



# Report and Recommendation of the President to the Board of Directors

---

Project Number: 42235-013  
June 2012

## Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Administration of Technical Assistance Grant Socialist Republic of Viet Nam: Microfinance Development Program

This document is being disclosed to the public prior to Board consideration in accordance with ADB's Public Communications Policy (2011). Subject to any revisions required following Board consideration, this document is deemed final.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 13 June 2012)

Currency unit	–	dong (D)
D1.00	=	\$0.000047
\$1.00	=	D20,865

## ABBREVIATIONS

ADB	–	Asian Development Bank
CCF	–	Central People's Credit Fund
CIC	–	Credit Information Center
CIL	–	Credit Institutions Law
IRR	–	implementing rules and regulations
IT	–	information technology
JFPR	–	Japan Fund for Poverty Reduction
MFI	–	microfinance institution
PCF	–	people's credit fund
SBV	–	State Bank of Vietnam
TA	–	technical assistance
VBSP	–	Vietnam Bank for Social Policies

## NOTES

- (i) The fiscal year (FY) of the Government of Viet Nam and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	K. Senga, Southeast Asia Department (SERD)
<b>Director</b>	S. Hattori, Public Management, Financial Sector and Trade Division, SERD
<b>Team leader</b>	E. Sasaki, Senior Financial Sector Specialist, SERD
<b>Team members</b>	H. Aoki, Senior Financial Sector Specialist, SERD F. Barot, Operations Assistant, SERD C. de Vera, Operations Assistant, SERD K. Hattel, Financial Sector Specialist, SERD S. Hung, Senior Social Development Specialist (Gender & Development), Regional and Sustainable Development Department (RSDD) C. Minh, Senior Financial Sector Officer, VRM J. Reino, Senior Public Management Specialist, SERD Y. Tamura, Principal Country Specialist, VRM S. Tanaka, Principal Social Development Specialist, RSDD S. Tukuafu, Principal Financial Sector Specialist, SERD S. Zaidansyah, Senior Counsel, Office of the General Counsel
<b>Peer reviewer</b>	Q. Zhang, Principal Financial Sector Specialist, Office of Regional Economic Integration

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.

## CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROGRAM	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	5
D. Development Financing Needs	7
E. Implementation Arrangements	7
III. TECHNICAL ASSISTANCE	8
IV. DUE DILIGENCE	8
A. Programmatic Approach	8
B. Safeguards	9
C. Gender	9
D. Risks and Mitigating Measures	9
V. ASSURANCES	9
VI. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	18

## PROGRAM AT A GLANCE

**1. Project Name:** Microfinance Development Program (Subprogram 1)      **2. Project Number:** 42235-013  
**3. Country:** Viet Nam, Socialist Republic of      **4. Department/Division:** Southeast Asia Department  
 Public Management, Financial Sector, and Trade Division

### 5. Sector Classification

Sectors	Primary	Subsectors
Finance	✓	Microfinance Finance Sector Development Insurance and contractual savings

### 6. Thematic Classification:

Themes	Primary	Subthemes
Economic growth	✓	Widening access to markets and economic opportunities Promoting economic efficiency and enabling business environment
Capacity development		Institutional development Client relations, network, and partnership development Organization development
Governance		Economic and financial governance
Private sector development		Policy reforms Public private partnerships

### 6a. Climate Change Impact:

No Climate Change Indicator available.

### 6b. Gender Mainstreaming:

Gender equity theme	
Effective gender mainstreaming	
Some gender benefits	✓
No gender elements	

### 7. Targeting Classification:

General Intervention	Targeted Intervention				8. Local Impact:	
	Geographic dimensions of inclusive growth	Millennium Development Goals	Income Poverty at Household Level		Rural	High
✓					Urban	
					National	High
					Regional	

### 9. Project Risk Categorization:

Complex

### 10. Safeguard Categorization:

Environment	C
Involuntary resettlement	C
Indigenous peoples	C

### 11. ADB Financing:

Sovereign/Nonsovereign	Modality	Source	Amount (\$ million)
Sovereign	Program loan	Asian Development Fund	40.0
Total			40.0

### 12. Cofinancing:

No Cofinancing available

### 13. Counterpart Financing:

No Counterpart Financing available.

