



# Grant Assistance Report

---

Project Number: 42492  
September 2009

## Proposed Grant Assistance Socialist Republic of Viet Nam: Formalizing Microfinance Institutions (Financed by the Japan Fund for Poverty Reduction)

## CURRENCY EQUIVALENTS

(as of 13 August 2009)

Currency Unit	–	dong (D)
D1.00	=	\$0.00006
\$1.00	=	D17,811

## ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Francaise de Developpement
BIDV	–	Bank for Investment and Development of Viet Nam
CEP	–	Capital Aid Fund for Employment of the Poor
COBP	–	Country Operations Business Plan
CPM	–	Country Programming Mission
CSP	–	Country Strategy and Program
EA	–	executing agency
EOJ	–	Embassy of Japan
GIA	–	grant implementation agreement
GSO	–	General Statistics Office
IFAD	–	International Fund for Agricultural Development
IFRS	–	International Financial Reporting Standards
IT	–	information technology
JBIC	–	Japan Bank for International Cooperation
JFPR	–	Japan Fund for Poverty Reduction
MFI	–	Microfinance Institution
MFWG	–	Microfinance Working Group
MIS	–	management information system
MOF	–	Ministry of Finance
MOLISA	–	Ministry of Labor, Invalids and Social Affairs
MPI	–	Ministry of Planning and Investment
NGO	–	Non-government Organization
PCFs	–	People's Credit Funds
PIU	–	project implementing unit
PMU	–	project management unit
SBV	–	State Bank of Viet Nam
SCJ	–	Save the Children – Japan
SMF	–	supplementary matching fund
SOCBs	–	state-owned commercial banks
SMEs	–	small and medium-sized enterprises
TOT	–	training of trainers
VBARD	–	Viet Nam Bank for Agriculture and Rural Development
VBSP	–	Viet Nam Bank for Social Policies
VWU	–	Viet Nam Women's Union

## NOTE

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

<b>Vice-President</b>	C. Lawrence Greenwood, Jr., Operations Group 2
<b>Director General</b>	A. Thapan, Southeast Asia Department (SERD)
<b>Director</b>	J. Ahmed, Finance Sector, Public Management and Trade Division, SERD
<b>Team leader</b>	B. Nguyen, Finance Specialist (Rural and Microfinance), SERD
<b>Team member</b>	E. Sasaki, Senior Financial Sector Specialist, SERD

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.

**JAPAN FUND FOR POVERTY REDUCTION (JFPR)**  
**JFPR GRANT PROPOSAL**

**I. Basic Data**

<b>Name of Proposed Activity</b>	<b>Formalizing Microfinance Institutions</b>
<b>Country</b>	<b>Socialist Republic of Viet Nam</b>
<b>Grant Amount Requested</b>	<b>\$1,500,000</b>
<b>Project Duration</b>	<b>2 years</b>
<b>Regional Grant</b>	<input type="radio"/> Yes / <input checked="" type="radio"/> No
<b>Grant Type</b>	<input type="radio"/> Project / <input checked="" type="radio"/> Capacity building

**II. Grant Development Objective(s) and Expected Key Performance Indicators**

<p><b>Grant Development Objectives:</b> The JFPR's overall objective is to support the development of a formal microfinance sector in Viet Nam that can provide sustainable, reliable and affordable quality microfinance services for the poor, especially in rural areas. The JFPR will focus on the implementation of new microfinance regulations to formalize microfinance institutions (MFIs), supporting particularly the transformation of up to five unregulated microfinance programs to formal regulated MFIs. To this end, the JFPR will help build institutional capacity for MFIs to meet the requirements for transformation and sustainable operation by providing staff capacity training and supplementary matching funds. Training will also enhance the supervisory capacity of the State Bank of Viet Nam (SBV) microfinance supervision staff, and awareness raising workshops for relevant government officials will build general public support for market-based sustainable microfinance.</p>
<p><b>Expected Key Performance Indicators:</b></p> <ul style="list-style-type: none"> <li>(i) Up to five successfully transformed MFIs that operate in compliance with SBV regulations and international microfinance best practices on a sustainable basis, and serve the poor.</li> <li>(ii) Standardized training modules on regulation and supervision for SBV and on operational matters for microfinance practitioners for compliance with SBV regulatory requirements.</li> <li>(iii) More diversified microfinance products and services provided by participating MFIs.</li> <li>(iv) Increased number of poor clients served by MFIs, especially in rural areas.</li> </ul>

**III. Grant Categories of Expenditure, Amounts, and Percentage of Expenditures**

<b>Category</b>	<b>Amount of Grant Allocated (\$)</b>	<b>Percentage of Expenditures</b>
1. Civil Works	0	0.0
2. Equipment and Supplies	15,300	1.0
3. Training, Workshops, and Seminars	69,000	4.6
4. Consulting Services	479,750	32.0
5. Project Management	81,100	5.4
6. Other Inputs (Supplementary Matching Funds)	800,000	53.3
7. Contingency	54,850	3.7
<b>Total</b>	<b>1,500,000</b>	<b>100.0</b>
<b>Incremental Cost</b>	<b>0</b>	<b>0</b>

## JAPAN FUND FOR POVERTY REDUCTION

### JFPR Grant Proposal Background Information

#### A. Other Data

<b>Date of Submission of Application</b>	30 October 2008
<b>Project Officer</b> (Name, Position)	Binh T. Nguyen, Finance Specialist (Rural and Microfinance)
<b>Project Officer's Division, E-mail, Phone</b>	Finance Sector, Public Management, and Trade Division (SEFM), <a href="mailto:bnguyen@adb.org">bnguyen@adb.org</a> , (632) 632-4170
<b>Other Staff Who Will Need Access to Edit and/or Review the Report</b>	Jaseem Ahmed, Director, SEFM Eiichi Sasaki, Senior Financial Sector Specialist, SEFM Marie Vic E. Mina, Assistant Project Analyst, SEFM
<b>Sector</b>	Finance
<b>Subsector(s)</b>	Microfinance
<b>Theme</b>	Sustainable economic growth, Inclusive social development, Capacity development
<b>Subtheme(s)</b>	Developing rural areas, Other vulnerable groups, Institutional development
<b>Targeting Classification</b>	General intervention
<b>Was JFPR Seed Money used to prepare this grant proposal?</b>	Yes [ ] No [ x ]
<b>Have SRC comments been reflected in the proposal?</b>	Yes [ x ] No [ ]
<b>Name of Associated ADB Financed Operation(s)</b>	TA 3741-VIE: Preparing the Framework for Microfinance Development; TA 4638-VIE: Implementing Regulatory and Supervisory Framework for Microfinance; VIE: Microfinance Loan (expected 2010/2011)
<b>Executing Agency</b>	State Bank of Viet Nam (SBV)
<b>Grant Implementing Agency</b>	State Bank of Viet Nam 49 Ly Thai To Hanoi, Viet Nam  Note: Participating MFIs will be determined during implementation.

#### B. Details of the Proposed Grant

##### 1. Description of the Components, Monitorable Deliverables/Outcomes, and Implementation Timetable

<b>Component A</b>	
Component Name	<b>Institutional Review</b>
Cost (\$)	\$85,130 (including contingency)
Component Description	At the beginning of implementation, the project will take stock

	<p>of existing unregulated microfinance initiatives run by mass organizations and non-government organizations (NGOs) to assess their capacity, constraints, and potential for transformation to regulated MFIs under the new microfinance regulations of SBV (Decrees 28 and 165 and implementing Circular 02). The design (scope of activities and detailed implementation plan) of the institutional review will be prepared in close consultation with SBV and relevant stakeholders before its implementation. This institutional review will (i) establish a database containing the institutional profiles and training needs of existing microfinance programs under transition to be maintained at SBV for future sector monitoring purposes, and (ii) identify potential candidate programs for further detailed due diligence and appraisal under the MFI transformation program. An in-depth review of the SBV regulations will also be conducted through stakeholder consultations to provide recommendations that will address difficulties in implementing the regulations. This component will provide inputs to the design of the training activities and other assistance to support transforming MFIs under Components B and C below. In addition, at the outset, a selected sample of clients and local government officials will also be surveyed to collect baseline data for the project impact evaluation. A follow-up client survey will be conducted at the end of project implementation.</p>
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>• Review and assessment of existing microfinance programs in transition to formal MFIs.</li> <li>• Database of existing microfinance programs in transition to formal MFIs established at SBV.</li> <li>• Identification of potential participating MFIs for further detailed assessment under Component C.</li> <li>• Assessment of MFI needs for training and institutional development.</li> <li>• Review of the SBV regulations and recommendations for improvement.</li> <li>• Baseline data of client survey.</li> </ul>
Implementation of Major Activities: Number of months for grant activities	3 months

<b>Component B</b>	
<b>Component Name</b>	<b>Microfinance Training Activities</b>
<b>Cost (\$)</b>	\$224,866 (including contingency)
<b>Component Description</b>	<p>Microfinance is commonly perceived in Viet Nam as a social activity to be financed and carried out by the Government and mass organizations rather than as a business. This perception has translated into the Government's overwhelming dominance in the sector through the state-owned Viet Nam Bank for Social Policies (VBSP) and other targeted credit programs. These subsidized credit programs often do not</p>

	<p>respond to the poor's financial needs in respect of amount, terms, and alignment with future cash flow. Moreover, since they are undercutting the market, they severely discourage private sector participation in the sector.<sup>1</sup> Microfinance has evolved rapidly in the past decade and microfinance now embraces diverse service providers, investors, policymakers, and researchers to provide more diversified funding sources, more innovative, better quality and cheaper products and services for the poor.<sup>2</sup> The current attitude to microfinance in Viet Nam therefore needs to be changed, if a robust, sustainable, and inclusive microfinance industry is to be built. Also, current microfinance programs are predominantly run by nonfinancial institutions with limited staff capacity and knowledge of regulatory compliance. Their services are generally limited to short-term credit products of traditional microfinance. Managers and staff have little exposure to newer financial products and innovative delivery models practiced elsewhere. Training for capacity building will therefore be a critical activity of the JFPR.</p> <p>The project will disseminate best practices of market-based microfinance through training for relevant government officials, MFIs, and other industry stakeholders. For government officials, training will focus on raising awareness of pro-poor sustainable microfinance and enhancing SBV staff capacity in implementing regulatory and supervisory requirements, prudential monitoring procedures, and risk management. For MFIs, training will focus on operational matters such as corporate governance, accounting, management information systems (MIS), credit policies and procedures, auditing and other SBV regulatory requirements.</p> <p>The project will provide the following training activities:</p> <p>(i) Awareness-raising workshops: The workshops will raise awareness of the SBV's new microfinance regulations, the possibilities of pro-poor sustainable microfinance, and international best practices. The training materials will be compiled in a booklet for relevant central and provincial government agencies, mass organizations, and other stakeholders. Through these workshops, the participants will gain an understanding of newer microfinance concepts and of the microfinance models they should support, rather than directly managing microfinance</p>
--	--

<sup>1</sup> This is not to mention leakages, as pointed out in several recent studies of VBSP operations. For instance, a recent publication in Japan's Journal of Institute of Developing Economies shows that over 67% of clients are non-poor and that non-poor clients receive larger loans than the poor (Nguyen Viet Cuong. June 2008. *Is a Government Microcredit Program for the Poor Really Pro-Poor? Evidence from Viet Nam*. Volume XLVI, No. 2, pp. 151-87. Journal of Institute of Developing Economies. Japan).

<sup>2</sup> During the Asia Microfinance Forum in Hanoi, 26-29 August 2008, presentations from private sector investors revealed the sector's ample interest and funding potential in microfinance in Asia and Viet Nam stands number 3 after China and India in terms of market potential.

