions The government remains committed to microfinance development.</p> <p>Coordination among government agencies concerned is maintained for sector development.</p> <p>Risk Resistance persists against reform measures.</p>

Design Summary	Performance Targets and Indicators with Baselines	Achievements	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Outputs 1. A policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector</p>	<p>A national microfinance development strategy and road map approved by the Prime Minister in December 2011</p> <p>Number of licensed MFIs and cooperative banks increased (2010 baseline: 2 licensed MFIs, 0 cooperative banks)</p> <p>Regulatory requirements for the reporting of microfinance client data disaggregated by sex are in place</p>	<p>Achieved: (i) SBV decision No. 572/QD/NHNNN issued on 30 March 2012 approving the implementation plan for the NMDS. (ii) MOF circular No. 06/2013/TT-BTC dated 9 January 2013 guiding financial regime for microfinance institutions. (iii) Prime Minister Decision No. 381/QD-TTg dated 18 March 2014 setting up the microfinance working committee</p> <p>Achieved: Licensed MFIs: 3 Cooperative Bank: 1</p> <p>Achieved: SBV circular 03/2013/TT-NHNN dated 28 January 2013 on credit information activity and CIC letter 671/TTTD-NCPT dated 22 November 2013 providing guidance to MFIs and PCFs on implementation of Circular 03/2013/TT-NHNN are in place, requiring the reporting of microfinance client</p>	<p>Official gazette</p> <p>Report from SBV</p> <p>SBV IRRs</p>	<p>Assumption Adequate resources are allocated for the formulation of regulations.</p>

Design Summary	Performance Targets and Indicators with Baselines	Achievements	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>2. Strengthened supervisory and regulatory capacities of the microfinance sector regulators</p> <p>3. Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor</p>	<p>At least 30% of regulators trained through the Microfinance Center by 2014, (disaggregated by sex)</p> <p>Strategy for reforming VBSP approved by the prime Minister in 2012</p> <p>Operational self-sufficiency of VBSP improved to 90% (2010 baseline: 77%)</p> <p>Number of PCF member borrowers increased to 1.2 million in 2014 (2010 baseline: 1.00 million)</p>	<p>data disaggregated by sex</p> <p>Achieved: ADB TA supported training in coordination with Microfinance Center</p> <p>Achieved: The strategy for VBSP development (including reform), approved by the Prime Minister in decision No. 852/QD-TTg dated 10 July 2012 “approving the development strategy of the Vietnam Bank for Social Policies period 2011–2020”</p> <p>Achieved: 2014: 101% 2015: 103%</p> <p>Achieved: Number of PCF members in 2014: 1.97 million</p>	<p>Report from SBV, the Ministry of Finance, and the Microfinance Center</p> <p>Official Gazette</p> <p>VBSP project reports</p> <p>Cooperative Bank project reports</p>	<p>The government is committed to reforms of CCF and VBSP.</p>
<p>4. Infrastructure for the microfinance sector developed</p>	<p>A microfinance center within the Banking Academy established to provide training, research, consultancy, and other services related to the microfinance sector</p>	<p>Achieved: The Microfinance Center was established in the Banking Academy by SBV decision No. 278/QD-HV-TCCB of 27 December 2012</p>	<p>Banking Academy project reports</p>	