### 14. Aid Effectiveness:

Parallel project implementation unit	No
Program-based approach	Yes

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Microfinance Development Program, and (ii) a proposed policy-based loan to the Socialist Republic of Viet Nam for subprogram 1. The report also describes proposed administration of technical assistance (TA) for supporting the implementation of the Program, and if the Board approves the proposed programmatic approach and policy-based loan, I, acting under the authority delegated to me by the Board, will approve the TA.<sup>1</sup>

2. During the Asian Development Bank (ADB) country programming mission for Viet Nam in May 2008, the Government of Viet Nam requested ADB for a microfinance sector development program loan. The requested loan was included in ADB's country operations business plan, 2009–2011 for Viet Nam<sup>2</sup> as well as the project preparatory TA for the program loan.<sup>3</sup> The proposed program will support the government's policy reform agendas to improve the quality, accessibility, efficiency, and competitiveness of microfinance in line with the Viet Nam Microfinance Development Strategy, 2011–2020. The government's development policy letter is in Appendix 3.

3. The program will support the development of market-oriented microfinance to increase access to formal financial services for the poor, especially in rural areas. The program will focus on policy and regulatory reforms, supervisory capacity building, operational and institutional development, and financial infrastructure development. Planned policy and regulatory reforms will be anchored by the integration of microfinance into the formal financial market, encouraging investment in microfinance. Strengthening operational and supervisory capacities will improve the sustainability and outreach of microfinance operations. State-owned financial institutions engaged in lending to low-income households and microenterprises funded by the government budget will be guided to a reform aiming for self-sustaining financial institutions operating based on market principles. Finally, the program seeks to develop financial infrastructure supporting formal microfinance training, the advocacy of financial literacy on sustainable microfinance and customer protection, and credit information exchange systems.

## II. THE PROGRAM

### A. Rationale

4. **Microfinance as a poverty reduction measure.** In Viet Nam, about 72% of the population live in rural areas, where agriculture is the economic mainstay (accounting for 54% of the national workforce) and where 94% of the nation's poor people reside. The government's national poverty reduction program focuses on modernizing agriculture and value-added agroprocessing, promoting nonfarm household businesses, and increasing employment opportunities through geographically dispersed industrialization and promoting small- and medium-sized enterprises. The results have been remarkable, with poverty reduced from 58% in 1993 to 12% in 2009, and Viet Nam is poised to meet most of its Millennium Development Goals by 2015. Among the major constraints on achieving the Goals is the lack of responsive microfinance services.

5. **Fiscal burden of supporting the Vietnam Bank for Social Policies.** The direct intervention of the government in microcredit delivery through the Vietnam Bank for Social Policies (VBSP) has crowded out private sector players and hampered the growth of diverse market-

---

<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> ADB. 2008. *Country Operations Business Plan. Viet Nam, 2009-2011*. Manila.

<sup>3</sup> ADB. 2010. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Microfinance Sector Development Program*. Manila (TA 7499-VIE).

oriented microfinance providers.<sup>4</sup> This, in turn, has limited the choices of the vast majority of low-income rural households in accessing a wide range of accommodative financial services including credit, savings, money transfer, and insurance. The VBSP's state-funded microcredit has marginal direct financial benefit to a borrowing household (estimated at D34,000 per household per month, or 0.7% of an average monthly household income) relative to market-based microloans offered by private microfinance providers. This cannot justify the increasing fiscal burden that results from supporting the VBSP, which was estimated to grow at an annual average rate of 32% from 2003 to 2009, and stood at D23,580 billion in 2009, or 1.4% of gross domestic product. The fiscal load is aggravated by population growth, inflation, and a surge in student loans in recent years, expanding the VBSP's social policy lending financed through state-mobilized funds. Under the program, the Development Strategy for the VBSP towards 2020 (drafted to help the VBSP become a sustainable market-oriented financial institution) will be approved for implementation. The strategy focuses on institutional reform, improved banking skills, and awareness raising of stakeholders on market-oriented microfinance.