	<p>activities themselves.</p> <p>(ii) Training for MFIs: Training will be offered for MFI board members, managers, and staff to enhance their operational capacities and compliance responsibilities. The training will cover the SBV prudential requirements including MFI corporate governance; accounting and MIS; financial and operational management with a focus on best practices in credit procedures; operational policies and manuals; internal controls; risk management; sustainable outreach; institutional development planning; and prudential reporting requirements. There will also be presentations to raise awareness of (a) the importance of sound environmental due diligence for microfinance activities that may have adverse environmental impacts, and (b) the need for MFIs to ensure clients comply with applicable government environmental requirements and regulations. In addition, individual training and on-the job mentoring support will be provided to participating MFIs to meet their specific requirements.</p> <p>(iii) Training for SBV: SBV microfinance supervision staff will be engaged in the above mentioned training activities for MFIs to enhance their general knowledge about microfinance best practices. In addition, the JFPR will provide training especially designed for SBV microfinance regulators to improve their supervision capacity, focusing particularly on procedures for conducting regular off-site monitoring and on-site supervision of MFI operations; standardized MFI financial reporting requirements; risk-based supervision; and SBV's roles and responsibilities in regulating the sector. The training consultants will also provide SBV staff with on-the-job informal training and mentoring support for the tasks they perform as they carry out their day-to-day responsibilities based on the supervision manual formulated under the project.</p> <p>Training for MFIs will be mainly outsourced to suitable local training institutions under JFPR supervision, while awareness-raising and training for SBV will be prepared and delivered mainly by project consultants. To maintain lasting technical assistance services, the project will produce standardized training modules and training materials in both English and Vietnamese, and will support the establishment of a network of local trainers through training of trainers (TOTs) and strengthening local microfinance training initiatives. The project will engage local microfinance trainers and training institutions in a partnership for training preparation and delivery. All resource materials developed by the project will be made accessible on the ADB and SBV websites and in the form of printouts readily available to interested parties.</p>
--	---

<b>Monitorable Deliverables/Outputs</b>	<ul style="list-style-type: none"> <li>• Training materials are prepared and training is delivered to MFIs, SBV, and other stakeholders.</li> <li>• Number and types of participants successfully completing training.</li> <li>• Number of MFIs complying with SBV regulatory requirements.</li> <li>• SBV staff supervises MFIs in accordance with regulations.</li> <li>• Number of local trainers engaged in training delivery.</li> </ul>
<b>Implementation of Major Activities: Number of months for grant activities</b>	21 months

<b>Component C</b>	
Component Name	<b>Transformation of MFIs</b>
Cost (\$)	\$947,994 (including contingency)
Component Description	<p>The JFPR will assist up to five microfinance programs in building their institutional capacity to meet the SBV requirements for transformation, sustainable operation, and outreach to the poor. It will provide technical assistance and supplementary matching funds (SMF) to help the participating MFIs implement the transformation, improve portfolio quality and services, and strengthen operational capacity. The total amount of the SMF is up to \$800,000, with the actual amount based on the institutional review under Component A. The executing agency will work with consultants under ADB supervision to formulate the eligibility criteria and selection process for the SMF, and conduct proper due diligence and risk assessment of the eligible programs, including site visits and appraisals of financial and operating conditions and growth plans. Eligible microfinance initiatives will include programs that are in transformation to formal regulated MFIs, including nonprofit microfinance programs; credit and savings initiatives, such as community microfinance schemes, microfinance programs run by mass organizations and NGOs; and private initiatives. They must (i) have a record of sound microfinance operations meeting the SBV prudential and non-prudential requirements for transformation, (ii) have a clear plan and firm commitment to establish themselves as formal MFIs subject to SBV supervision, and (iii) operate on a sustainable basis following microfinance best practices and outreach to the poor.<sup>3</sup> Eligible MFIs will require initial grant assistance to make their transformation possible and sustainable, and will represent a geographical spread to catalyze project support and increase the depth of outreach.</p>

<sup>3</sup> Under Decrees 28 and 165 and implementing Circular 02, transforming MFIs are required to meet a set of pre-defined benchmarks. Among the key include transforming MFIs must (i) have the minimum level of capital of VND5 billion (about \$300,000); (ii) meet the industry's common professional standards, including having qualified staff, modern accounting and MIS/IT systems, a board of directors of both executives and non-executives, modern human resources management, a proper corporate charter, and a rolling business plan; and (iii) have a gross loan portfolio of no more than 5% at risk and at least 65% being micro loans below VND30 million (nearly \$2,000).

	<p>Further, to encourage diversified formal sources of microfinance, MFIs with an ownership structure involving different stakeholders and privately-owned microfinance initiatives with strong social commitment will be given preference as these have been shown worldwide as the most efficient and sustainable sources of microfinance.<sup>4</sup> Eligible MFIs will be required to apply for SMF on a transparent and competitive basis following a pre-defined selection process, including application procedures and funding approval processes formulated by the JFPR. They will also need to cover at least a half of their transformation costs. This will be specified in the grant implementation agreement (GIA) between the project management unit (PMU) and each participating MFI, to be formulated with ADB concurrence during project implementation. During implementation, participating MFIs will act as implementing agencies and submit quarterly reports to the PMU with details on the use of the received funds by eligible categories as detailed in the GIA.</p> <p>The JFPR's SMF will help the participating MFIs cover costs related to transformation, improved portfolio quality and services, and enhanced institutional and operational capacity. Specifically:</p> <ul style="list-style-type: none"> <li>(i) Transformation costs include upgrades of information technology (IT) and MIS systems for enhanced client and portfolio management; more efficient credit assessment and delinquency management, along with other corporate governance mechanisms such as internal controls and operation committees; and external audits of initial financial accounts in accordance with International Financial Reporting Standards (IFRS);</li> <li>(ii) Improved loan portfolio quality costs include branch network expansion to reach difficult geographical areas and poorer clienteles, and development and pilot tests of innovative pro-poor loans and savings products and delivery models; and</li> <li>(iii) Enhanced institutional and operational capacity costs include fees and costs of actually introducing corporate planning, credit procedures, risk management instruments, human resources management, external audits, and training on prudential reporting requirements</li> </ul>
--	---

<sup>4</sup> For example, the recent outstanding success of Cambodia's microfinance sector has been exemplary. From a background of great similarities to Viet Nam, over less than a decade Cambodia has now built a microfinance industry of commercial banks, 17 privately-owned licensed MFIs, and 26 regulated NGOs that altogether have a gross loan portfolio of about 8.5% of the GDP and serve over 7.5% of the population. The sector continues to grow at a quarterly rate of about 7% in terms of outreach and 15% in terms of loans outstanding. Studies, including ADB's ongoing study on microfinance of the lower Mekong region, unanimously agree that major reasons behind Cambodia's success include a clear for-profit orientation, a diversified ownership structure of MFIs, transparency, market-based management, equal treatment of foreign and local participants, and the absence of negative government interventions.

	and other on-the job mentoring support to meet specific requirements of the concerned MFI.
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>• Reports of due diligence and risk assessment of participating transformation MFIs.</li> <li>• Guidelines and procedures for administering the SMF to participating transformation MFIs (selection criteria; application and appraisal procedures; grant terms, conditions, and GIA).</li> <li>• Up to five successful transformations of MFI operate in compliance with SBV's regulations and microfinance best practices.</li> <li>• More diversified products and services are provided by participating MFIs.</li> <li>• An increased number of operating branches and clients are served by participating MFIs, especially poor clients in rural areas.</li> </ul>
Implementation of Major Activities: Number of months for grant activities	21 months

<b>Component D</b>	
Component Name	<b>Project Management, Monitoring, and Evaluation</b>
Cost (\$)	\$242,010 (including contingency)
Component Description	<p>SBV will be the project executing agency (EA). The JFPR will assist the EA in the establishment and operation of a national project management unit (PMU), and in each participating MFI a project implementing unit (PIU). The PMU will coordinate with concerned government agencies, mass organizations, and participating MFIs for the implementation of project activities described above. The PMU will undertake the overall administrative and supervisory tasks, communication and financial transactions with the Asian Development Bank (ADB), annual auditing, progress monitoring, and impact evaluation. The PMU will oversee the administration of the supplementary grants to participating MFIs, the training activities, technical assistance, financial audits, and project monitoring and evaluation. The PIUs will be responsible for implementing the activities of their specific MFI and will report to the PMU, as detailed in the GIA. The project will conduct regular progress monitoring and evaluation to assess the project's contribution to improving the poor's access to finance and the quality of microfinance products and services being offered. The project will showcase successful MFI transformations through workshops, the ADB and SBV websites and publications; and disseminate lessons learned and project impacts to demonstrate the Government's commitment to implementing Decrees 28 and 165, and thereby encourage further transformation of MFIs.</p>
Monitorable	<ul style="list-style-type: none"> <li>• Establishment and operation of PMU in SBV.</li> </ul>

Deliverables/Outputs	<ul style="list-style-type: none"> <li>• Establishment and operation of PIUs in participating MFIs.</li> <li>• Inception, quarterly, midterm, and final reports.</li> <li>• Progress reports and annual audits on the use of SMFs distributed to the participating MFIs.</li> <li>• Workshops and publications to showcase successful transformations.</li> <li>• Project impact evaluation report.</li> </ul>
Implementation of Major Activities: Number of months for grant activities	24 months

## 2. Financing Plan for Proposed Grant to Be Supported by JFPR

Funding Source	Amount (\$)
JFPR	\$1,500,000
Government (in kind)	\$149,838 (counterpart staff time, counterpart local travel, and office space)
Other Sources (participating MFIs) <sup>5</sup>	\$800,000 (MFI matching contributions for implementation of the GIA between the PMU and each participating MFI)
<b>Total</b>	<b>\$2,449,838</b>

## 3. Background

1. Viet Nam's microfinance sector has, on the one hand, two large institutions—the state-owned VBSP and a nationwide cooperative network of People's Credit Funds (PCFs)—and, on the other, a group of small microfinance initiatives run by mass organizations such as the Viet Nam Women's Union (VWU) and non-government organizations (NGOs).<sup>6</sup> VBSP (5.7 million clients, over \$2 billion gross loan portfolio) and PCFs (over 1.2 million members, nearly \$800 million outstanding loans) are well-established regulated financial institutions.<sup>7</sup> In contrast, the group of small microfinance initiatives of mass organizations and NGOs comprises dozens of scattered small programs that typically have a few thousand customers and a few hundred thousand dollars outstanding loan portfolio, and are run by nonfinancial institutions operating outside the supervision of SBV. While most of these programs are offering largely market-based services, their long-term growth is constrained by their inability to mobilize savings because they lack the capacity to comply with the regulations for deposit-taking microfinance institutions (MFIs) recently introduced by SBV.

2. In an effort to boost the sector's sustainable growth, ADB provided a technical assistance project (TA 3741-VIE) in 2001 to help the Government prepare regulations to

<sup>5</sup> The ADB fact-finding mission 22-26 September 2008 explained to the Government that the Government will not need to commit to providing these MFI matching contributions, as this is a prerequisite of MFI participation in the project. In other words, before an MFI can participate in the project, it will need to commit that it will cover at least a half of its transformation cost. This will be specified in the grant implementation agreement (GIA) between the PMU and each participating MFI. In ADB documents, MFI matching contributions will be recorded as part of the project total funds. The Government may or may not include these in its internal documents, as appropriate.

<sup>6</sup> The Viet Nam Bank for Agriculture and Rural Development (VBARD) used to provide micro loans. But after the split of its policy lending wing to form the VBSP in 2003, rural small and medium-sized enterprises have become the focal clientele of VBARD.

<sup>7</sup> Data are from the 2007 annual reports of VBSP and the Central Credit Fund, respectively.

formalize the unregulated microfinance initiatives.<sup>8</sup> This assistance contributed to the Prime Minister's issuance of Decree 28 in March 2005. However, Decree 28 was found to be too restrictive as no microfinance initiatives moved toward being licensed MFIs. In 2005, ADB financed the second microfinance TA project (TA 4638-VIE) that was supposed to support the implementation of Decree 28, but in fact it assisted the Government in amending Decree 28.<sup>9</sup> This second TA resulted in the issuance of the supplementary Decree 165 in November 2007, providing the legal framework for the establishment and operation of formal MFIs, along with several improvements in prudential requirements for microfinance activities. Subsequently, in April 2008 SBV issued Circular 02 to provide implementing guidelines for the transformation of eligible microfinance initiatives into formal licensed MFIs.