Design Summary	Performance Targets and Indicators with Baselines	Achievements	Data Sources and Reporting Mechanisms	Assumptions and Risks
	An information technology-based and cost-effective credit information exchange system for microfinance developed at CIC	Achieved: The system was developed with ADB TA support	CIC project reports	
Activities and Milestones <ol style="list-style-type: none"> 1. A policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector <ol style="list-style-type: none"> 1.1 Provide fiscal and regulatory incentives for microfinance operating credit institutions 1.2 Formulate regulations to support the development of microinsurance 2. Strengthened supervisory and regulatory capacities of the microfinance sector regulators <ol style="list-style-type: none"> 2.1 Issue IRRs on MFI supervision 2.2 Provide training to the staff of VBSP oversight agencies including the Ministry of Finance on the supervision of VBSP based on the best prudential practices 3. Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor <ol style="list-style-type: none"> 3.1 Enhance VBSP's operational sustainability 3.2 Transform CCF into a cooperative bank and restructure the PCF network to a member-based financial cooperative system 4. Infrastructure for the microfinance sector developed <ol style="list-style-type: none"> 4.1 Develop the Banking Academy's training capacity on microfinance 4.2 Develop and train for a microfinance credit information exchange system to be used by reporting credit institutions and CIC 			Inputs <p>Loan: Subprogram 1 – Asian Development Fund \$40 million</p> <p>Subprogram 2 – Asian Development Fund \$50 million</p> <p>Technical Assistance: Policy and advisory TA – Japan Fund for Poverty Reduction: \$0.5 million, Government contributions: \$0.1 million</p> <p>Capacity Development TA – Technical Assistance Special Fund (TASF-V): \$1.0 million Government in-kind contributions: \$0.18 million Stakeholders' contributions to finance the participation to the TA training: \$0.02 million</p>	

CCF = Central People's Credit Fund, CIC = Credit Information Center of Vietnam, GDP = gross domestic product, IRRs = implementing rules and regulations, MFI = microfinance institution, PCF = People's Credit Fund, SBV = State Bank of Vietnam, TA = technical assistance, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.

POLICY MATRIX AND MEDIUM-TERM DIRECTION

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
A. Creating a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance.			
Formulate a policy framework for the development of a vibrant and robust microfinance sector.	(1–1) The government through the Prime Minister has approved the National Microfinance Development Strategy and Roadmap.	(2–1) The government has started to implement the National Microfinance Development Strategy and Roadmap.	Continued implementation of the National Microfinance Development Strategy and Roadmap.
Issue rules and regulations to support the growth and sustainability of the microfinance sector.	(1–2) The government has included provisions in the Credit Institution Law (CIL) 2010, which recognizes microfinance institutions (MFIs) as a Credit Institution (CI) under the State Bank of Viet Nam (SBV); defines the ownership and governance structure of MFIs and PCFs; ¹ and allows CIs to fix and/or negotiate loan and deposit interest rates.	(2–2) The government will have issued the relevant implementing rules and regulations (IRRs) of CIL 2010 on the ownership and governance structure of MFIs and PCFs; and on the mechanisms for CIs to fix and/or negotiate loan and deposit interest rates.	Review and improvements of IRRs to level the field for various types of microfinance operating CIs.
Promote a sound microfinance operations through licensing, and setting up prudential regulations and performance standards	(1–3) The government through SBV has issued IRRs on the licensing requirement, prudential ratios, the credit classification, and provision standards for MFIs.	(2–3) The government through SBV will have issued the necessary IRRs on the licensing requirements and prudential norms for MFIs in line with the CIL 2010 and ensure their implementation.	A transition measures formulated for unlicensed MFIs either to be licensed, or operate in a limited scope.
Encourage the expansion of microfinance outreach, especially to	(1–4) The government through SBV has prescribed the necessary IRRs on MFI branching.	(2–4) The government will have conducted a study on the options for fiscal incentives and regulatory requirements to promote the	Adequacy and relevance of incentives reviewed and modified as necessary.

¹ This amended Decrees 28 and 165, which were considered restrictive.