6. **Central People's Credit Fund.** The Central People's Credit Fund (CCF) is an apex institution for people's credit funds (PCFs), which are financial cooperatives in Viet Nam. Government ownership of the CCF is unique to Viet Nam; elsewhere, apex institutions are wholly owned and managed by member primary cooperatives to support "self-help, mutual assistance and democratic autonomy in the operation of their cooperatives"<sup>5</sup> As a result, close to 50% of the CCF loan portfolio is outside the PCF network, with loans to state-owned enterprises, small- and medium-sized enterprises, and entities and individuals who are not PCF members. To achieve its potential to become an effective member-based cooperative bank and better serve its member PCFs, the CCF is set to be transformed by the government into a cooperative bank widely supported by PCFs with adequate institutional and operational capacities. The program will support government efforts to promote greater PCF ownership of the CCF and strengthen the CCF's capacity to improve its service to PCFs.

7. **People's credit funds.** There were 1.7 million PCF members as of the end of 2010, with an average of 1,700 members per PCF. Since 1997, the number of PCF members has increased at an average annual rate of 1%, and 10% of all national communes are reached. Given that over 94% of PCFs are more than 10 years old, the overall membership growth is not remarkable. Aside from the government policy that limits the number of PCFs to one in each commune, the oligarchic ownership structure of PCFs has hindered growth of new members that could have strengthened the capital base of PCFs. Typically, PCFs have less than 50 core members from higher-income households, who have the exclusive right to be board members. There is a strong incentive to set barriers to entry for new members, thereby securing a higher return on equity for the original core members. To deepen financial inclusion by utilizing a viable financial cooperative system, the program will support a recently launched government initiative to improve the governance structure and strengthen institutional and operational capacities of PCFs in a cohesive manner.

8. **Microfinance institutions.** The development of microfinance institutions (MFIs) has been constrained by the lack of the legal and regulatory framework necessary for establishing formal MFIs. Since 1991, only one MFI has attained a membership of over 130,000, two have about 40,000, and three have about 20,000 clients, which in total account for over 60% of the clients of

<sup>4</sup> "The delivery of microfinance services is still widely perceived among government officials and the public as a social mission to be financed and carried out by the government rather than as a sustainable financial business geared toward the poor." B. Nguyen and R. Vogel. 2011. *Rural and Microfinance in the Lower Mekong Region: Policies, Institutions, and Market Outcomes*. Manila: ADB. (p 77).

<sup>5</sup> This is a basic cooperative tenet advocated by the International Cooperative Alliance in its governing principles of a cooperative. The International Co-operative Alliance. 1995. *Statement on the Co-operative Identity*. Manchester.

the top 50 MFIs. To help MFIs grow, the government—with ADB assistance—has prepared the legal and regulatory framework to allow formal MFIs to take deposits under the prudential norms and license of the State Bank of Vietnam (SBV) (para. 11). So far, two leading MFIs—Tinh Thuong One Member Limited Liability Microfinance Institution, commonly known as TYM and M7-Microfinance Institution Limited, commonly known as M7-MFI—have been licensed, while several others are applying for a license. Formalization with the SBV's license will help MFIs improve their governance structure and strengthen their overall capacity to offer competitive financial services—including savings and credit products—against the VBSP, PCFs to be supported by a cooperative bank (transformed from the CCF), and the expansion of other credit institutions and banks into information technology (IT)-enhanced microfinance operators. The program will further promote the growth of formal MFIs through increased capacity building activities for both operators and regulators.

9. **Government commitment to market-oriented sector reform.** Recognizing the vital role of microfinance as a potent tool to reduce poverty, the Vietnam Microfinance Development Strategy, 2011–2020 was formulated with ADB assistance<sup>6</sup> and approved by the prime minister,<sup>7</sup> with the aim of

- (i) establishing the legal, policy, regulatory, and supervisory frameworks;
- (ii) strengthening policy formulation and regulatory and supervisory capacity;
- (iii) increasing the operational capacity of MFIs;
- (iv) improving the institutional and financial capacities of the VBSP, and helping to implement its development strategy toward self-sustaining and market-oriented operations;
- (v) developing financial infrastructure including training institutes and credit information bureaus; and
- (vi) promoting a national financial literacy campaign.