3. The Government has recognized microfinance as a potentially important means for poverty reduction in Viet Nam, especially in rural areas, and is therefore seeking to develop a robust sector with diversified formal microfinance sources and strong private sector participation that can offer sustainable and affordable financial services to the poor. Thus, during the ADB Country Programming Mission (CPM) in May 2008, the Government requested ADB to provide a microfinance loan in 2010/2011, aimed at addressing constraining issues in the legal framework, policy environment, and institutional reforms.<sup>10</sup> As an interim step prior to the loan, the Government requested a grant assistance (to be financed from the JFPR sources) to support the implementation of Decrees 28 and 165 and implementing Circular 02, focusing on transforming unregulated microfinance initiatives into regulated MFIs.

#### **4. Innovation and Knowledge Sharing**

4. As new microfinance regulations are now in place, many microfinance programs and potential private sector investors, being skeptical of past experiences, are eager to see a demonstration of Government commitment to formalizing the microfinance sector. The JFPR will help the Government demonstrate that commitment. Furthermore, as the project will support different MFI ownership models, including those of multiple shareholders and private initiatives and innovative pro-poor products and services, the JFPR will make it clear that the Government intends to develop a more inclusive microfinance sector for the poor.

5. To achieve these goals, the JFPR will support successful participating transformations of unregulated microfinance programs to formal MFIs. The JFPR will focus on institutional capacity building for the participating MFIs to meet SBV prudential and non-prudential requirements for transformation and sustainable operation.<sup>11</sup> This will include providing staff training to strengthen the human resources, and supplementary funds to improve institutional efficiency and risk management, and to assist operational expansion and introduction of innovative pro-poor products and services and delivery models. The JFPR will also build broader support for pro-poor sustainable microfinance models among government agencies, mass organizations, and the general public. The JFPR recognizes that microfinance is widely perceived in Viet Nam as a social activity to be financed and carried out by the Government rather than as a business, and this old-fashioned view has led to the Government's overwhelming dominance in the sector through subsidized credit programs. The JFPR will provide awareness raising training to relevant Government agencies to expose them to recent developments in microfinance, including the kind of microfinance that has the diversified

<sup>8</sup> ADB. 2001. TA 3741-VIE: *Preparing the Framework for Microfinance Development*. Manila.

<sup>9</sup> ADB. 2005. TA 4638-VIE: *Implementing the Regulatory and Supervisory Framework for Microfinance*. Manila.

<sup>10</sup> ADB Viet Nam Country Programming Mission, 12–28 May 2008.

<sup>11</sup> See footnote 3.

participation of service providers, public and private investors, and policymakers, and provides a broad variety of financial products and services for the poor on a sustainable basis. The successful participating MFIs will provide evidence that such an alternative microfinance model, as opposed to the one supported by the Government, indeed exists and can also operate successfully in Viet Nam.

6. The JFPR will also demonstrate that microfinance operating on market principles is better for the poor as it can deliver to them more diverse products of better quality at more affordable prices. For this purpose, the JFPR will conduct a proper project impact evaluation using a counterfactual analysis method based on baseline and follow-up survey data of project and control clients.<sup>12</sup> The project will showcase successful transformations through workshops, the ADB and SBV websites, and publications in ADB and in peer-reviewed journals. It will also disseminate widely the lessons learned and the project impact evaluation reports to demonstrate the Government's commitment to supporting alternative microfinance models, and thereby encourage further MFI transformations.

## 5. Sustainability

7. Sustainability will be achieved at the institutional and sector levels. At the institutional level, the JFPR will support the transformation of unregulated microfinance programs to formal regulated MFIs subject to the SBV regulations (Decrees 28 and 165). First, this will allow them to intermediate voluntary savings. Because savings provides low-cost funding and helps MFIs retain clients and reduce credit risk, savings mobilization is a key to the sound sustainable operation of MFIs. Second, transformation from unregulated programs into formal financial institutions will enable MFIs to gain legitimacy in the eyes of policymakers, investors, commercial lenders, and other financial institutions, thus increasing sources of capital for expansion. Lastly, formal MFIs having clear ownership and proper corporate governance controls under regular prudential supervision will have the incentive to operate with transparency and efficiency. They will therefore be more likely to follow microfinance best practices and implement development plans to reach financial sustainability, and grow to take advantage of economies of scale.

8. At the sector level, an increase in the number of regulated MFIs with diverse financial products and services will better respond to the various financial needs of the poor, making the sector more viable and sustainable. Currently, by channeling a large amount of funds through the state-owned VBSP, the Government overwhelmingly dominates the microfinance sector. Because VBSP provides subsidized credit at interest rates far below the market rate, its programs cause problems for microfinance programs that are running on a sustainable basis.<sup>13</sup> In addition, subsidized credit provided by VBSP often does not respond to the poor's financial needs in terms of amount, terms and alignment with future cash flow. Several recent studies of VBSP operations also show evidence of high leakages and of the non-poor receiving a larger amount of credit than the poor.<sup>14</sup> Recent statistics show that, by a most generous estimate, no more than 25% of the rural population has access to institutional sources of credit in Viet Nam.<sup>15</sup> Moreover, the poor are increasingly demanding more diverse financial products,

<sup>12</sup> For an introduction of project impact evaluation methods, see "ADB. 2006. *Impact Evaluation. Methodological and Operational Issues*. Manila."

<sup>13</sup> As of August 2008, VBSP's rates were ranging from 8 - 14% per annual far below the commercial rates of around 20 - 22% per annual and the running inflation rate of over 25% per year (year-on-year as of August 2008).

<sup>14</sup> See footnote 1.

<sup>15</sup> The Banking with the Poor Network. August 2008. *Vietnam Industry Assessment. A Report on the Vietnamese Microfinance Sector*. Hanoi.

including larger and differently structured loans and savings schemes and low-cost insurance services designed specifically for them. Outside the traditional bottom-of-the-pyramid market, most micro, small and medium-sized enterprises consider access to finance the most important obstacle to their growth and are demanding more credit and other financial services.<sup>16</sup> Emerging formal MFIs with different ownership structures including private initiatives will provide alternative financial sources and diversified financial products on a market basis, and will therefore respond better to the unmet financial demands of the poor and their businesses.

**6. Participatory Approach**

9. The JFPR will be implemented through a participatory process involving all the key microfinance sector stakeholders, including relevant central and local government agencies, MFIs and their clients, and mass organizations active in microfinance. During the project formulation, SBV and potential implementing agencies were involved in designing the project. The latter include the Viet Nam Microfinance Working Group (MFWG): <http://www.ngocentre.org.vn/node/128>; Viet Nam Association of People’s Credit Funds; TYM Fund of the Viet Nam Women’s Union (VWU); Capital Aid Fund for Employment of the Poor (CEP) of Ho Chi Minh City: [www.cep.org.vn](http://www.cep.org.vn); Binh Minh Community Development Co; Dariu Foundation; and Long An Women’s Union. In addition, the Ministry of Finance (MOF) and Ministry of Planning and Investment (MPI) have also been consulted and provided comments and feedback on the JFPR.

Primary beneficiaries and other affected groups and relevant description	Other key stakeholders and brief description
<ul style="list-style-type: none"> <li>• Key MFI practitioners, mass organizations, and SBV will attend a workshop to present the institutional review (Component A, about 30 participants) and a workshop to launch the project (Component B, 50 participants). The participants will present views and concerns, and will provide inputs for the detailed design of the institutional review and implementation of the project activities. The workshops will also gather views on and suggestions for improvement of Decrees 28 and 165 and Circular 02.</li> <li>• Microfinance practitioners (i.e., MFI board members, managers, and professional staff), SBV microfinance supervision staff, relevant central and provincial government officials, and staff of concerned mass organizations will attend training designed for them under Component B. These will include 12 workshops for MFIs (240 participants); 3 supervision workshops for SBV (30 participants); and 3 awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant central (MOF, MPI, Office of the Government) and local government officials (Provincial People’s Committees) and donors will attend the institutional review workshop (Component A) and project launching workshop (Component B) together with key MFI practitioners, mass organizations, and SBV. Their views will be taken into consideration for the implementation of the project activities. They will also be introduced to and consulted on Decrees 28 and 165 for suggestions for improvement.</li> <li>• Provincial government officials and mass organizations in the survey areas will be consulted on the quality and availability of the financial products and services being offered by the MFIs concerned. They will also be invited to the workshop to present the project impact evaluation report.</li> </ul>

<sup>16</sup> World Bank. Viet Nam Development Report 2007. *Aiming High*. Hanoi.

Primary beneficiaries and other affected groups and relevant description	Other key stakeholders and brief description
<p>raising workshops for Government officials (60 participants).</p> <ul style="list-style-type: none"> <li>A random sample of about 1,000 clients (male and female villagers) of participating MFIs will be surveyed at the beginning and at the end of the project to collect data on the demand for financial services and their views on the quality and availability of products and services being offered. This will provide data for the project impact evaluation.</li> </ul>	

## 7. Coordination

10. The project team has been in close consultation with the Embassy of Japan (EOJ) in Viet Nam, exchanging updates on ADB's processing of the JFPR, sharing the JFPR concept paper and the draft proposal for comments and feedback on the project objective, scope, and designs.<sup>17</sup> The project team discussed the major broad issues facing the microfinance sector in Viet Nam and outlined the overall approach ADB is taking in supporting the Government to address those issues so as to build a formal, market-oriented, and inclusive microfinance sector for the poor. The project team also briefed the EOJ representative on ADB's involvement in the microfinance sector in Viet Nam, highlighting the special position of the proposed JFPR in helping both ADB and the Government become more deeply engaged in the sector, build on past experience, and give ADB leverage in moving forward to the microfinance loan scheduled for 2010/2011, as agreed with the Government during the ADB CPM in May 2008. During the consultations, the project team responded to questions raised by the EOJ representative regarding broader issues in the microfinance sector, including financial sustainability and the social objective of microfinance, as well as specific issues concerning the JFPR, in particular its poverty reduction focus.

11. Coordination has also been conducted with Japan Bank for International Cooperation (JBIC) and other international development partners including the World Bank, International Labour Organization, International Fund for Agricultural Development (IFAD), Agence Française de Développement (AFD), and international NGOs active in microfinance in Viet Nam such as Save the Children – Japan (SCJ), Care International, Counterpart Vietnam, Ford Foundation, and GRET. The JFPR concept and later the JFPR draft proposal were presented for general consultations and to ensure no duplication but rather complementarity with other partners' ongoing activities in the sector. During the meetings, the project team confirmed ADB's commitment to support the development of a robust, sustainable, and inclusive microfinance industry in Viet Nam, outlining ADB's overall approach in supporting the Government to address broad policy and institutional constraints. The project team made it clear that the proposed JFPR is an interim step to help both ADB and the Government engage more deeply in the sector and move forward to the microfinance loan included in the 2010/2011 lending assistance pipeline. The agencies appreciated the opportunity for consultation and unanimously supported the JFPR effort in showcasing successful participating MFIs of diversified participation and offering market-based financial products and services for the poor,

<sup>17</sup> The project team met Mr. Tomohiro Fujiyama, First Secretary, on 25 August 2008 and 23 September 2008.

as an alternative to government-financed credit programs. It was noted that JBIC, while fully supporting the development of alternative financial sources as proposed in the JFPR, may initiate consultations with the VBSP for a possible intervention, possibly including technical assistance and a loan. The World Bank's involvement in the financial sector in Viet Nam has been focusing on supporting the reform of state-owned commercial banks (SOCBs) and likely will continue to be in the banking sector and capital markets. Its involvement in microfinance so far is limited to providing a credit line to the Bank for Investment and Development of Viet Nam (BIDV) for on-lending to rural enterprises. AFD has initiated discussions with SBV for a possible TA project to assist in the preparation of a microfinance sector strategy, but it remains uncertain whether the TA will go ahead.<sup>18</sup>

## **8. Detailed Cost Table**

12. Please refer to Appendix 2 for a summary of project costs, Appendix 3 for detailed cost estimates, and Appendix 4 for the fund flow arrangement.

