

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: SEFM

TA No., Country and Name TA 4638-VIE: Implementing the Regulatory and Supervisory Framework for Microfinance		Amount Approved: \$250,000 Revised Amount: \$250,000	
Executing Agency: State Bank of Viet Nam (SBV)	Source of Funding: Poverty Reduction Cooperation Fund	Amount Undisbursed: \$16,062	Amount Utilized: \$233,938
TA Approval Date: 29 Aug 2005	TA Signing Date: 17 Nov 2005	Fielding of First Consultants: 5 Jun 2006	TA Completion Date Original: 30 Sep 2006 Actual: 31 Dec 2007 Account Closing Date Original: 30 Sep 2006 Actual: 30 Sep 2008
<p>Description. Efforts to increase access to rural financial services in Viet Nam had focused on strengthening the state sector provision of credit mainly through specialized banks, the Viet Nam Bank for Agriculture and Rural Development (VBARD) and Viet Nam Bank for Social Policies (VBSP). While the expansion of these banks was impressive reaching about 7 million rural clients by early 2000s, nearly half of rural poor did not have access to institutional financial services. The Government had recognized that in addition to the state-owned banks, independent microfinance institutions (MFIs) could make an important contribution to poverty reduction, providing alternative institutional sources of finance, especially in more remote areas. However, there was no legal framework for such MFIs, therefore, except VBARD and VBSP, microfinance services were provided by the so-called semi-formal microfinance programs mostly under mass organizations such as the Viet Nam Women's Union (VWU), Viet Nam Farmer's Union (VFU), and other Non-Governmental Organizations (NGOs) outside the Law on Credit Institutions. To improve the legal, regulatory, and supervisory framework, and thus enable the establishment and expansion of MFIs, in 2001 ADB provided a technical assistance (TA 3741-VIE)² that resulted in issuing in March 2005 Decree No. 28/2005/ND-CP (Decree 28) on the Organization and Operation of Microfinance Institutions in Viet Nam. TA 4638-VIE was provided to support the Government to implement, monitor, and review the regulatory and supervisory framework embodied in Decree 28. The State Bank of Viet Nam (SBV) was the Executing Agency (EA) of the TA.</p> <p>Expected Impact, Outcome and Outputs. The TA's expected impact was increased access of the poor to financial services and the expected outcome was improved regulatory and supervisory environment encouraging sustainable operations and investment in the microfinance sector. The former was to be measured by the number of clients served by licensed MFIs, and the latter legal documents (guidelines, regulations, circulars, etc.) and a supervisory regime following international best practices along with the number of licensed MFIs, increased institutional diversity and investments, and MFIs' sustainability and expansion to underserved areas.</p> <p>The TA's expected outputs included: (i) increased capacity of SBV to implement the new framework and promote development of microfinance sector; (ii) supervisory guidelines and procedures; (iii) draft legal documents (guidelines, regulations, circulars, etc.); and (iv) increased knowledge of microfinance funding agencies and practitioners in regulatory requirements and opportunities.</p> <p>TA design is considered highly relevant in helping Viet Nam establish the legal framework to support access to finance through formal microfinance institutions and in strengthening the capacity of SBV to support sustainable microfinance activities.</p> <p>Delivery of Inputs and Conduct of Activities. TA's actual implementation took place from June 2006 to December 2007 with a total of 4.5 person-months of international consultants and 2.5 person-months of national consultants engaged under ADB's contract S60-088 with an association of PriceWaterHouseCooper and Enterplan, Ltd. (later became Coffey International Development). The TA carried out the following activities.</p> <ol style="list-style-type: none"> 1. Draft legal documents (guidelines, regulations, circulars, etc.). The TA assisted SBV and MOF to prepare legal documents (decisions and circulars) required to provide guidelines for the implementation of Decree 28 on the "Organization and Operation of Microfinance Institutions in Vietnam". Implementing circulars were drafted covering (i) the organization and operations of microfinance institutions; (ii) mobilizing capital and lending by microfinance institutions; (iii) the organization and operations of transaction offices, branches, representative offices and transaction points of microfinance institutions; and (iv) special control, bankruptcy, dissolution and liquidation of microfinance institutions. Most importantly, the TA made recommendations for the amendment of Decree 28 to better align it with international practice and prepared draft regulations for the organization and operations of deposit taking MFIs. 2. Participatory workshops with key stakeholders. The TA conducted participatory workshops with mass organizations and international development agencies, to seek their views on project activities and draft outputs and to disseminate knowledge of final outputs. The launching of the stakeholder consultation workshop was delayed because SBV was waiting for Prime Minister's decision on the coverage of Decree 28 (voluntary deposit-taking MFIS or voluntary and 			

¹ 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.