10. The national microfinance strategy demonstrates government commitment to microfinance sector reform, aiming to gradually transform the sector currently dominated by the social protection schemes into a robust financial market supported by vibrant operations based on market principles to better cater to the diverse needs of clients for safe and accommodative financial services.<sup>8</sup> The government has also formulated various laws and regulations to support sector growth and sustainability, thus providing responsive financial services to the poor and low-income market. Among the most significant landmark legislation promulgated is the Credit Institutions Law, 2010 (CIL), which took effect in January 2011. The CIL, for the first time, recognized microfinance as a formal financial service, and mandates the SBV to impose prudential norms over financial institutions engaged in microfinance.<sup>9</sup> The CIL is also expected to further broaden, deepen, and strengthen the microfinance sector, supporting the national microfinance strategy. The program will

---

<sup>6</sup> The TA for Preparing the Microfinance Sector Development Program contributed to the formulation of the national microfinance strategy by completion of a sector assessment and a development plan and by consultation with stakeholders through a workshop.

<sup>7</sup> Prime Minister's Decision No. 2195/2011/QĐ-TTg dated 6 December 2011.

<sup>8</sup> Viet Nam Microfinance Development Strategy, 2011–2020 (accessible from the list of linked documents in Appendix 2).

<sup>9</sup> Under the CIL, MFIs and cooperative credit institutions comprising cooperative banks and PCFs are placed under the supervision and regulation of the SBV. The CIL also covers policy banks (including the VBSP), which will continue to implement state socioeconomic policies on a not-for-profit basis and will remain under the organizational and operational control of the government. However, all policy banks are now required to implement internal control and audits; develop and issue internal procedures applicable to their operations; and adopt statistical, operational, and payment activity reports in accordance with stipulations of the SBV.

support the government in implementing the national microfinance strategy and help formulate detailed implementing rules and regulations (IRRs) of CIL provisions relating to microfinance.

11. **ADB assistance.** ADB has supported the government's initiative to establish the formal MFI sector with two TA grants supporting the preparation of the microfinance legal framework.<sup>10</sup> As a result, in March 2005, Decree No. 28 on the organization and operation of microfinance institutions in Viet Nam was issued, followed by Decree No. 165 issued in November 2007 to supplement Decree No. 28. In 2009, ADB approved a Japan Fund for Poverty Reduction (JFPR) grant<sup>11</sup> to support the implementation of the decrees. The grant provides technical assistance and supplementary matching funds to assist the transformation of semiformal microfinance programs into formal regulated MFIs. The program is designed to further support the government in formulating a policy and regulatory environment supportive of market-oriented operations and private sector innovations. Lessons from past assistance by ADB and other development partners to the sector in Viet Nam and the region include the importance of (i) integrating microfinance regulation in general banking law and harmonizing it with microfinance-specific regulations to promote fair competition among diverse financial institutions; and (ii) the government focusing on creating an enabling environment to support private sector development in microfinance rather than being directly involved in microfinance operations. Both of these aspects were bases used in designing the program.

12. **Link to country partnership strategy.** ADB, in its country partnership strategy for Viet Nam<sup>12</sup>, supports the Viet Nam Socioeconomic Development Plan, 2011–2015, which aims to transform the country into a modern, productive, and equitable economy. ADB's new country partnership strategy will pursue inclusive growth by improving the poor's access to opportunities including infrastructure, microfinance, rural development, and social services, and also economic efficiency through support to economic restructuring and related reforms focusing on public investment planning and financial sector deepening. It is in this context that the program was formulated to support government efforts in improving the overall quality and capacity of microfinance, focusing on an improved policy and regulatory environment, increased operational and supervisory capacities, and financial infrastructure development along with the national microfinance strategy. The program will address the existing constraints on nationwide access to formal financial services, and thus (i) develop an equitable economy by promoting a robust microfinance sector with an improved policy and regulatory environment supportive of the growth of private sector operations, (ii) promote wide adoption of microfinance best practices, and (iii) increase financial infrastructure development. It will enhance financial inclusion by improving access to financial services for traditionally underserved poor households, and supporting inclusive growth in line with ADB's financial sector operational plan.<sup>13</sup>

## B. Impact and Outcome

13. The impact will be greater financial inclusion and a deepened finance sector. The outcome will be increased access of poor women and men to sustainable and affordable microfinance services.