### **C. Link to ADB Strategy and ADB-Financed Operations**

#### **1. Link to ADB Strategy**

13. ADB's current operations in Viet Nam under the Country Strategy and Program (CSP) 2007–2010 support the Government in its efforts to achieve its overarching goal of reducing poverty.<sup>19</sup> Under the CSP, the key thrust of ADB's involvement in the rural and microfinance sector is creating a favorable policy environment, developing financial infrastructure, building viable institutions, and supporting pro-poor innovations with a focus on developing a microfinance sector dominated by formal licensed and supervised MFIs that operate on market principles. The Government has requested a microfinance loan and that is now in the Country Operations Business Plan (COBP) for 2010/2011. In the meantime, ADB is taking a careful approach by undertaking (i) a multi-country microfinance sector study in the lower Mekong region (Viet Nam, Lao PDR, and Cambodia), and (ii) this JFPR, so as to first re-engage in the sector with solid knowledge and experience before moving to the loan.<sup>20</sup> In this context, the proposed JFPR builds on ADB's earlier technical assistance projects that established the initial legal and regulatory framework (TA 3741-VIE, 2001 and TA 4638-VIE, 2005) and provides a continuation to the planned microfinance loan.

---

<sup>18</sup> AFD's final decision on the TA is expected by end-2009.

<sup>19</sup> ADB. 2006. *Country Strategy and Program 2007–2010. Viet Nam*. Manila.

<sup>20</sup> The sector study is expected to be completed by end 2009.

Document	Document Number	Date of Last Discussion	Objective(s)
Viet Nam CSP 2007-2010  ADB's Microfinance Development Strategy. 2000	SEC 8606	August 2008	The strategic focuses are (i) creating a policy environment conducive to microfinance; (ii) developing financial infrastructure; (iii) building viable institutions; (iv) supporting pro-poor innovations; and (v) supporting social intermediation.  The goal of the ADB's Microfinance Development Strategy is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their microenterprises. The purpose is to support the development of sustainable microfinance systems that can provide diverse services of high quality.

## 2. Link to Specific ADB-Financed Operation

<b>Project Name</b>	Viet Nam Microfinance Loan
<b>Project Number</b>	Not available
<b>Date of Board Approval</b>	Scheduled for 2010/2011
<b>Loan Amount</b>	\$40 million (pipelined)

## 3. Development Objective of the Associated ADB-Financed Operation

14. To promote the development of a formal, market-oriented microfinance industry that can provide a diverse variety of sustainable, reliable and affordable quality financial products and services for the poor, especially in rural areas, in Viet Nam.

## 4. List the main components of the Associated ADB-Financed Operation<sup>21</sup>

No.	Component Name	Brief Description
1.	Improving the legal and policy environment for the development of a vibrant microfinance sector.	1.1. National microfinance strategy to adopt a market-oriented microfinance sector with greater private sector participation.  1.2. Improved microfinance regulations to encourage microfinance models of more diversified ownership structures.  1.3. Phase-out of nonfinancial agencies, subsidized credit provision, and government control of credit policies for competitive, sustainable microfinance operations.

<sup>21</sup> This is subject to further development and change, pending the loan preparation anticipated to begin early 2010.

No.	Component Name	Brief Description
		1.4. Institutional reforms of the VBSP to better serve the poor clients.
2.	Establishing a sound prudential regulatory and supervisory framework for sustainable microfinance operations.	2.1. Harmonization of prudential regulations and statutory requirements to create a level playing field for various forms of microfinance operations. 2.2. Strengthened regulatory and supervisory capacity of SBV.
3.	Strengthening infrastructure for the provision of efficient financial services for the poor.	3.1. Improved credit information center to include microfinance for enhanced credit management of MFIs. 3.2. Establishment of a wholesale lending institution for the provision of efficient microfinance services. 3.3. Promotion of viable retailing MFIs that can deliver sustainable, reliable and affordable quality retail financial services to the poor. 3.4. Enhanced microfinance network for performance monitoring and benchmarking, information dissemination, MFI capacity building, investment opportunities, and policy advocacy and legal reform. 3.5. Increased financial literacy and consumer protection for the poor.

## 5. Rationale for Grant Funding versus ADB Lending

15. ADB's vision for the microfinance sector in Viet Nam is that of a growing market-oriented formal sector of commercial banks, credit and savings cooperatives, and retailing MFIs, as an integral part of the financial sector and linked to the formal banking sector and capital markets through commercial relationships. Since microfinance regulations are now in place to allow the establishment and operation of formal MFIs, microfinance programs are in transition from unregulated to formal, regulated MFIs. Many programs are eager to make this transformation and have in fact started initial preparations. However, Decrees 28 and 165 and Circular 02 require transforming programs to meet a number of the industry's benchmarks (see footnote 3). Despite their firm commitment to transformation and initial capacity to do so, many programs find meeting these requirements costly and difficult, especially requirements for staff qualification, accounting and MIS/IT systems, corporate governance controls, external audit of initial financial accounts.<sup>22</sup> The Government therefore requests ADB assistance to support pilot cases to showcase successful transformations and encourage further transformations.

16. The Government generally seeks loan funds for operations to develop a policy framework and undertake institutional reforms or for investment in physical goods and services, while preferring grant assistance for training, capacity building, and project support. The Government has requested ADB for a microfinance loan with the aim of ensuring continued improvements in the legal framework, addressing broad constraints in the policy and regulatory environment, and undertaking restructuring of state-owned microfinance institutions and credit programs. The microfinance loan is now in ADB's COBP for 2010/2011. Given the

<sup>22</sup> This is a major finding of the ADB consultation mission 4-9 August 2008. See the mission's BTOR of 21 August 2008 for more details.

Government's tight fiscal position, the amount it is planning to borrow for the microfinance loan, and the focus of the proposed JFPR on institutional capacity building for pilot transformations, it would be difficult for the Government to also borrow for the proposed JFPR. ADB is in dialogue with the Government in the preparation for that loan, but at the same time is taking an approach that would enable ADB to carefully re-engage in the sector. In this context, the JFPR will provide ADB with solid hands-on experience before moving to the loan.

#### D. Implementation of the Proposed Grant

<b>1. Provide the Name of the Implementing Agency</b>	<p>State Bank of Viet Nam 49 Ly Thai To Hanoi, Viet Nam Phone: (84-4) 934 3325 Fax: (84-4) 825-3640</p> <p>Note: Participating MFIs will be determined during implementation.</p>
---	---

17. Details of the project implementation arrangements are in Appendix 5. SBV will be the EA for the JFPR project. The EA will establish a national project management unit (PMU) and a project implementing unit (PIU) in each participating MFI. The PMU will be responsible for coordinating implementation of the project activities described above with the relevant government agencies, mass organizations, and participating MFIs. The PMU will undertake the overall administrative and supervisory tasks, communication, and financial transactions with ADB, annual auditing, and progress monitoring and impact evaluation. The PMU will oversee the administration of the supplementary grants to participating MFIs, training activities, technical assistance, financial audits, and project monitoring and evaluation. The PIUs will be responsible for implementing the activities of their particular MFI and will report to the PMU, as detailed in their GIA with the PMU.

18. The PMU will be assisted by a full-time local project assistant for administrative tasks and translation and interpretation when needed. The project assistant will be recruited and financed by the JFPR under the project management budget. SBV will provide office space with furniture for the project team, while computers and office supplies will be provided by the JFPR. SBV will provide local transport for counterpart staff during implementation.

19. The project will provide a total of 27.5 person months of international and national consulting services, including (i) an international microfinance specialist as team leader (6.5 person months); (ii) an international microfinance training specialist (4 person months); (iii) an international project impact evaluation specialist (2 person months); (iv) a national microfinance specialist (9 person months); and (v) a national microfinance training specialist (6 person months). To obtain the data for the project impact evaluation, the project will contract out the baseline survey and the follow-up survey to a local institution with expertise in economics and statistics. Since the project's key objective is MFI transformation, the most important consulting inputs are in MFI transformation, establishment and institutional development. This is a highly specialized area of expertise that is usually possessed by individuals rather than firms. Likewise, project impact evaluation requires special technical expertise in survey design, statistical data analysis, and econometric estimation that is almost exclusively owned by a very small group of individuals in the world. To ensure timely recruitment and quality consultant performance, consultants will therefore be recruited by ADB using the individual consultant

selection method in accordance with ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*. The consultant terms of reference are in Appendix 6. All procurements under the JFPR will be conducted in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).

## 2. Risks Affecting Grant Implementation

Type of Risk	Brief Description	Measure to Mitigate the Risk
Governance	Problems of corruption.  Political pressure to adversely amend the new microfinance regulations or to induce resistance to their implementation so as to prevent the establishment and operation of MFIs with diversified ownership structures.	The project will introduce mechanisms for increased transparency, good governance, and strict financial monitoring and control.  Regular stakeholder meetings and consultations, including frequent policy dialogue with high-level government officials, will be conducted during project preparation and implementation. Through workshops and training, the project will also expose relevant government officials to successful microfinance models in the region and/or countries with a similar background.
SBV capacity	Problems with SBV capacity in implementing the microfinance Decrees 28 and 165 and Circular 02.	The project will ensure a proper match between training needs and training workshops for relevant SBV staff, focusing on their regulatory and supervisory responsibilities.
Limited project ownership and sustainability	Participating MFIs focus on getting the project supplementary funds and/or training but not on actual implementation of transformation and application of sustainable microfinance operations.	The project will ensure that the consultants and EA have regular meetings and consultations with participating MFIs and provide them with on-the-job mentoring support. Close monitoring will be provided to ensure strict implementation of the GIA between the PMU and PIU.

## 3. Incremental ADB Costs

Component	Incremental Bank Cost
Amount requested	\$0.0
Justification	
Type of work to be rendered by ADB	

#### 4. Monitoring and Evaluation

20. Appendix 1 provides the design and monitoring framework.

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
Up to five successfully transformed MFIs that operate in compliance with SBV prudential regulations and microfinance best practices in terms of governance, portfolio management and quality, operational procedures, and corporate planning.	<p>Reports of due diligence and risk assessment of participating MFIs.</p> <p>Annual financial audits of participating MFIs.</p> <p>Project quarterly progress reports.</p> <p>ADB review mission reports.</p>	Quarterly, throughout implementation.
Standardized training modules on regulation and supervision for government officials and on operational matters for microfinance practitioners.	<p>Training materials and workshop deliverables.</p> <p>Workshop and training reports.</p> <p>Project quarterly progress reports.</p> <p>ADB review mission reports.</p>	Quarterly, throughout implementation.
More diversified microfinance products and services provided by participating MFIs.	<p>MFI performance reports.</p> <p>Project quarterly progress reports.</p> <p>ADB review mission reports.</p>	<p>Quarterly, throughout implementation.</p> <p>Project impact evaluation report at project completion.</p>
Increased number of poor clients served by participating MFIs, especially in rural areas.	<p>Government poverty reduction reports by the Ministry of Labor, Invalids and Social Affairs (MOLISA) and surveys by the General Statistics Office (GSO)</p> <p>MFI performance reports.</p> <p>Project quarterly progress reports.</p> <p>ADB review mission reports.</p>	<p>Quarterly, throughout implementation.</p> <p>Project impact evaluation report at project completion.</p> <p>Government annual reports on poverty reduction.</p>

**5. Estimated Disbursement Schedule**

<b>Fiscal Year (FY)</b>	<b>Amount (\$)</b>
First year of implementation	\$800,000
Second year of implementation	\$700,000
<b>Total Disbursements</b>	<b>\$1,500,000</b>

.....  
**Appendixes**

1. Design and Monitoring Framework
2. Summary Cost Table
3. Detailed Cost Estimates
4. Fund Flow Arrangement
5. Implementation Arrangements
6. Consultant Terms of Reference
7. Summary Poverty Reduction and Social Strategy