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
the rural areas by providing appropriate fiscal, regulatory and other incentives.	(1–5) The government issued a decree allowing a reduced enterprise income tax of 20% instead of 25% applicable to MFIs.	microfinance sector.	
Promote pro-poor innovations in delivering microfinance services to reduce costs and expand outreach.	(1–6) The government has included a provision in the CIL 2010 to allow CIs to provide e-banking products and services.	(2–5) The government will have issued the IRRs to promote pro-poor innovations on electronic banking products and services. ²	Review and improvement of the IRRs to capture technology development and improve delivery of microfinance services.
Ensure customer protection.	(1–7) The government has included a provision in the CIL 2010 on customer protection through deposit insurance, prohibition on illegal actions, transparency on loan and deposit interest rates, customer rights and responsibilities, and daily transaction limits.	(2–6) The government will have issued and implemented the IRR on Customer Protection consistent with the CIL 2010 to protect loan and deposit customers.	Review of the IRRs to ensure an effective consumer protection.
Ensure the delivery of gender equitable and socially-oriented microfinance services	(1–8) The government has endorsed a National Strategy on Gender Equality 2011–2020, which provides specific targets to CIs to provide credit to 80% of female laborers in poor areas and ethnic minority regions by 2015, and 100% by 2020.	(2–7) The government through SBV will have issued IRRs to require licensed MFIs to report client data, which will be disaggregated by sex and ethnicity.	Review of the compliance, and the effectiveness and efficiency of the IRRs requirements.
Promote risk protection for the poor.	(1–9) The government has included provisions under CIL 2010 to allow MFIs and PCFs to be agents of insurance companies.	(2–8) The government through the Ministry of Finance (MOF) will have issued IRRs to develop insurance services suitable and responsive to	Review and improvements of the CIL IRRs and the Insurance Law to support the development of

² Electronic banking (e-banking) generally refers to the provision of banking products and services through electronic channels such as the personal computer, landline and mobile phone connections, or through Automated Teller Machines (ATMs).

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
	(1–10) The government has amended a law to create the enabling environment to develop insurance for the low-income market.	the low-income sector.	microinsurance, including an option of allowing MFIs and PCFs to set up mutual assistance insurances (MAIs). ³
B. Strengthening the supervisory and regulatory capacities of the microfinance sector regulators			
SBV and the Ministry of Finance (MOF) effectively supervise and regulate MFIs, PCFs, and VBSP.	(1–11) The government through SBV has prepared a draft Manual of Supervision for MFIs. ⁴ (1–12) The government has promulgated a law to require VBSP to comply with the SBV reporting and internal control requirements as prescribed by SBV. (1–13) The government through SBV has completed the training to strengthen the capacity of SBV regulators.	(2–9) The government through SBV will have approved and implemented the Manual of Supervision for MFIs. (2–10) The government will have provided training to the staff of VBSP oversight agencies including MOF on the supervision of VBSP based on the best prudential practices. (2–11) The government through SBV will have ensured the availability of adequate pool of regulators capable to effectively supervise CIs engaged in microfinance services.	Assessment of the capacities of microfinance supervision/regulation, and formulation and conduct of necessary training.
C. Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor			

³ MAI is a legal entity established to conduct insurance business on a mutual assistance basis, with policy holders being the members and owners of a MAI.

⁴ Prepared by ADB TA 4638-VIE: Implementing the Regulatory and Supervisory Framework for Microfinance.

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
Strengthen and initiate reforms for VBSP to be a market-oriented, self-sustaining financial institution providing financial services including microfinance.	(1–14) The government has initiated actions to reform and restructure VBSP to achieve sustainable market-oriented operations.	(2–12) The government through the Prime Minister will have approved the Development Strategy for VBSP towards 2020.	Review of the government role in micro-credit delivery.
		(2–13) The government through the Ministry of Finance will have provided fiscal support to VBSP and its credit and savings groups to strengthen their institutions towards self-sustaining and market-oriented operations.	VBSP and its credit and savings groups conducting self-sustaining and market-oriented operations.
Strengthen the PCF network and expand its scope and geographic coverage, as well as transform its apex institution, Central Credit Fund (CCF) into a cooperative bank.	(1–15) The government through SBV has prepared a draft IRR to transform CCF to a cooperative bank.	(2–14) The government will have continued the development of the PCFs and will have commenced the transformation of CCF into a cooperative bank. (2–15) The government through SBV will have issued and implemented IRRs to ensure that the ownership, governance structures and operations of PCFs will be in accordance with the generally accepted cooperative principles and practices. (2–16) CCF will have strengthened its capital base through various mechanisms including the increase	An expansion of PCFs operations and the conversion of CCF into a cooperative bank.