<sup>10</sup> ADB. 2001. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Framework for Microfinance Development*. Manila (TA 3741-VIE); and ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Implementing the Regulatory and Supervisory Framework for Microfinance*. Manila (TA 4638-VIE).

<sup>11</sup> ADB. 2009. *Proposed Grant Assistance to the Socialist Republic of Viet Nam for Formalizing Microfinance Institutions*. Manila (Grant 9140-VIE, financed by the Japan Fund for Poverty Reduction).

<sup>12</sup> ADB Country Partnership Strategy: Viet Nam, under formulation.

<sup>13</sup> ADB. 2011. *Financial Sector Operational Plan*. Manila.



### C. Outputs

14. The program, through the program activities, will have the following outputs.

15. **Output 1: Creating a policy and regulatory environment conducive to an inclusive, sustainable, and market-oriented microfinance sector.** To support government initiatives toward a vibrant microfinance industry in line with the national microfinance strategy and the CIL, the program will seek to encourage diverse financial institutions to contribute toward deepening financial inclusion. It will finalize the draft IRRs prepared by the SBV to formulate (i) SBV licensing requirements and prudential norms for MFIs based on performance standards, credit classification, and provision standards; and (ii) audit and reporting requirements applicable to the VBSP, PCFs, and other microfinance operating credit institutions to secure the integrity and transparency of MFI operations. The branching guideline has been revised to facilitate the expansion of MFIs' business. Further, fiscal incentives and regulatory requirements for all operating microfinance credit institutions will be considered to promote service outreach, especially in rural areas.

16. Consumer safeguard measures will be established, promoted, and ensured by formulating IRRs of the CIL provisions on consumer protection, which will be disseminated to the public. In response to the growing needs for microinsurance, greater involvement of credit institutions in the provision of insurance services/products is facilitated and promoted in a prudent manner. IT-enhanced banking service will be facilitated through the issuance of IRRs to reduce transaction costs and expand access to services for microfinance clients in rural and remote areas. The IRRs may include incentives to promote new entry into microfinance through e-banking. To promote national gender equality targets, licensed MFIs will be required by a newly formulated regulation to report gender-specific client data to the SBV.

17. **Output 2: Strengthening the supervisory and regulatory capacities of microfinance sector regulators.** Because the MFI license applications have only recently emerged, there are few qualified regulators to provide effective supervision of the microfinance sector. The SBV needs to increase its regulatory capacity, focusing on the special features of microfinance,<sup>14</sup> including the widely accepted MFI performance standards<sup>15</sup> and proven best practices not applicable to commercial banking operations.<sup>16</sup> The lack of qualified regulators will be further aggravated as a growing number of MFIs will be licensed and the number of PCFs will increase in line with the expansion plan; 1,700 PCFs are expected to be operating by 2020, increasing from the current 1,060. The program will help the government strengthen the overall supervisory and regulatory capacity and oversight authority of the SBV over microfinance credit institutions and that of the Ministry of Finance over the VBSP. To effectively strengthen the oversight agencies' supervisory/regulatory capacity, the draft manual of supervision with performance standards prepared by an ADB project (footnote 10) will be finalized for actual implementation.

18. **Output 3: Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor.** The development strategy for the VBSP towards 2020 will be approved, aiming to initiate market-oriented reforms for the VBSP to attain operational and financial sustainability. This may include redefining the social policy lending of the

<sup>14</sup> An issue being addressed by the JFPR grant for Formalizing Microfinance Institutions (footnote 11).

<sup>15</sup> The MFI performance standards include PEARLS (protection, effective financial structure, asset quality, reports, liquidity, signs of growth), PESOS (portfolio quality, efficiency, stability, operations, structure of assets), and other widely accepted standards set by the Consultative Group to Assist the Poor (for MFIs) and by the World Council of Credit Unions (for financial cooperatives).

<sup>16</sup> Microfinance-specific practices include the means test for credit needs and qualification assessment, and close credit monitoring through group meetings and/or frequent account officer visits to clients.

VBSP to achieve a better balance between government objectives and measures to lessen risk taking, and improve the effectiveness of the VBSP's microfinance products.