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Increased access to sustainable institutional financial services for the poor, especially in rural areas.</p>	<p>By end-2011, the number of poor households having access to sustainable institutional financial services has increased by 3-10%.</p> <p>By end-2011, 10-15% of existing microfinance programs are registered and licensed as MFIs under SBV regulations.</p>	<p>MOLISA poverty reduction reports.</p> <p>GSO's VLSS reports.</p> <p>Project impact evaluation report.</p>	<p><b>Assumptions</b> The Government is committed to developing a robust microfinance sector for the poor in line with international best practices.</p> <p>The Government allows participation of alternative sources of finance, including private sector participation.</p> <p><b>Risks</b> Political pressure to adversely amend the new microfinance regulations or induce resistance to their implementation so as to prevent the establishment and operation of MFIs with diversified ownership structures.</p>
<p><b>Outcome</b> Increased institutional sources of sustainable, reliable, and affordable microfinance for the poor, especially in rural areas.</p>	<p>By end-2011, up to five formal MFIs operate under the SBV regulations meeting OSS benchmark of at least 100%.</p> <p>By end-2011, participating MFIs open 3-5 more new branches in rural areas.</p> <p>By end-2011, participating MFIs offer 3-5 more loans and savings products to the poor in rural areas.</p> <p>By end-2011, at least 10,000 new microfinance loan accounts are opened in participating MFIs.</p>	<p>SBV's microfinance database.</p> <p>MFWG's monitoring database.</p> <p>Performance reports of participating MFIs in CGAP's format covering outreach, depth of outreach, portfolio quality, financial sustainability, and efficiency.</p>	<p><b>Assumptions</b> The Government is committed to diversifying formal institutional microfinance sources by implementing the new regulations as in Decrees 28 and 165 and Circular 02.</p> <p><b>Risks</b> The Government retains its direct interventions (e.g., interest rates, funding sources, local government interference) in the operation of microfinance activities.</p>
<p><b>Outputs</b> 1. Institutional profile and training needs of existing microfinance programs in transition to formal MFIs.</p>	<p>Database containing institutional profiles and training needs of at least 50% of operating MFIs is maintained in SBV.</p> <p>By end Q1 2010, potential participating MFIs are identified for inclusion in the transformation program.</p> <p>By early-2010, baseline data are collected on the clients and microfinance products and services of</p>	<p>Project inception and quarterly reports.</p> <p>Detailed design of the institutional review.</p> <p>Sample design and survey questionnaire of the baseline survey.</p>	<p><b>Assumptions</b> Microfinance programs have data on their operations, clients, products, and services, and are willing to cooperate.</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2. Relevant Government officials and microfinance stakeholders, SBV microfinance supervision staff, and participating MFIs have the capacity to appreciate, supervise, and conduct microfinance operations, respectively.</p> <p>3. Successful pilot transformation of unregulated microfinance programs into regulated MFIs.</p> <p>4. Effective project management, monitoring, and evaluation.</p>	<p>participating MFIs.</p> <p>By end-2011, at least 50% of related central and local government officials, 100% of SBV microfinance supervision staff, and 80% of MFI managers and operation staff have successfully completed relevant training activities.</p> <p>SBV microfinance supervision staff supervises MFIs in accordance with the regulations.</p> <p>By end-2011, participating MFIs are using microfinance best practices at least in accounting, risk management, portfolio management, and corporate internal controls.</p> <p>By end-2011, up to five unregulated microfinance programs are successfully transformed into regulated MFIs subject to SBV supervision.</p> <p>By end-2011, participating MFIs operate in compliance with the SBV regulations, maintaining their outstanding loan portfolio with less than 5% NPL and over 65% micro loans for the poor defined by the SBV.</p> <p>Procurement of the consulting services, training equipment, office supplies and facilities according to schedule.</p> <p>Implementation of project activities according to schedule.</p>	<p>Training materials and reports of training workshops and seminars.</p> <p>SBV's off-site and on-site supervision reports of regulated MFIs.</p> <p>Annual audits of participating MFIs.</p> <p>Project progress reports.</p> <p>SBV database.</p> <p>Annual audits of participating MFIs.</p> <p>Project progress reports.</p> <p>Inception, quarterly, midterm, and final reports.</p> <p>Progress reports and audits on the use of supplementary matching grants to participating transformation MFIs.</p> <p>Workshops and publications on successful transformations.</p>	<p><b>Assumptions</b> Active participation in training and willingness to apply new skills and knowledge by stakeholders.</p> <p><b>Risks</b> Local governments, training providers, and other microfinance stakeholders may not accept new approaches to microfinance management in line with international best practices.</p> <p><b>Assumptions</b> The Government is committed to implementing microfinance Decrees 28 and 165 and Circular 02.</p> <p>Participating MFIs have transformation plans and are committed to implementing them.</p> <p><b>Risks</b> Local governments and mass organizations continue to intervene in the management and operation of participating MFIs.</p> <p><b>Assumptions</b> Firm commitment to the project by all stakeholders.</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
		Project impact evaluation report.	
<p><b>Activities with Milestones</b></p> <p><b>1. Institutional Review. 3 months</b></p> <p>1.1 Review existing microfinance programs run by mass organizations and NGOs to assess their capacity, constraints, and potential for transforming to regulated MFIs. Q4 2009 – Q1 2010.</p> <p>1.2 Select potential participating MFIs for further detailed assessment under the participating transformation program under Component C. Q1 2010</p> <p>1.3 Collect baseline data on the quality of availability of products and services being offered by microfinance programs under review by surveying a selected sample of clients and local government officials. Q4 2009 – Q1 2010.</p> <p>1.4 Conduct stakeholder consultations to review and provide recommendations for improvement on SBV regulations, addressing difficulties in implementing the regulations. Q1 2010.</p> <p><b>2. Microfinance Training Activities. 21 months.</b></p> <p>2.1 Consolidate training needs using outcomes from the Institutional Review. Q4 2009 – Q1 2010.</p> <p>2.2 Conduct awareness-raising and best practice workshops for central and provincial government agencies, mass organizations, NGOs, and other stakeholders. Q1 2010 – Q3 2011.</p> <p>2.3 Coordinate and ensure the quality of training workshops and provide on-the-job mentoring for MFI board members, managers, and staff to enhance their operational capacities. Q1 2010 – Q3 2011.</p> <p>2.4 Conduct training workshops and on-the-job mentoring for SBV microfinance supervision staff to improve their supervision capacity. Q1 2010 – Q3 2011.</p> <p><b>3. Transformation MFIs. 21 months.</b></p> <p>3.1 Formulate selection criteria for selecting up to five microfinance programs eligible for the JFPR funding. Q4 2009 – Q1 2010.</p> <p>3.2 Develop application procedures and funding approval process. Q1 2010.</p> <p>3.3 Conduct due diligence and risk assessment of the eligible programs.</p> <p>3.4 Assess applications and select from two (2) to five (5) microfinance programs in transition for funding. Q2 2010.</p> <p>3.5 Select up to five participating MFIs to receive JFPR's transformation assistance. Q2 2010.</p> <p>3.6 Assist the selected programs in undertaking activities to meet SBV transformation compliance in accordance with the grant implementation agreement (GIA) with the PMU. Q2 2010 – Q4 2011.</p> <p><b>4. Project Management, Monitoring, and Evaluation. 24 months.</b></p> <p>4.1 Appoint relevant personnel for the PMU in the EA. Q4 2009.</p> <p>4.2 Establish a PIU in each participating MFI. Q2 2010.</p> <p>4.3 Establish a project administration and financial management system. Q4 2009.</p> <p>4.4 Coordinate with Government agencies, mass organizations, and participating MFIs to administer project activities. Q4 2009–Q4 2011.</p> <p>4.5 Prepare project inception, quarterly, midterm, and final reports. Q4 2009–Q4 2011.</p> <p>4.6 Conduct stakeholder workshops and post on SBV website to showcase successful transformation MFIs. Q3–Q4 2011.</p> <p>4.7 Conduct baseline and follow-up institutional and client surveys for project impact evaluation. Q4 2009 and Q4 2011.</p>			<p><b>Inputs</b></p> <p><b>JFPR: \$1,500,000</b></p> <ul style="list-style-type: none"> <li>• Equipment and supplies: \$15,300</li> <li>• Training, workshops, and seminars: \$69,000</li> <li>• Consulting services: \$479,750</li> <li>• Project management: \$81,100</li> <li>• Matching grants to participating MFIs: \$800,000</li> <li>• Contingencies: \$54,850</li> </ul> <p><b>Government: \$149,838</b></p> <ul style="list-style-type: none"> <li>• Counterpart staff time: \$75,600</li> <li>• Counterpart local travel: \$12,000</li> <li>• Office space: \$48,000</li> <li>• Contingencies: \$14,238</li> </ul> <p><b>Participating MFIs: \$800,000</b></p> <ul style="list-style-type: none"> <li>• Matching contribution: \$800,000</li> </ul>

CGAP = Consultative Group to Assist the Poor; EA = Executing agency; GSO = General Statistics Office; JFPR = Japan Fund for Poverty Reduction; MFIs = microfinance institutions; MFWG = Microfinance Working Group; MOLISA = Ministry of Labor, Invalid, and Social Affairs; NGOs = Non-governmental organizations; PIU = Project Implementing Unit; PMU = Project Management Unit; SBV = State Bank of Viet Nam; TA = Technical assistance; VLSS = Viet Nam Living Standards Survey.

**SUMMARY COST TABLE**  
**(\$)**

Inputs / Expenditure Category	Component A Institutional Review	Component B Microfinance Training Activities	Component C Transformation MFIs	Component D Project Management, Monitoring, and Evaluation	Total (Input)	Percent (%)
<b>1. Civil Works:</b>	0	0	0	0	<b>0</b>	0.0
<b>2. Equipment and Supplies:</b> Computers, printer, photocopier, office supplies, others	1,000	3,000	3,000	8,300	<b>15,300</b>	1.0
<b>3. Training, workshops, and seminars:</b> Awareness raising workshops, microfinance best practice workshops, supervision training workshops	4,000	60,000	0	5,000	<b>69,000</b>	4.6
<b>4. Consulting Services:</b> International and domestic fees, travel costs, and per diems	68,000	134,000	121,500	156,250	<b>479,750</b>	32.0
<b>5. Project Management:</b> Support staff, communications, local transport, report production, translation/interpretation, office supplies	5,450	10,250	11,900	53,500	<b>81,100</b>	5.4
<b>6. Other Inputs:</b> Supplementary matching funds to participating MFIs	0	0	800,000	0	<b>800,000</b>	53.3
<b>7. Contingencies:</b> Use of contingencies requires prior approval from ADB	6,680	17,616	11,594	18,959	<b>54,850</b>	3.7
<b>Subtotal JFPR grant financed (including contingency)</b>	<b>85,130</b>	<b>224,866</b>	<b>947,994</b>	<b>242,009</b>	<b>1,500,000</b>	100.0
<b>Government contribution:</b> counterpart staff time, counterpart local travel, office space	13,757	22,929	27,515	85,638	<b>149,838</b>	10.0
<b>Community's contributions:</b> matching contribution from participating MFIs	0	0	800,000	0	<b>800,000</b>	53.3
<b>Total Estimated Costs</b>	<b>98,888</b>	<b>247,795</b>	<b>1,775,509</b>	<b>327,647</b>	<b>2,449,838</b>	163.3
<b>Incremental Costs</b>	0	0	0	0	<b>0</b>	0.0

ADB = Asian Development Bank, JFPR = Japan Fund for Poverty Reduction, MFI – Microfinance Institutions.

Source: Asian Development Bank estimates.