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
		<p>of PCF contribution to CCF. (2–17) The government through the Ministry of Finance will have provided fiscal support to CCF and the CCF/PCFs network to strengthen their capacity in expanding member-based operations.</p>	
D. Supporting the development of the infrastructure for the microfinance sector			
<p>Enhance the capacity of existing microfinance support service providers to provide relevant, adequate, and responsive training and other services to improve the viability and sustainability of the microfinance providers.</p>		<p>(2–18) The government through SBV will have established a microfinance center within the Banking Academy to provide training, research, consultancy and other services related to the microfinance sector.</p> <p>(2–19) The government through the Ministry of Finance will have provided fiscal support to the establishment of a microfinance center within the Banking Academy.</p>	<p>The Banking Academy providing sustainable programs to meet the capacity building needs of CIs engaged in microfinance services and other stakeholders including local microfinance training institutes.</p>
<p>Raise awareness on sustainable market-oriented microfinance among microfinance stakeholders.</p>		<p>(2–20) The government through the Ministry of Finance will have provided fiscal support to VBSP and CCF for implementing the advocacy and financial literacy on sustainable microfinance and customer protection to their clients, management and staff, credit and savings groups, concerned government agencies, and mass organizations.</p>	<p>Formulation and implementation of a nationwide financial literacy program on microfinance.</p>

Objectives	Actions/Results Achieved January 2008–April 2012	Indicative Milestones and Triggers (in bold) May 2012–September 2014	Medium-Term Direction
Provide a cost-effective credit information exchange system for the microfinance sector	(1–16) The government has included a provision under the CIL 2010 to require micro credit information to be submitted to the Credit Information Center (CIC).	(2–21) The government will have developed an IT based and cost effective localized credit information exchange system for microfinance at CIC.	Operation of the credit information exchange system actively used by CIs engaged in microfinance.

