

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: MKGF

TA No. and Name TA 3741-VIE: Preparing the Framework for Microfinance Development			Amount Approved: \$300,000	
			Revised Amount: \$300,000	
Executing Agency: State Bank of Viet Nam (SBV)		Source of Funding: Japan Special Fund (JSF)	TA Amount Undisbursed \$100,460	TA Amount Utilized \$199,540
Date			Completion Date	
Approval 12 Oct 2001	Signing 2 Jan 2002	Fielding of Consultants 1 Jun 2002	Original 30 Nov 2002	Actual 31 Oct 2004
			Closing Date	
			Original 30 Nov 2002	Actual 31 Oct 2004
Description				
<p>During the Country Programming Mission in 2000, the Government of Viet Nam requested the Asian Development Bank (ADB) to provide technical assistance (TA) for preparing a framework for microfinance development. Two key components of the Government's overall poverty reduction strategy are: (i) developing credit as a means to finance production and technological change, 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/or unforeseen crises. To date these strategies have been mainly pursued through the state sector using conventional financing mechanisms such as specialized banks and credit unions. It has been recognized that the approaches and methods of microfinance institutions (MFIs) can make an important contribution in Viet Nam, particularly in extending outreach into the remoter areas where poverty is concentrated. Hitherto, there has not been an overall strategy for the development of microfinance services.</p> <p>Due to the absence of a long-term strategic microfinance framework, the response to emerging challenges has been ad hoc. Assistance by funding agencies has primarily addressed expansion of savings and credit projects in selected areas only. Given the systematic issues involved, it was recognized as essential to build the components of a sustainable microfinance system through a consultative process involving all stakeholders.</p> <p>Objectives and Scope</p> <p>The TA's immediate objectives were to help the Government in (i) preparing a framework to develop a sustainable pro-poor financial system to efficiently provide services to poor households; (ii) developing corresponding policy, legal and regulatory guidelines; and (iii) enhancing the institutional capacity of SBV for implementing the framework. To achieve the above objectives, the following main activities were undertaken:</p> <ul style="list-style-type: none"> • <i>Microfinance Framework</i> – comprised best practice principles, which were compared with existing Vietnamese practice and the consequences of differences were identified. Actions were recommended to align Vietnamese practice with best practice. The best practice principles are grouped in topic areas: subsidies and interest rates, corporate governance, capacity building in the formal sector, capacity building in the semi-formal sector, prudential regulation, non-prudential regulation and supervision. • <i>Draft Decree Regulating Microfinance Institutions and their Microfinance Activities in Viet Nam</i> – used by SBV as background and reference in drafting the microfinance decree, submitted for Government approval in October 2004. • <i>Final Assessment Report</i> – evaluates the possibility to implement a computerized management information system at SBV to supervise the microfinance activity in the semi-formal sector. • <i>Institutional capacity building</i> for SBV officials through study tours and seminars. <p>The objectives and scope were appropriate in the context of expanding pro-poor sustainable microfinance services, and addressing microfinance development concerns in Viet Nam, such as sustainability, protection of deposits, and absence of a legal and regulatory framework for microfinance activities.</p> <p>Evaluation of Inputs</p> <p>The TA was extended several times to reflect the demands that were identified during implementation. Fielding of consultants was delayed in early 2002 due to transition issues following ADB's reorganization, and the TA implementation period was extended twice due to implementation demands and external factors (actual period: August 2002-October 2004). The consultants' original work plan for June to December 2002 was prepared and agreed at inception, in June 2002, by ADB and SBV. It was revised in December 2002 and extended to the end of May 2003. It was further revised in April 2003, and again in June 2003 to take account of delays arising from the SARS outbreak during which ADB suspended consultant travel to Viet Nam. At this stage, the work was planned for completion in August 2003, but subsequent adjustments in the scope, timing and consultant inputs on information systems assessment, and the need to recruit and field an international information systems specialist resulted in a delay until mid February 2004 in the commencement of this work. The information systems assessment was completed in July 2004, the draft final report for the TA was submitted for ADB review in September 2004, and the final report was submitted in November 2004.</p>				

SBV was the Executing Agency for the TA. SBV appointed a TA management committee, chaired by the Deputy Governor and made-up of relevant SBV officials, to have oversight of activities and provide guidance as required to the consultants. SBV provided three full-time counterpart staff and the necessary secretarial support for the TA. However, SBV's decision to replace the draft microfinance decree prepared under the TA, with an alternative, without prior discussions with ADB, and failure to share subsequent revisions of the decree with ADB and other stakeholders in a timely manner has affected the provisions of further assistance.