**DETAILED COST ESTIMATES**  
**(\$)**

Code	Supplies and Services Rendered	Unit	Costs			Contribution		
			Quantity Units	Cost Per Unit	Total US\$	JFPR	Government	Participating MFIs
						Amount	Method of Procurement	
<b>Component A. Institutional Review</b>			<b>Subtotal:</b>	<b>98,888</b>	<b>85,130</b>		<b>13,757</b>	<b>0</b>
<b>1.1</b>	<b>Equipment and Supplies</b>							
1.1.1	Office Supplies	lumpsum	1	1,000	1,000	1,000	shopping	
<b>1.2</b>	<b>Training, Workshops, Seminars</b>							
1.2.1	Workshop to present institutional review	participants	30	100	3,000	3,000	shopping	
1.2.2	Translation/interpretation	lumpsum	1	1,000	1,000	1,000	shopping	
<b>1.3</b>	<b>Consulting Services</b>							
1.3.1	International MFI development Specialist	person-month	2	20,000	40,000	40,000	ICS	
1.3.2	Domestic Microfinance Consultant	person-month	3	3,000	9,000	9,000	ICS	
1.3.3	International Travel for international consultant	round trip	2	5,000	10,000	10,000	ICS	
1.3.4	International consultant per diem	day	60	150	9,000	9,000	ICS	
<b>1.4</b>	<b>Management and Coordination of this Component</b>							
1.4.1	Project Assistance (Administration, secretarial support, translation/interpretation)	person-month	3	1,000	3,000	3,000	shopping	
1.4.2	Communications	monthly lumpsum	3	150	450	450	shopping	
1.4.3	Report production and shipment	lumpsum	1	500	500	500	shopping	
1.4.4	Local Transportation	monthly lumpsum	3	1,000	3,000	1,500	shopping	1,500
1.4.5	Government counterpart staff services	person-month	9	550	4,950			4,950
1.4.6	Office space (including utilities)	monthly rent	3	2,000	6,000			6,000
<b>1.5</b>	<b>Contingency</b>				7,988	6,680		1,307
<b>Component B. Microfinance Training Activities</b>			<b>Subtotal:</b>	<b>247,795</b>	<b>224,866</b>		<b>22,929</b>	<b>0</b>
<b>2.1</b>	<b>Equipment and Supplies</b>							
2.1.1	Office Supplies	lumpsum	1	3,000	3,000	3,000	shopping	
<b>2.2</b>	<b>Training, Workshops, Seminars</b>							
2.2.1	Project launch workshop	participants	50	100	5,000	5,000	shopping	
2.2.2	Awareness raising workshops (3 workshops with 20 participants each)	participants	60	100	6,000	6,000	shopping	
2.2.3	Training Workshops for MFIs (12 workshops with 20 participants each)	participants	240	150	36,000	36,000	CQS	
2.2.4	Supervision workshops for SBV (3 workshops with 10 participants each)	participants	30	100	3,000	3,000	shopping	
2.2.5	Workshop materials reproduction	lumpsum	1	5,000	5,000	5,000	shopping	
2.2.6	Translation/interpretation	lumpsum	1	5,000	5,000	5,000	shopping	
<b>2.3</b>	<b>Consulting Services</b>							
2.3.1	International Microfinance Training Coordinator	person-month	4	17,000	68,000	68,000	ICS	
2.3.2	Domestic Microfinance Training Consultant	person-month	6	3,000	18,000	18,000	ICS	

Code	Supplies and Services Rendered	Unit	Costs			Contribution			
			Quantity Units	Cost Per Unit	Total US\$	JFPR	Government	Participating MFIs	
						Amount	Method of Procurement		
2.3.3	International Travel for International Consultant	round trip	6	5,000	30,000	30,000	ICS		
2.3.4	International consultant per diem	day	120	150	18,000	18,000	ICS		
<b>2.4</b>	<b>Management and Coordination of this component</b>								
2.4.1	Project Assistance (Administration, secretarial support, Translations/interpretation)	person-month	5	1,000	5,000	5,000	shopping		
2.4.2	Communications	monthly lumpsum	5	150	750	750	shopping		
2.4.3	Report production and shipment	lumpsum	1	2,000	2,000	2,000	shopping		
2.4.4	Local Transportation	monthly lumpsum	5	1,000	5,000	2,500	shopping	2,500	
2.4.5	Government counterpart staff services	person-month	15	550	8,250			8,250	
2.4.6	Office Space (including utilities)	monthly rent	5	2,000	10,000			10,000	
<b>2.5</b>	<b>Contingency</b>				19,795	17,616		2,179	
<b>Component C. Transformation MFIs</b>					<b>Sub-total:</b>	<b>1,775,509</b>	<b>947,994</b>	<b>27,515</b>	<b>800,000</b>
<b>3.1</b>	<b>Equipment and Supplies</b>								
3.1.1	Office Supplies	lumpsum	1	3,000	3,000	3,000	shopping		
<b>3.2</b>	<b>Consulting Services</b>								
3.2.1	International MFI development specialist	person-month	3	20,000	60,000	60,000	ICS		
3.2.2	Domestic microfinance consultant	person-month	6	3,000	18,000	18,000	ICS		
3.2.3	International travel for international consultant	round trip	6	5,000	30,000	30,000	ICS		
3.2.4	International consultant per diem	day	90	150	13,500	13,500	ICS		
<b>3.3</b>	<b>Management and Coordination of this component</b>								
3.3.1	Project Assistance (administration, secretarial support, translation/interpretation)	person-month	6	1,000	6,000	6,000	shopping		
3.3.2	Communications	monthly lumpsum	6	150	900	900	shopping		
3.3.3	Report production and shipment	lumpsum	1	2,000	2,000	2,000	shopping		
3.3.4	Local transportation	monthly lumpsum	6	1,000	6,000	3,000	shopping	3,000	
3.3.5	Government counterpart staff services	person-month	18	550	9,900			9,900	
3.3.6	Office Space (including utilities)	monthly rent	6	2,000	12,000			12,000	
<b>3.4</b>	<b>Other Project Inputs</b>								
3.4.1	Supplementary matching funds to participating MFIs	lumpsum		800,000	800,000	800,000			
3.4.2	Matching contribution from participating MFIs	lumpsum		800,000	800,000			800,000	
<b>3.5</b>	<b>Contingency</b>				14,209	11,594		2,615	
<b>Component D. Project Management, Monitoring, and Evaluation</b>					<b>Sub-total:</b>	<b>327,647</b>	<b>242,009</b>	<b>85,638</b>	<b>0</b>
<b>4.1</b>	<b>Equipment and Supplies</b>								
4.1.1	Desktop computers and software	unit	2	1,000	2,000	2,000	shopping		
4.1.2	Printers	unit	1	800	800	800	shopping		
4.1.3	Photocopier	unit	1	3,000	3,000	3,000	shopping		
4.1.4	Furniture and office supplies	lumpsum	1	2,500	2,500	2,500	shopping		

Code	Supplies and Services Rendered	Unit	Costs			Contribution			
			Quantity Units	Cost Per Unit	Total US\$	JFPR	Government	Participating MFIs	
						Amount	Method of Procurement		
<b>4.2</b>	<b>Training, Workshops, and Seminars</b>								
4.2.1	Workshops to present project impact evaluation report	participants	50	100	5,000	5,000			
<b>4.3</b>	<b>Consulting Services</b>								
4.3.1	International MFI development specialist	person-month	1.5	20,000	30,000	30,000	ICS		
4.3.2	International travel for international MFI development specialist	round trip	3	5,000	15,000	15,000	ICS		
4.3.3	International project impact evaluation specialist	person-month	2	20,000	40,000	40,000	ICS		
4.3.4	International travel for international project impact evaluation specialist	round trip	2	5,000	10,000	10,000	ICS		
4.3.5	International consultant per diem	day	75	150	11,250	11,250	ICS		
4.3.6	Surveys for project impact evaluation (baseline and follow-up)	Lumpsum	2	25,000	50,000	50,000	CQS		
<b>4.4</b>	<b>Management and Coordination of this Component</b>								
4.4.1	PMU operation	monthly lumpsum	24	1,500	36,000			36,000	
4.4.2	Project Assistance (Administration, Secretarial Support, translation/interpretation)	person-month	10	1,000	10,000	10,000	shopping		
4.4.3	Communications	monthly lumpsum	10	150	1,500	1,500	shopping		
4.4.4	Translation/Interpretation	Lumpsum	1	5,000	5,000	5,000	shopping		
4.4.5	Report production and shipment	Lumpsum	1	2,000	2,000	2,000	Shopping		
4.4.6	Project external audit	Lumpsum	2	15,000	30,000	30,000	shopping		
4.4.7	Local transportation	monthly lumpsum	10	1,000	10,000	5,000	shopping	5,000	
4.4.8	Government counterpart staff services	person-month	30	550	16,500			16,500	
4.4.9	Office Space (including utilities)	monthly rent	10	2,000	20,000			20,000	
<b>4.5</b>	<b>Contingency</b>				<b>27,097</b>	<b>18,959</b>		<b>8,138</b>	
<b>Components A to D = Subtotal (without contingencies)</b>				<b>Sub-total</b>	<b>2,380,750</b>	<b>1,445,150</b>		<b>135,600</b>	<b>800,000</b>
<b>Contingencies</b>					<b>69,088</b>	<b>54,850</b>		<b>14,238</b>	
<b>TOTAL GRANT COSTS</b>				<b>Total</b>	<b>2,449,838</b>	<b>1,500,000</b>		<b>149,838</b>	<b>800,000</b>
<b>Incremental Cost</b>					<b>0</b>	<b>0</b>			

CQS = Consultant Qualification Selection, ICS = Individual Consultant System, JFPR = Japan Fund for Poverty Reduction, MFI = microfinance institutions, PMU = project monitoring unit, SBV = State Bank of Viet Nam.

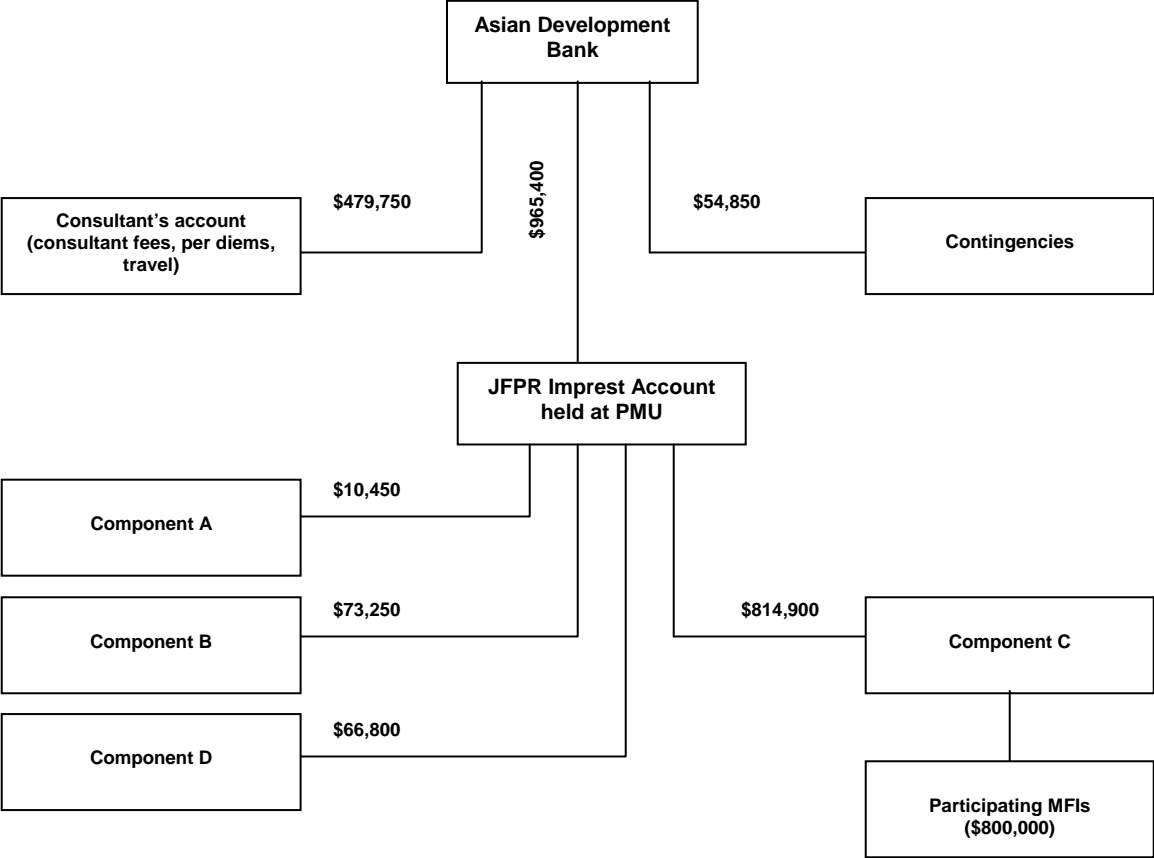
Notes: All four project components will use the same office and share the same equipment. The EA will provide the office space. Costs of office supplies are calculated by project component. Government contribution is in kind and the breakdown is only an indicative estimate in the monetary term. Upon completion of the project, equipment procured by the project will be turned to the EA in accordance with ADB's common practice. Shopping for items of \$10,000 or below will use the direct purchase method without seeking three quotations. Shopping for items of \$100,000 or below will require three quotations.