TECHNICAL ASSISTANCE COMPLETION REPORT

TA Number, Country, and Name: TA 8108-VIE: Supporting Microfinance Development Program			Amount Approved: \$500,000		
			Revised Amount: not applicable		
Executing Agency: State Bank of Vietnam		Source of Funding: Japan Fund for Poverty Reduction	Amount Undisbursed: US\$ 18,456.76	Amount Utilized: US\$ 481,543.24	
Approval Date: 5 July 2012	Signing Date: 12 September 2012	Fielding of First Consultants: 24 September 2012	Completion Date Original: 28 February 2014	Actual: 31 December 2014	
			Account Closing Date Original: 28 February 2014	Actual: 30 January 2015	
Description					
<p>In response to a request from the Government of Viet Nam, the Asian Development Bank (ADB) formulated the Microfinance Development Program (MDP), which employed a policy-based programmatic approach with two subprogram loans designed to help the government implement its national microfinance development strategy (NMDS) for 2011–2020. Both the NMDS and the MDP aimed to develop a market-oriented formal microfinance sector that would involve diverse financial institutions, including banks, people’s credit funds (PCFs) and microfinance institutions (MFIs), and provide affordable, responsive, responsible, and sustainable financial services to low-income households and microenterprises. The ADB Board approved a \$40 million policy-based loan for MDP subprogram 1 (SP1) on 5 July 2012, along with this \$0.5 million piggy-backed technical assistance (TA).¹ SP1 provided retroactive budget support to the government in response to the policy actions for microfinance sector development prescribed and undertaken under the MDP for 2008–2011. This was followed by MDP subprogram 2 (SP2), for which a policy-based loan of \$50 million was approved by ADB on 9 December 2014.² SP2 provided budget support to the government for policy actions pursued during 2012–2014. The policy actions under SP1 and SP2 covered: (i) the creation of a supportive policy and regulatory environment, (ii) the enhancement of supervisory capacity for effective supervision and regulation over microfinance, (iii) the strengthening of financial institutions involved in microfinance, and (iv) the development of financial infrastructure to support microfinance development.</p> <p>The TA attached to SP1 was designed to (i) support implementation of the MDP by helping achieve a medium-term reform agenda in microfinance, and (ii) provide the government with policy advice.</p>					
Expected Impact, Outcome, and Outputs					
<p>The expected impact of the TA was support for the MDP in achieving greater financial inclusion and deepened microfinance sector. The expected project outcome was supporting MDP in increasing access of the poor to diverse, sustainable, and affordable microfinance services. The expected project outputs were (i) formulation of draft IRRs based on new Credit Institutions Law (CIL) provisions on microfinance; (ii) the study and recommendation of fiscal and regulatory incentives for credit institutions with microfinance operations; (iii) planning, development, and training for a microfinance credit information exchange system at the Credit Information Center (CIC), and (iv) review and improvement of the current insurance regulations to support the development of microinsurance.</p>					
Delivery of Inputs and Conduct of Activities					
<p>The TA provided inputs and policy advice based on globally proven good practices in microfinance and microinsurance to the Banking Supervisory Agency (BSA) of the State Bank of Vietnam (SBV) and the Insurance Supervisory Agency of the Ministry of Finance (MOF) to customize financial regulations in Viet Nam. It helped the CIC develop a microcredit information exchange system. The TA consultants closely monitored the government’s progress on the policy actions called for in the MDP policy matrix and collected compliance documents. The TA consultants provided policy advice on the Vietnam Bank for Social Policies (VBSP) reform, PCF development, and the SBV’s monitoring of the microfinance institution (MFI) loan. They advocated for the removal of the interest rate cap applied by the SBV to microfinance loans and provided inputs for the MDP SP2 loan documents. Among the areas covered by the reports generated under the TA were (i) recommendations relating to the licensing, organization, and operations of MFIs under the CIL; (ii) a proposed Viet Nam microinsurance regulatory framework; (iii) proposals for strengthening the VBSP to enhance its services and sustainability; (iv) the strengthening of the Cooperative Bank and the PCF network; and (v) recommendations on setting up a microcredit information exchange system. The consultants also prepared a final TA report. These reports were disseminated and discussed at TA consultative workshops.</p>					

¹ ADB. 2012. *Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Administration of Technical Assistance Grant for Socialist Republic of Viet Nam: Microfinance Development Program*. Manila (Loan 2877-VIE, and TA 8108-VIE).

² ADB. 2014. *Proposed Policy-Based Loan for Subprogram 2 for Socialist Republic of Viet Nam: Microfinance Development Program*. Manila (Loan 3213-VIE).

The TA was implemented during September 2012–December 2014 with inputs of 10 person-months of international consultant services and 12 person-months of national consultant services. The terms of reference of consultants were appropriate. To meet the implementing agencies' changing needs for the TA activities, minor scope changes were made to reduce inputs for the study and recommendation of fiscal and regulatory incentives for microfinance. The government had already studied fiscal incentives and announced lower tax rates for MFIs and PCFs. With this change, more resources were allocated to other TA activities, particularly the improvement of microinsurance regulation. The executing agency was the SBV. TA implementation was coordinated by the same project management unit (PMU) created for the MDP at the SBV. The PMU conducted overall TA administration, supervision, financial reporting, and the communications and transactions with ADB. The SBV appointed a project director and one full-time counterpart staff from the BSA. The performance of the executing agency is rated *satisfactory*. ADB and the TA team conducted both scheduled and ad hoc missions to coordinate closely with the PMU during implementation. ADB and the PMU provided timely guidance to the TA team to ensure conformity with the TA objectives and scope. Both closely monitored the progress of TA implementation. ADB's performance is rated *satisfactory*. The TA consultant team delivered reports and conducted consultations effectively, and its performance is also rated *satisfactory*.

