

PROFILE OF THE VIETNAM BANK FOR SOCIAL POLICIES

I. Institutional Set-up

1. As a government policy bank, the Viet Nam Bank for Social Policies (VBSP) was established in 2002 to take over the small-scale policy and directed lending programs initially implemented by VBARD. As envisioned, VBSP is a non-profit bank offering full range of financial services to the poor at preferential terms and subsidized rates. In reality, only loans and plain vanilla savings products are currently being offered by VBSP. Though considered a bank, VBSP is exempted from banking regulations, but are required to submit financial and other reports as may be required by SBV. Presently, MPI guides its operational policies, while MOF oversees its financial management. VBSP's 11 member board is chaired by the SBV Governor, and the other members include six (6) representatives from government, ministries, (MOLISA, MPI, MOF, SBV, MOA, COM), two (2) board members from mass organizations (VFA and VWU) and two (2) representatives from management which include the General Director and Chief of the Supervision Board. The board members are appointed by the Prime Minister for a term of five (5) years while the appointed Board Chairman is approved by the parliament upon the recommendation of the Prime Minister to provide local oversight and governance, a parallel board, composed of representatives from management, Peoples Committee, the various ministries and mass organizations provide oversight function to VBSP branches and districts. With headquarters in Hanoi, VBSP has 64 provincial branches, 600 district level transaction offices and 8,500 mobile transaction points, with more than 7,819 staff and covering 10,914 communes or 99% of the total number of communes (11,000). VBSP's fund sources come from government, capital contribution, borrowings (now mostly from SBV), mandatory deposits from SOCBs, entrusted funds for the poor, state budget and VBSP bonds auctioned in 2009 and early 2010 to fund student loans and carries sovereign guaranty.

II. Clients, Products and Services

2. VBSP's target clients are the household listed as 'poor' by the People's Committee (PC) based on MOLISA's parameters. To ensure integrity and transparency, the list of poor household borrowers are posted for review and validated by the commune people under the principle that since people of the commune knows one another, they are the best filter of the least of borrowers. VBSP offers 16 types of loan products, and their features are all prescribed by the government, funded from state budget, mandatory deposits of SOCBs, entrusted funds and borrowings. Clients are allowed to borrow for productive business, safe water, electricity and housing. VBSP also finances scholarships for students coming from disadvantaged areas. VBSP's loan for job creation program targets small businesses, cooperatives, farms, business units for the disabled. The households of migrant workers going abroad under the labor exports program are entitled to borrow as well. In addition, businesses employing former drug addicts, and for especially disadvantaged ethnic minority households are likewise eligible to borrow. VBSP's target clients are eligible to borrow from all lending programs.

III. VBSP as a Player in Microfinance Market

3. While the government shows continuing support and commitment to broaden and deepen the microfinance market industry, VBSP's continuing scheme to provide loans at preferential rate, government partly subsidizing its operational costs, low or no costs, borrowings, and bonds issued or to be issued with sovereign guaranty without premium costs and VBSP's exemptions from banking regulations (minimal compliance costs), exemption from payment income tax and deposit insurance premium are VBSP's competitive edge and advantage over the other MFI players. This uneven playing field is a disincentive and threat to the entry, growth and development of existing or prospective MFIs.