Source: Asian Development Bank estimates.

## FUND FLOW ARRANGEMENTS FOR JFPR FUNDS

1. The Asian Development Bank (ADB) will recruit consultants to carry out the required consulting services, conduct workshops and training, and provide project management support (see Appendix 5 for specific consulting inputs and recruitment method). All consulting fees, per diems, and travel costs will be included in the consultants' contracts. Following ADB guidelines and practices regarding the management of consultant contracts, consultant payments will be made directly to the consultants' accounts based on achievement of milestones as agreed in the consultants' contracts (i.e., mobilization, inception, midterm report, draft final report, and final report). Reimbursable items will require that the consultants submit receipts for liquidation.
2. The funds for project activities (i.e., component costs minus consulting costs) will be channeled to a JFPR imprest account opened and maintained by the PMU at a bank endorsed by the EA and acceptable to the ADB to facilitate local expenditures of the JFPR project. Disbursements of the supplementary matching grants to participating MFIs will be recommended by the consultants and the PMU and endorsed by the EA based on the MFI transformation plans and terms and conditions as specified in the grant implementation agreement (GIA) between the PMU and each participating MFI. A consolidated request for disbursements must be submitted to ADB for final approval before funds can be disbursed. The EA and ADB will be kept informed by the PMU about all transactions and will receive copies of all financial statements and audit reports. The JFPR imprest account will be managed by the PMU on the principles of a cosignatory arrangement with the EA.
3. ADB will initially channel \$100,000 or the estimated expenditures to be funded from the imprest account for the first 6 months, whichever is lower, to the imprest account as an advance for day-to-day project implementation during the inception period, and will replenish funds to the imprest account, based on the replenishment requests from the PMU through the EA and in accordance with ADB's statement of expenditures procedure. The statement of expenditures procedure will apply for all payments and transactions under \$10,000 to ensure speedy project implementation. For payments in excess of \$10,000 equivalent, supporting documents (payment request and bank transfers) should be submitted. The management of the imprest account, fund disbursements, and statement of expenditures procedure will be in accordance with the ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). The implementation arrangements, such as the flow, replenishment, and administrative procedures will be established between ADB and the Government through the JFPR Letter of Agreement, and will be detailed in the Grant Implementing Manual (GIM) to be prepared during the inception period. The schematic fund flow for the JFPR project is shown in Figure 1.
4. Interest earned on the JFPR imprest account can be used for the project, subject to ADB's approval, within the approved total amount of the JFPR. Any unutilized interest should be returned to the JFPR account maintained at ADB, on completion of the JFPR project and before closure of the JFPR account. If the remittance fee and other bank charges are higher than the amount of interest earned, there will be no need to return such interest to the JFPR account maintained at ADB.

**Figure A4: Fund Flow Arrangements**



JFPR = Japan Fund for Poverty Reduction, MFI = microfinance institutions, PMU = project monitoring unit.  
 Source: Asian Development Bank estimates

## IMPLEMENTATION ARRANGEMENTS

### A. Agencies Responsible for Project Implementation

1. SBV will be the executing agency (EA) for the JFPR project. The EA will establish a project management unit (PMU). The PMU will be responsible for coordinating with the relevant Government agencies, mass organizations, and participating MFIs for the implementation of the project activities described above. The PMU will undertake the overall administrative and supervisory tasks, communication, and financial transactions with ADB, annual auditing, and progress monitoring and impact evaluation. The PMU will oversee the administration of the supplementary matching funds to participating MFIs, training activities, technical assistance, financial audits, and project monitoring and evaluation.

2. The PMU will be assisted by a local project assistant for administrative tasks and translation and interpretation when needed. The project assistant will be recruited and financed by JFPR under the project management budget. SBV will provide office space with furniture, while office computers and supplies will be provided by the JFPR. SBV will provide local transport for counterpart staff during implementation.

3. The project will support up to five (5) transformation programs. Each participating MFI will appoint a project implementing unit (PIU) to be responsible for implementing the activities of their particular MFI, as specified in the grant implementation agreement (GIA) between the PMU and MFI. The PIUs will report to the PMU.

### B. Consulting Services

4. The project will provide a total of 27.5 person months of international and national consulting services, comprising (i) an international MFI development specialist as team leader (6.5 person months); (ii) an international microfinance training coordinator (4 person months); (iii) an international project impact evaluation specialist (2 person months); (iv) a national microfinance specialist (9 person months); and (v) a national microfinance training specialist (6 person months). To obtain the data for the project impact evaluation, the project will contract out the baseline survey and the follow-up survey to a local institution with expertise in economics and statistics. Since the project's key objective is MFI transformation, the most important consulting inputs are in MFI transformation, establishment and institutional development. This is a highly specialized area of expertise that is usually possessed by individuals rather than firms. Likewise, project impact evaluation requires special technical expertise in survey design, statistical data analysis, and econometric estimation that is almost exclusively owned by a very small group of individuals in the world. To ensure timely recruitment and quality consultant performance, consultants will therefore be recruited by ADB using the individual consultant selection method in accordance with ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*. The consultant terms of reference are in Appendix 6.

### C. Procurement

5. All procurements under the JFPR grant will be conducted in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Specific procurement methods are in Appendix 3. Shopping for items of \$10,000 or below will use the direct purchase method without seeking three (3) quotations. Shopping for items of \$100,000 or below will require three (3) quotations. Upon completion of the project, equipment procured under the project will be turned over to the EA according to ADB's common practice.

#### **D. Financial Arrangements**

6. The consultants will be recruited by ADB. All consulting fees, per diems, and travel costs will be included in the consultants' contracts. Payments to the consultants will be made directly to the consultants' accounts based on achievement of milestones as agreed in the consultants' contracts (i.e., mobilization, inception, midterm report, draft final report, final report), following ADB guidelines and practices regarding the management of consultant contracts. Reimbursable items will require that the consultants submit receipts for liquidation.

7. The funds for project activities (i.e., component costs minus consulting costs) will be channeled to a JFPR imprest account opened and maintained by the PMU at a bank endorsed by the EA and acceptable to the ADB to facilitate day-to-day local expenditures of the JFPR project. The JFPR imprest account will be managed by the PMU on the principles of a cosignatory arrangement with the EA. The EA and ADB will be kept informed by the PMU about all transactions and will receive copies of all financial statements and audit reports. ADB will initially channel \$100,000 or the estimated expenditures to be funded from the imprest account for the first 6 months, whichever is lower, to the imprest account as an advance for day-to-day project implementation during the inception period, and will replenish funds to the imprest account, based on the replenishment requests from the PMU through the EA and in accordance with ADB's statement of expenditures procedure. The management of the imprest account, fund disbursements, and statement of expenditures procedure will be in accordance with the ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). See Appendix 4 for more detailed fund flow arrangements.

#### **E. Reporting Requirements**

8. The project will require submission of the following reports: (i) an inception report including a detailed work program, to be submitted within 1 month of the start of the JFPR grant and to be discussed at the initial tripartite inception meeting; (ii) quarterly progress reports; (iii) a midterm report 12 months from the start of the JFPR grant; (iv) a draft final report covering progress, the achievements of the JFPR, and requirements for future assistance within three months of physical completion of the JFPR; and (v) a final report one month after receipt of comments from the Government and ADB on the draft final report. The consultants will prepare these reports, as well as other reports as may reasonably be required by ADB during implementation, and submit them to the PMU for endorsement and submission to ADB.

9. The project will finance two annual audits (one after 12 months of implementation and the other at project completion) by an independent audit company acceptable to ADB. Annual audits will include an opinion on the use of the JFPR imprest funds, expenses in participating MFIs in relation to the project, and project statement of expenditures.

#### **F. Project Review**

10. ADB and SBV will jointly undertake reviews of the project at least twice a year. The reviews will assess progress, identify issues and constraints, and determine necessary actions. A midterm review will be conducted after 12 months of implementation to assess project progress against project scope and performance indicators and recommend adjustments in the project design and/or implementation arrangements, as necessary.

#### **G. Implementation Schedule**

11. The JFPR project will be implemented over 24 months following the signing of the JFPR Letter of Agreement between the Government and ADB. A tripartite inception meeting will be held in Hanoi during the first month of implementation to discuss and agree on the detailed work plan.

## CONSULTANT TERMS OF REFERENCE

### A. International Consultants

#### 1. MFI Development Specialist/Team Leader (6.5 person months, intermittent)

1. The MFI development specialist and team leader (MDS/TL) will have a postgraduate degree in banking or finance and at least 10 years of recognized professional experience in microfinance, focusing on MFI transformation, establishment, and institutional development and project management. Experience in Southeast Asia, especially knowledge of Viet Nam's microfinance sector, is desirable.

2. Working with the PMU, the MDS/TL will:

- i. draft, consult, and finalize the design, including the scope of activities and detailed implementation plan, of an institutional review to take stock of and assess the training needs for existing microfinance programs in transition under Decrees 28 and 165 and Circular 02. The MDS/TL will then finalize the arrangements for and implement the institutional review, and later lead a stakeholder workshop to present the review's outcomes;
- ii. draft, consult, and finalize the selection criteria, terms and conditions under which MFIs may gain access to the JFPR supplementary matching funds; application guidelines; approving procedures, including procedures for the evaluation and acceptance or rejection of applications for SBV endorsement and ADB approval; and the grant implementation agreement (GIA) between the PMU and each PIU;
- iii. guide and oversee the MFI applications for JFPR support, including the evaluation and selection of participating MFIs through conducting due diligence, site visits, appraisals of financial and operating conditions and development plans, and making recommendations for SBV endorsement and ADB approval.
- iv. guide and assist the participating MFIs in implementing their transformation in accordance with their respective GIA, including the preparation of institutional development plans; assessment and installation of corporate governance mechanisms, accounting and MIS/IT systems, and internal controls; assessment, introduction and implementation of operational policies and manuals; preparation of lending plans that focus on microfinance best practices, sustainable growth and outreach to the poor; guidance on operational expansion and the introduction and pilot testing of innovative pro-poor products and delivery models; and compliance with SBV regulations under Decrees 28 and 165 and Circular 02;
- v. assist in the operations of the PMU and PIUs in participating MFIs, including in the preparation of draft terms of reference (TOR) for their members;
- vi. provide day-to-day mentoring support to the PMU in relation to project management, including on-the-job training in relevant aspects of MFI operations and supervision, as necessary; and
- vii. guide and manage the inputs of the other consultants, take lead responsibility for the preparation and submission to ADB via the PMU of the Inception, Quarterly Progress, Midterm, Draft Final and Final Reports, incorporating as appropriate

comments and contributions from the EA/PMU and other consultants. The successful submission of the reports will be linked to the consultant's payment milestones.

## **2. Microfinance Training Coordinator (4 person months, intermittent)**

3. The microfinance training coordinator (MTC) will have a postgraduate degree in banking or finance or a development-related subject and at least 7 years recognized professional experience in the areas of training, microfinance, and project management. Prior microfinance training experience is required. Experience in Southeast Asia, especially knowledge of Viet Nam's microfinance sector, is desirable.