Evaluation of Outputs and Achievement of Outcome

The TA was effective in supporting helping the MDP deliver its intended outputs. It provided policy advice to customize financial regulations to support microfinance development in Viet Nam. It helped the CIC develop a microcredit information exchange system and assisted in the VBSP reform, PCF development, and the SBV's monitoring of the MFI operations. The reports prepared under the TA provided useful inputs for the regulatory formulation and the development of operational and supervisory capacity and financial infrastructure sought under the MDP.

Overall Assessment and Rating

The TA is rated *successful*. It was highly relevant and effective, having supported the government in formulating the regulatory framework necessary for the development of a microfinance sector in which PCFs, MFIs, and microinsurance operators are playing and will play an increasingly important role. The TA also helped strengthen financial infrastructure by supporting the development of a microcredit information exchange system at the CIC. The TA consultants provided policy advice on the VBSP reform, PCF development, and the SBV's monitoring of the MFI loan. The TA team closely monitored the progress of the MDP and supported the formulation of the MDP SP2 loan. The TA was implemented efficiently with a minor delay in response to a change in the timeline for the government policy actions. The TA outputs helped build a solid foundation for sustainable microfinance operations in Viet Nam.

Major Lessons

The TA design should have anticipated that critical government policy actions would take a long time to achieve. The government has taken longer than expected to issue the IRRs for PCFs and MFIs. This was due to its first experience in crafting microfinance regulations and the lengthy consultations between ministries and other stakeholders that were required. This was aggravated by a lack of proper understanding of sustainable microfinance among stakeholders. The result has been a delay in the institutional change needed to strengthen and adjust the organization and systems of these entities so that they can comply with IRRs and achieve microfinance sector objectives.

Recommendations and Follow-Up Actions

The TA provided the support needed to establish an appropriate policy and regulatory environment for the development of sustainable microfinance in Viet Nam. As the microfinance sector aims for viability and sustainability, ADB should consider future assistance to address some of remaining issues and emerging challenges:

- (i) issuing IRRs for MFI licensing requirements,
- (ii) issuing regulation on unlicensed microfinance programs,
- (iii) supporting PCF compliance with the recent IRRs,
- (iv) formulating a microinsurance regulatory framework,
- (v) supporting VBSP reform to transform itself to a self-sustaining financial institution,
- (vi) strengthening microfinance operations through enhanced compliance with the SBV regulations,
- (vii) supporting advocacy and financial literacy on microfinance,
- (viii) supporting literacy and awareness on microinsurance,
- (ix) encouraging the entry of more players into the microfinance sector,
- (x) crafting a policy and regulatory framework for digital finance development, and
- (xi) improving the information and reporting systems of the PCFs and MFIs.

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In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTRIBUTION TO THE ADB RESULTS FRAMEWORK

Results Framework Indicators (Level 2)	Targets	Achievements	Methods / Comments
Microfinance savings accounts opened (2010 baseline: 9.7 million) and household borrowers reached (2010 baseline: 12.5 million)	<p>Number of microfinance savings accounts increased by 10% in 2014</p> <p>Number of microfinance household borrowers to increase by 5% in 2014</p>	<p>Technically achieved:</p> <p>Total microfinance savers declined to 8.51 in 2014 due to VBSP consolidation of individual accounts into household accounts</p> <p>Number of microfinance borrowers declined to 10.42 million in 2014 due to VBSP consolidation of individual accounts into household accounts</p>	<p>not</p> <p>Baseline survey was conducted and the data would be monitored by SBV banking statistics and SBV financial reports, respectively.</p>