In accordance with the terms of reference and subsequent changes approved by ADB, a team of international and domestic consultants provided a total of 22.5 person-months of inputs (5.5 international and 17 domestic). The performance of the consultants is considered satisfactory.

Evaluation of Outputs

The TA activities focused on the lack of a legal and regulatory framework under which microfinance practitioners can register or be licensed, and operate. A participatory approach, involving the key stakeholders, including relevant government and donor community representatives, was used in drafting the framework and decree, and designing capacity building activities.

In October 2002, a discussion paper summarizing information on international microfinance best practice was disseminated at a familiarization workshop involving the key stakeholders. The workshop also presented the background to the TA and reviewed the best practice principles and the potential and means of their application in Viet Nam. The outputs from the workshop fed into the preparation of a draft microfinance framework. The framework and the principles to be considered in the drafting of a microfinance decree were reviewed in a further consultative workshop in November 2002. After ADB's detailed comments, the draft framework was updated and circulated in another consultative workshop in February 2003. Subsequently the framework document was finalized.

The draft decree was finalized in April 2003 after several discussions with and comments from a cross-section of representatives from Government, mass organizations, international non-government organizations, and bilateral and multilateral funding agencies. The draft was subsequently discussed by ADB's Rural Microfinance Committee, and received support. However, ADB learned in May 2003, that SBV was preparing to submit for approval a draft that would, among other things, forbid private ownership of MFIs, and require high levels of legal capital for non-deposit taking MFIs. ADB expressed concerns, and subsequently the circulation and approval of an enabling microfinance decree was made a Performance Based Allocation (PBA) trigger. In response, SBV requested additional legal assistance to review its draft decree. ADB approved the request assuming that it create an additional avenue through which ADB's concerns and inputs could be channeled. It is understood that SBV has made revisions to its draft by using the TA draft as reference. This revised draft decree was submitted for Government approval in October 2004.

Overall Assessment and Rating

The TA is rated as partly successful. The draft of the microfinance decree—main output under the TA—was finalized and submitted to the Government for approval. However, the final version has not been shared with stakeholders and can therefore not be fully evaluated. Based on earlier drafts reviewed, it is expected that the decree will mark an improvement in the policy environment, but will still fall short of a genuinely enabling decree as defined in the PBA triggers. The microfinance framework was developed through a participatory approach involving government, stakeholders and donors. The TA provided support to SBV on developing its capacity on microfinance issues, and helped to raise the public understanding and awareness of microfinance opportunities. It is not clear if the microfinance framework document prepared under the TA will be adopted as an official strategy by the government.

Major Lessons Learned

Developing a new legal, regulatory, and supervisory framework involves substantial learning and capacity building in Viet Nam. This process could be lengthy, as shown under the TA implementation. The process also involves both political and institutional consensus to move forward. The success of the TA depended on the authorities' understanding and acceptance of the value and use of the proposed microfinance framework and regulations. It is therefore important to consider these aspects in the design, as well as provide sufficient funding to address them in implementation.

Recommendations and Follow-Up Actions

The TA activities constituted only the initial steps for developing a comprehensive microfinance framework in Viet Nam. SBV has requested for further ADB assistance in (i) implementing the new legal framework, (ii) revising and finalizing the supervisory and regulatory framework under the new microfinance decree, and (iii) launching and operating the microfinance website developed under the TA. As indicated consistently during review missions and meetings with SBV, any further assistance should be strictly based on the quality of the content and scope of the approved microfinance decree, as it will be a clear indication of the Government's commitment to the microfinance sector development.