4. Working with the MDS/TL and the PMU, the MTC will:

- i. plan, prepare, and deliver a series of three awareness-raising workshops for government officials, practitioners, NGOs, donors, mass organizations and other stakeholders to promote new microfinance models, microfinance best practices, and to publicize experiences in terms of performance, operational and financial sustainability, and outreach to the poor gained by successful participating MFIs that have received JFPR support for transformation;
- ii. review SBV microfinance supervision manuals, including on-site and off-site monitoring and reporting requirements, and prepare improvement recommendations. The MTC will then plan, prepare and deliver a series of three supervision workshops for SBV staff to enhance their supervisory capacity, including enhanced supervision manuals and guidelines, and the conduct of supervision inspections and reporting;
- iii. assess and consolidate the training needs of MFI practitioners (boards, management, and staff) on MFI governance, accounting, information systems, credit policies and procedures, risk assessment tools, and regulatory and reporting requirements. Develop a training plan and coordinate to engage local microfinance training entities for the delivery of practical training courses tailored to the training needs identified, and to enhance the training capacity of these local training entities for sustainability;
- iv. ensure that training modules and training curricula are standardized and consistent with microfinance best practices, sustainable operation, and outreach to the poor, and that training materials developed under the project are widely accessible on the ADB and SBV websites and in the form of printouts readily available for interested parties;
- v. provide individual training and day-to-day support to meet the specific training requirements of the participating MFIs, including on-the-job mentoring of board members, managers, and staff in all aspects of microfinance operations, as necessary;
- vi. prepare progress reports of the above mentioned activities and provide inputs to assist the MDS/TL in preparing the Inception, Quarterly Progress, Midterm, Draft Final and Final Reports, as required by the MDS/TL.

## **3. Impact Evaluation Specialist/Econometrician (2 person months, intermittent)**

5. The impact evaluation specialist (IES) will have a strong background in impact evaluation of development projects using statistical and econometric analysis of household survey data. The IES

should have sufficient understanding of microfinance operations. Experience with Viet Nam's household survey data and familiarity with economic and statistical institutions is desirable.

6. Working with the PMU and under ADB supervision, the IES will:
  - i. formulate the evaluation framework and estimation methodology for assessing the project contribution to the poor's improved access to finance and quality of microfinance products and services being offered;
  - ii. design a client baseline survey at the project start and a follow-up survey at project completion (24 months later), including preparing survey questionnaires and designing the survey sample of about 2,000 clients of participating MFIs and control;
  - iii. develop terms of reference for the local survey team, and supervise implementation of the surveys, including orienting the survey team to ensure the proper use of the survey questionnaires and proper input of survey data;
  - iv. analyze the client survey data and other necessary supportive data using an appropriate evaluation framework and estimation methods formulated under (i); and
  - v. write a project impact evaluation report for publication in ADB and in peer-reviewed journals, as appropriate.
  - vi. prepare progress reports of above mentioned activities and provide inputs to assist the MDS/TL in preparing the Inception, Quarterly Progress, Midterm, Draft Final and Final Reports, as required by the MDS/TL.

## **B. National Consultants**

### **1. Microfinance Specialist** (9 person months, intermittent)

7. The domestic microfinance specialist (DMS) will have a degree in banking or finance or a related discipline and at least 4 years professional experience in retail microfinance.
8. Reporting to the MDS/TL and working with the PMU, the DMS will:
  - i. assist the MDS/TL with all aspects of the terms of reference as required;
  - ii. collect and analyze required data and information, and make these available in English and in an organized, readable form;
  - iii. assist in the preparation of guidelines, mandates, manuals, procedures, as required;
  - iv. assist in the provision of day-to-day support to the participating MFIs in implementing their transformation and operational expansion, and in introducing and pilot testing innovative products and services as specified in their GIA with the PMU;
  - v. assist in the provision of day-to-day support to the PMU in relation to project management, including on-the-job mentoring for SBV staff in all relevant aspects of MFI operation and supervision, as necessary;

- vi. undertake other tasks necessary for the efficient implementation of the JFPR, including translation and interpretation, as may reasonably be required; and
- vii. contribute as required to the Inception, Quarterly Progress, Mid-term, Draft Final and Final Reports, as required.

**2. Microfinance Training Specialist** (6 person months, intermittent)

9. The domestic microfinance training specialist (DTS) will have a degree in banking or finance or a related discipline and at least 4 years professional experience in microfinance. Prior training experience is required.

10. Reporting to the MTC and working with the PMU, the DTS will:

- i. assist the MTC with all aspects of the terms of reference as required;
- ii. collect and analyze required data and information, and make these available in English and in an organized, readable form;
- iii. assist in planning, preparing, and delivering all required training workshops; in coordinating with local microfinance training entities; and in ensuring training material quality and availability, as required;
- iv. assist in the provision of individual training and day-to-day support to meet the specific training requirements of the participating MFIs, including on-the-job mentoring of board members, managers, and staff in all aspects of microfinance operations;
- v. undertake other tasks necessary for the efficient implementation of the JFPR, including translation and interpretation, as may reasonably be required; and
- vi. contribute as required to the Inception, Quarterly Progress, Mid-term, Draft Final and Final Reports, as required.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: **Viet Nam: Formalizing Microfinance Institutions**

Lending/Financing  
Modality:

**JFPR Grant**

Department/  
Division:

**SERD/SEFM**

### I. POVERTY ANALYSIS AND STRATEGY

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

About 13 million Vietnamese or nearly 15% of the population are in poverty with an income of less than \$1 a day. Of these, about 80% live in rural areas and about 35% of rural households are poor. In some mountainous areas, poverty rates exceed 60%. The Government of Viet Nam's 5-year socioeconomic development plan (SEDP) for 2006-2010 aims to promote sustainable development and increased quality of growth. The SEDP is considered to be the Government's poverty reduction strategy and reducing poverty in rural areas is the Government's priority. ADB's Country Strategy and Program for Viet Nam (2007-2010) supports the Government in achieving its overarching goal of reducing poverty and is directly linked to the SEDP's targeted outcomes.

Two specific components of the Government's strategy for poverty reduction are: (i) developing credit as a means to finance production and technological changes; and (ii) promoting deposits to better enable the poor to accumulate savings for future investments and to provide a cushion against seasonal production shortfalls and unforeseen crises. To date these strategies have been mainly pursued through the state-owned specialized bank, the Viet Nam Bank for Social Policies (VBSP), and mass organizations and NGOs. Recently, it has been recognized that the approaches and methods of microfinance institutions (MFIs) can make an important contribution to poverty reduction, particularly in extending outreach into remote areas with high poverty concentration. The JFPR helps to reduce poverty by promoting the development of such MFIs.

#### B. Poverty Analysis

**Targeting Classification:** General Intervention (GI)

##### 1. Key Issues

The project will support the development of a formal microfinance sector in Viet Nam that can provide the poor with sustainable access to reliable institutional financial services. The project, however, will not provide direct support to the poor or poor households individually.

##### 2. Design Features

The JFPR will support successful pilot transformations of unregulated microfinance programs to formal MFIs that commit to sustainable operation and outreach to the poor. In particular, under Component C, the JFPR will assist the participating MFIs with supplementary funds to shoulder the costs of expanding operations to new, harder-to-reach geographical areas and clienteles, and developing and pilot testing innovative pro-poor financial products and services and delivery models to poorer clients.

The JFPR recognizes that microfinance is widely perceived in Viet Nam as a social activity to be financed and carried out by the Government rather than as a business. This misconception has led to the Government's overwhelming dominance in the microfinance sector, providing cheap funds for subsidized credit programs through the state-owned Viet Nam Bank for Social Policies (VBSP). Because this bank provides credit well under the market rates, it causes problems for microfinance programs that are operating on a sustainable basis. Moreover, subsidized credit provided by VBSP often does not respond to the poor's financial needs in respect of amount, terms and alignment with future cash flow. The JFPR will provide awareness raising training to relevant government agencies to expose them to recent developments in microfinance, including (i) the diversified participation of service providers, public and private investors, and policymakers, and (ii) the provision of a broad variety of financial products and services for the poor on a sustainable basis. Currently, less than 12% of the rural population has access to institutional financial sources in Viet Nam. The JFPR will support successful participating MFIs to provide alternative financial sources with a variety of microfinance products on a market basis and will therefore respond better to the unmet financial demand of the poor.

#### C. Poverty Impact Analysis for Policy-Based Lending

This project is funded by the Japan Fund for Poverty Reduction and is not a policy-based lending. Poverty impact analysis is not required.

### II. SOCIAL ANALYSIS AND STRATEGY

#### A. Findings of Social Analysis

The microfinance sector in Viet Nam is dominated by two large establishments, the state-owned VBSP and a system of member-based cooperatives called People's Credit Funds (PCFs). Despite the large network of these institutions, less than 12% of the rural population has access to some kind of financial services. A group of small microfinance initiatives run, typically, by mass organizations such as Viet Nam Women's Union (VWU) and non-government organizations (NGOs) are trying to fill the gap. However, these microfinance initiatives are very small. Their typical size is of a few thousand customers and a few hundred thousand dollars outstanding loan portfolio. Moreover, these

programs are usually managed by non-financial institutions operating outside the supervision of SBV. While most of these programs are serving the poor, their outreach is insignificant and their long-term growth is constrained by their inability to mobilize savings due to the lack of capacity in complying with the regulations for deposit-taking MFIs recently introduced by SBV. To boost the growth of the sector and protect clients (savings depositors), transforming these microfinance programs into formal regulated MFIs is required.

## B. Consultation and Participation

1. Provide a summary of the consultation and participation process during the project preparation.

The JFPR will be implemented in a participatory process involving all the key microfinance sector stakeholders, including relevant central and local government agencies, MFIs, microfinance clients, and mass organizations active in microfinance. During the project formulation, SBV and potential implementing agencies were involved in designing the project. The latter include the Viet Nam Microfinance Working Group (MFWG): <http://www.ngocentre.org.vn/node/128>; TYM Fund of VWU; Capital Aid Fund for Employment of the Poor (CEP) of Ho Chi Minh City: [www.cep.org.vn](http://www.cep.org.vn); Binh Minh Community Development Co; Dariu Foundation; and Long An Women's Union. The project team visited these institutions during the consultation mission in early August 2008 to prepare the JFPR concept and get feedback on the project design. In addition, the Ministry of Finance (MOF) and Ministry of Planning and Investment (MPI) have also been consulted. All the institutions unanimously support the JFPR in terms of its timing and overall designs (objective, scope of activities, fund flows, and implementing arrangements, etc.).

At the start of the implementation, the JFPR will take stock of existing microfinance programs in transformation to formal MFIs. The project team will visit MFIs, and at the end of the review process, key MFI practitioners, mass organizations, and relevant central and provincial government officials will be invited to a workshop for a presentation on the review outcomes (Component A, about 30 participants) and a workshop to launch the project (Component B, 50 participants). In addition, throughout the implementation, the JFPR will organize a series of three awareness-raising workshops for government officials, mass organizations, and other sector stakeholders to introduce new microfinance concepts and models and to build general support for market-oriented sustainable microfinance. In these workshops, the participants will also present views and concerns, and will provide inputs for the detailed design of the Institutional Review and implementation of the project activities. The workshops will also gather views on and suggestions for improvement of Decrees 28 and 165 and Circular 02.

2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?

Information sharing     Consultation     Collaborative decision making     Empowerment

3. Was a C&P plan prepared?  Yes     No

There will be stakeholder consultation visits during the Institutional Review (Component A), including consultations with mass organizations running microfinance programs, microfinance clients, and local government officials. At the end of the review, there will be a stakeholder consultation workshop, Q1 2009 (30 participants, \$3,000).

There will be a project launching workshop to introduce the project to the wide network of microfinance practitioners, mass organizations, donors, and relevant central and provincial government agencies, Q2 2009 (50 participants, \$5,000).

There will be three awareness-raising workshops for relevant government officials, mass organizations, and other sector stakeholders, during implementation (20 participants each, \$6,000).

There will be a final workshop to present the project impact evaluation report (at project completion, 50 participants, \$5,000).

## C. Gender and Development

### 1. Key Issues

Clients of microfinance institutions will benefit from improved access to more diversified sources of financial services and falling prices as a result of more competition in the rural microfinance market. The JFPR will enhance access to financial services of all clients and will not target women explicitly. However, as many clients of MFIs are women and the poor, the JFPR will indirectly support women and their families.

2. **Key Actions.** Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

Gender plan     Other actions/measures     No action/measures

## III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	No adverse impact expected	Not applicable	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework

<b>Indigenous Peoples</b>	No adverse impact expected	Not applicable	<input checked="" type="checkbox"/> No Action <input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
<b>Labor</b> <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	No adverse impact expected	Not applicable	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
<b>Affordability</b>	No adverse impact expected	Not applicable	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	No adverse impact expected	Not applicable	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
<b>IV. MONITORING AND EVALUATION</b>			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			