



Viet Nam: Expanding Inclusive and Climate Finance

Project Name	Expanding Inclusive and Climate Finance		
Project Number	56230-001		
Country / Economy	Viet Nam		
Project Status	Active		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA 10094-VIE: Expanding Inclusive and Climate Finance		
	Japan Fund for Prosperous and Resilient Asia and the Pacific		US\$ 2.00 million
	Switzerland		US\$ 5.00 million
Operational Priorities	OP1: Addressing remaining poverty and reducing inequalities OP2: Accelerating progress in gender equality OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability OP6: Strengthening governance and institutional capacity		
Sector / Subsector	Finance / Finance sector development - Small and medium enterprise finance and leasing		
Gender	Effective gender mainstreaming		
Description	1.The knowledge and support technical assistance (TA) will nurture financial information technologies (fintech) that can help to address persistent financial inclusion challenges and improve green banking practices that will help Viet Nam to meet its ambitious commitments made at the UN Climate Change Conference in Glasgow (COP26) through policy advice and capacity building.		

Project Rationale and Linkage to Country/Regional Strategy

2. Development challenges. Two of the most pressing development challenges facing the Vietnamese banking sector are financial inclusion, including women's access to finance, and climate change.

3. Financial inclusion. Almost 80% of Viet Nam's population is unbanked or underbanked. This proportion is higher than in its southeast Asian peers of Malaysia, Thailand, Indonesia, and the Philippines. The microfinance industry, which in many countries has successfully supported financial inclusion, is a fraction of the size as compared to Myanmar, Cambodia, and the Philippines. Barriers to finance also extend beyond individuals and affect small- and medium-sized enterprises (SMEs). McKinsey has estimated the unmet demand among microenterprises and SMEs at D500 trillion (\$21.5 billion) affecting 1 to 2 million potential borrowers.

4. These financial barriers affect women and women-owned and women-led SMEs (WSMEs) even more adversely because of documented biases, both conscious and unconscious. These biases have led, for example, to a \$1.2 billion financing gap for WSMEs. Loan data also points to such biases. Men-owned enterprises on average had loans with tenors that were 19% longer than the loans extended to women-owned enterprises. Few banks have taken active measures to pursue this market opportunity. A soon-to-be published ADB report found that out of 24 Vietnamese banks, only 4 had established strategies to attract and develop women clients.

5. Government strategy: financial technology. To address barriers to finance, the government is largely relying on fintech. Their 2020 financial inclusion strategy overwhelmingly places fintech and innovation at the centre of the government's plans to expand financial services to consumers and SMEs. To support the strategy's implementation, the State Bank of Vietnam (SBV) in 2021 approved an action plan for banking digitalization. This document includes targets, among others, for credit institutions to provide at least 70% of disbursements and lending decisions for small loans and consumer loans in a digital and automated manner.

6. For the government to achieve its ambitions for fintech, the sector will need to overcome several significant challenges.

i. Legal and regulatory shortcomings. In 2020, to support the proposal to establish a fintech regulatory sandbox, ADB and SBV surveyed and interviewed with market players including fintech companies and commercial banks. The respondents emphasized the importance of strengthening the legal and regulatory framework. Unlike many countries in the region, most Vietnamese fintech companies, except for those engaged in payment solutions, are unregulated and do not have access to a regulatory sandbox. According to ADB's market survey, the lack of a regulatory framework is a major market impediment. While there are certain benefits to operating outside a tight regulatory ambit, most fintech companies found it difficult to expand their operations due to the lack of investors and consumers' confidence. In addition, 80% of fintech companies surveyed shared that regulatory application processes were cumbersome and costly.

ii. Limited capacity development. Although there are pockets of sophistication in some of Viet Nam's banks and emerging fintech companies, expertise will need to become broader base to achieve fintech's potential for financial inclusion. Consumers, regulators, governmental ministries, the national credit information system, and operators of governmental databases would benefit from a systematic approach to capacity building that not only informs but creates opportunities to connect the various stakeholders with each other and with international resources.