² ADB. 2001. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Framework for Microfinance Development*. Manila.

compulsory deposit-taking MFIs) to avoid potential confusion among stakeholders. The first consultation was deferred from July 2006 and in January 2007 a half-day workshop combining the inception and consultative workshops was held in Hanoi, chaired by SBV and attended by representatives of ADB and the Consultants. SBV presented the proposals for MFI regulation and stakeholders were provided with the opportunity to comment. Following comments and receipt of written feedback, SBV revised the regulations and in April 2007, a further one-day workshop was held in Hanoi to disseminate the implementation guidelines. Stakeholders were given a further opportunity to comment and the feedback provided input to SBV's final version of the regulations.

3. **Study tours for Government officials.** Two study tours were organized: (i) to the Philippines, 4-9 March 2007, 7 persons; and (ii) to India, 23-28 December 2007, 8 persons. Government officials, including staff from SBV, Office of Government (OOG), and Ministry of Justice (MOJ) participated in these study tours. In each visited country, they met regulating agencies, representatives of MFIs, and rural banks, to learn about different legal frameworks for MFIs and microfinance practices. Participants became more aware of sustainable microfinance, especially among the SBV staff. However, knowledge spin-off more broadly among the Government seems limited.
4. **Supervisory guidelines and procedures.** The TA assisted SBV to revise supervisory manuals and procedures in conformity with Decree 28. A 3-part manual was prepared covering: (i) description of the job to be performed; (ii) the process and procedures of off-site supervision; and (iii) the process and procedures of on-site supervision. The manual and the procedures were aligned with SBV's CAMEL-based supervision system. However, implementation of the procedures remains to be seen.
5. **Chart of accounts and reporting standards.** Based on consultation with SBV departments, Vietnamese Accounting Standards and the current chart of accounts for credit institutions, the consultant prepared a draft chart of accounts and pro-forma financial statements for MFIs. At SBV's request a detailed manual with instruction on the use of the Chart of Accounts was also prepared.
6. **Monitoring framework.** The TA designed a framework for monitoring microfinance sector development, covering (i) institutional characteristics; (ii) credit supply; (iii) portfolio quality; (iv) savings and deposits; and (v) financial performance indicators.
7. **Training SBV staff in the new regulatory and supervisory regime.** The consultant provided training for SBV staff on the new regulations, guidelines and instructions. A training course for on-site and off-site supervision was prepared based on the finalized manuals. Training was delivered in October 2007.

Overall, the performance of the ADB, SBV (the executing agency), and the consultants was satisfactory.

Evaluation of Outputs and Achievement of Outcome. The TA achieved its major objectives, as reflected in the quality draft legal documents (microfinance regulations and implementing guidelines), training courses, reports, and other products generated. The draft amendments to Decree 28 were eventually approved by the Prime Minister in November 2007 and became Decree 165/2007/ND-CP (Decree 165), enhancing the legal framework for the establishment and operations of MFIs. Decree 165 was received by the sector as less restrictive than Decree 28. SBV staff had been exposed to different legal environment for microfinance and to more advanced microfinance practices, and gained greater understanding of key issues in microfinance, its limit and effectiveness. They became more aware of a market-oriented microfinance with diversified forms of MFIs. The supervision guidelines and procedures provide a supervisory framework for SBV in monitoring the sector. Implementation of Decree 165 and supervision procedures, as well as SBV's capacity and its knowledge spin-off to action and other concerned Government agencies, however, remains to be seen.³

Overall Assessment and Rating. The TA's overall implementation was successful. The TA's major outputs (draft amendments to Decree 28 and supervisory manuals and procedures) formed a solid foundation for future microfinance sector development in Viet Nam, and constitute an avenue for ADB's further engagement in the sector in Viet Nam.

Major Lessons. The TA implementation took over a year longer than planned, due partly to the initial delay of the launching workshop (deferred from July 2006 to January 2007) and partly to the nature of the work involved under the TA. The TA's major activities were to prepare draft legal documents that required wide consultations among concerned Government agencies. In addition, the preparation of the Chart of Accounts required a harmony of the international accounting and financial reporting standards with those regulated under the Ministry of Finance, and this required substantial review and preparatory work. The project implementation highlights the need for a TA design with a more realistic timeframe and also perhaps a more careful consideration of the way in which the Government agencies operate. Vietnamese implementing agencies often consult all concerned Government agencies before making a decision, and this could require more time than other jurisdictions. In addition, more field-based consultant inputs and day-to-day interactions with EA could be more beneficial for the EA, especially in terms of raising awareness and training skills.

Recommendations and Follow-Up Actions. The TA has helped develop the initial required legal and regulatory framework for the microfinance sector in Viet Nam. The Government is now in the mood to develop a market-oriented microfinance sector with the participation of diversified MFIs. ADB should continue its involvement in the sector to seize the momentum for sector development and to further build the relationship with the Government as a leading multi-national agency supporting microfinance in Viet Nam.

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³ As of March 2009, SBV reported receiving three applications of NGO microfinance programs for transforming to regulated MFIs.