19. In line with the CCF/PCF provisions of the CIL and the approved 10-year development strategy for the CCF/PCF system,<sup>17</sup> the program will support the transformation of the CCF into a cooperative bank with increased ownership by member PCFs in order to better serve the PCF network and reduce its dependence on the government.

20. The SBV recognizes the flaws of the oligarchic ownership structure of PCFs and is adopting measures to correct this by following best cooperative practices. Draft IRRs for ownership and governance of PCFs, as well as its banking services to nonmembers, will be formulated to promote the growth of active member participation, especially from among low-income households. The SBV will finalize IRRs to promote membership expansion of PCFs and effective service delivery.

**21. Output 4: Supporting development of the infrastructure for the microfinance sector.**

As recognized credit institutions under the CIL, MFIs and PCFs need core banking knowledge including basic banking principles, financial governance, risk management, prudential standards, and IT-enhanced products and services, as well as updated technical know-how on best practices for microfinance and financial cooperative operations. To ensure quality and sustainable capacity building services, the program will help the SBV's Banking Academy<sup>18</sup> establish a microfinance center to provide training, research, consultancy, and other services related to the microfinance sector. Training modules will be developed through capacity building needs analysis, and will be designed to combine classroom lectures with on-the-job/onsite practical training used by participating model credit institutions. Expertise will be drawn from microfinance training institutes (both at home and overseas), microfinance operating credit institutions, and other national partners to ensure optimum coverage of the knowledge areas required for microfinance operations.

22. The VBSP's operations are conducted through savings and credit groups nationwide engaged in savings and credit administration as partners and receiving VBSP services as clients at the same time. A financial literacy program focusing on microfinance will be conducted for the VBSP savings and credit groups, PCFs, VBSP and CCF management and staff, concerned government agencies, and mass organizations. To support reform processes of the VBSP and the PCF/CCF system, the financial literacy program will facilitate understanding on market-oriented microfinance and its benefits, clients' rights and responsibilities, customer protection, and other subjects related to sustainable microfinance.

23. There is strong anecdotal evidence of multiple financing of microborrowers in areas where the VBSP, the Vietnam Bank for Agriculture and Rural Development, PCFs, and MFIs all operate. With the VBSP covering almost all communes, future expansion of PCFs and MFIs and the possible entry of commercial banks into the microfinance market using e-banking will inevitably increase the risks of financing duplication and over indebtedness, known as credit pollution. The VBSP, PCFs, and MFIs are presently not providing microfinance credit information to the SBV Credit Information Center (CIC), a nationwide credit bureau. Their full participation is made difficult by the huge volume of microcredit information that cannot be captured by their current systems, their commune-level operations, and the low level of IT use in their operations. To support effective microcredit information management, an IT-based credit information exchange system will be developed at the CIC.

---

<sup>17</sup> SBV Decision No. 6136 issued in 2007.

<sup>18</sup> The Banking Academy was organized in 1961 by the SBV to provide professional training and research in the fields of economics, finance, and banking.

## **D. Development Financing Needs**

24. The program is a programmatic approach comprising two single-tranche subprograms. Subprogram 1 comprises a single tranche loan of SDR25,919,000 covering April 2008–June 2012. Subprogram 2, with an indicative amount of \$50 million subject to further discussion between ADB and the government and the availability of Asian Development Fund resources, will be implemented for July 2012–September 2014. Subprogram 2 will be submitted for Board approval upon completion of the policy triggers. The policy matrix given in Appendix 4 indicates the program framework including the government actions taken prior to Board consideration for subprogram 1, proposed policy actions for subprogram 2, and medium-term direction.

25. The government has requested a loan in various currencies equivalent to SDR25,919,000 from ADB's Special Funds resources to help finance subprogram 1. The loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; and such other terms and conditions set forth in the draft loan agreement. The government will use the local currency counterpart funds generated by the loan proceeds to meet program expenditures and associated costs of reform, and will provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the program.