7. Climate change. Unlocking the banking sector's potential contributions in combatting climate change is a second major challenge facing the sector. Viet Nam was the 6th most affected country in the world from climate variability and extreme weather events over the period 1999-2018. Viet Nam is also one of the world's most vulnerable countries to sea-level rise. A one-meter sea-level rise could affect more than 4% of the railway system, 9% of the national highway system, and 12% of the provincial roadway system. Parts of the Mekong sub-region are projected to be submerged under water by 2050. Climate change is exacerbating the frequency and intensity of natural hazards, including tropical storms. Between 1900 and 2018, storms affected 53.5 million people, caused 19,000 fatalities, and resulted in \$10 billion of damages in Viet Nam.

8. Government strategy: green banking. Viet Nam's government made an ambitious commitment to reduce the greenhouse gas emissions that cause climate change. At COP26, it pledged to reach net-zero carbon emissions by 2050, to phase out coal-fueled power generation by 2040, and to continue to implement its commitments under the Paris Agreement. To meet these ambitious targets, the government established the National Steering Committee on Climate Change, under the chairmanship of the prime minister. The committee has instructed ministries, including SBV, to formulate action plans, which the Ministry of National Resources and Environment will consolidate. For SBV's part, the government has assigned it the responsibility to raise the funding that Viet Nam's COP26 commitments will require. This will require a renewed focus on green banking, and SBV is preparing the relevant regulatory guidance.

9. The banking sector will require support to implement this regulatory guidance. SBV will need to train staff so that regulators are equipped to supervise the implementation of the new guidance and to develop reporting systems to collect and aggregate data on green banking. For the banks, they need to assess their current capacities and limitations to implement green banking and assess inherent climate risks in their lending portfolio, prepare strategic frameworks, strengthen their management information systems to be compliant with required green reporting standards, develop new green products and risk management frameworks, and train their staff on these various initiatives. Further, support is needed to ensure that underserved segments, such as small and medium sized enterprises (SMEs), including women SMEs, are serviced with suitable products in their efforts to transition to a green economy.

10. Strategy alignment. The TA firmly aligns with ADB's Strategy 2030. It is aligned with the operational priorities (OP) of addressing remaining poverty and reducing inequalities (OP1), accelerating progress in gender equality (OP2), tackling climate change (OP3), and strengthening governance and institutional capacity (OP7). It supports Strategy 2030's goals of (i) harnessing the private sector to achieve these OPs and (ii) using a 'One ADB approach to enhance ADB's value addition with the TA being co-led by the Southeast Asia Department and the Private Sector Operations Department. Finally, the TA will contribute to the Sustainable Development Goals of reduced inequality, gender equality, and climate action.

11. Lessons learned. The TA will draw from lessons learned from other ADB fintech projects in Viet Nam and in the region. The support for green banking will expand an existing TA, which ADB is providing to the Bank for Investment and Development of Vietnam, to other major banks.

Impact	Access to financial services through the development of fintech is expanded, and the banking sector's role in promoting green growth is accelerated
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Project Outcome

Description of Outcome	Foundations for an enabling environment for fintech and green banking in Viet Nam enhanced
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Implementation Progress

Description of Project Outputs	a. Policy and regulatory foundations for fintech strengthened b. Capacity for digital finance developed c. Capacity building for green banking delivered
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Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Summary of Environmental and Social Aspects

Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	

Stakeholder Communication, Participation, and Consultation

During Project Design	
During Project Implementation	

Responsible ADB Officer	Chu, Minh Thi Hong
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Viet Nam Resident Mission (VRM)
Executing Agencies	State Bank of Vietnam

Timetable	
Concept Clearance	08 Dec 2022
Fact Finding	20 Sep 2022 to 17 Nov 2022
MRM	-
Approval	17 Feb 2023
Last Review Mission	-
Last PDS Update	28 Feb 2023

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Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 Feb 2023	-	-	30 Jun 2028	-	-

Financing Plan/TA Utilization							Cumulative Disbursements	
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	7,000,000.00	0.00	0.00	0.00	0.00	7,000,000.00	27 Jul 2023	0.00

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