26. The program programmatic approach will support reforms outlined in the development policy letter and policy matrix. The loan amount is determined by the significance of the microfinance sector to the overall economy, the expected development impact of the policy package, the adjustment costs, and the development financing needs of the government, including costs for (i) developing the formal MFI sector to expand its outreach to clients; (ii) assisting the VBSP to achieve operational and financial self-sustainability in line with its development strategy toward 2020; (iii) initiating the transformation of the CCF into a cooperative bank and the restructuring of the CCF/PCF network into a member-based financial cooperative system; and (iv) helping the Banking Academy establish a microfinance center to provide capacity building services to the microfinance sector.

## **E. Implementation Arrangements**

27. The SBV will be the executing agency. It will establish a steering committee to provide general policy direction and overall coordination for implementation of the program. The steering committee will be chaired by the SBV deputy governor, with high officials representing the concerned stakeholders including the Ministry of Finance, VBSP, CCF, CIC and the Banking Academy as members. The SBV will also establish a program management unit to provide technical support to the steering committee. The unit will oversee loan implementation, including taking and confirming policy actions, coordinating TA activities among implementing agencies, undertaking program administration, and communicating with ADB on behalf of the government. The implementing agencies will be Ministry of Finance, VBSP, CCF, CIC, and the Banking Academy, each of which will be responsible for program reporting and discussing implementing issues with the SBV. The implementation arrangements are summarized in Table 1.

**Table 1: Implementation Arrangements**

<b>Aspect</b>	<b>Arrangements</b>
Implementation period	January 2008–September 2014
Estimated completion date	30 September 2014
<b>Management</b>	
(i) Oversight body	Steering committee chaired by the SBV deputy governor, with agencies and stakeholders representing the Ministry of Finance, VBSP, CCF, CIC and the Banking Academy.
(ii) Executing agency	SBV
(iii) Implementing agencies	MOF, VBSP, CCF, CIC, and Banking Academy
Disbursement	The loan of \$40 million will be disbursed in a single tranche.

CCF = Central People's Credit Fund, CIC = Credit Information Center, MOF= Ministry of Finance, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.

### **III. TECHNICAL ASSISTANCE**

28. In connection with the program, the government has requested ADB for policy and advisory TA for Supporting Microfinance Development Program. The TA will be financed on a grant basis by the Japan Fund for Poverty Reduction (JFPR) in the amount of \$500,000 and administered by ADB. The SBV, the Ministry of Finance, and the CIC will provide counterpart support in the form of office space, counterpart staff, and other support facilities. The TA will (i) support the implementation of the program by achieving a medium-term reform agenda in microfinance, and (ii) provide the government with policy advice. The TA scope includes: (i) formulation of draft IRRs of the new CIL provisions on microfinance; (ii) the study and recommendation of fiscal and regulatory incentives for microfinance operating credit institutions; (iii) the planning, development, and training for a microfinance credit information exchange system at the CIC; and (iv) review and improvement of the current insurance regulations to support the development of microinsurance.

29. The executing agency for the TA will be the SBV. The implementing agencies for the TA will be the SBV, the Ministry of Finance, and the CIC. The TA will begin in September 2012 and will be implemented over 18 months ending in February 2014. The TA will provide 10 person-months of international consulting services and 12 person-months of national consulting services. The consultants will work on an intermittent basis and will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Equipment will be procured in accordance with ADB's Procurement Guidelines (2010, as amended from time to time). The TA expenditures will comply with JFPR guidelines. A full description of the TA, including implementation arrangements, consultant terms and conditions, cost estimates, and financing plan, is included as a linked document.<sup>19</sup>

### **IV. DUE DILIGENCE**

#### **A. Programmatic Approach**

30. The mission team has undertaken a due diligence assessment in consultation with the government to evaluate the policy actions that could trigger subprogram 1. In formulating subprogram 2, the mission team and consultant team will focus on technical viability, economic

<sup>19</sup> Policy and Advisory Technical Assistance (accessible from the list of linked documents in Appendix 2).

and financial viability and sustainability, prudential requirement and customer protection, poverty and social impact, and the safeguard policy aspects.

31. **Governance and anticorruption.** ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the SBV. The government is taking an active approach against corruption, including the enactment of the Anti-Corruption Law, 2005. A legal framework has been established to protect and reward whistle-blowers.

## **B. Safeguards**

32. The program is classified category C for all safeguard categories (environment, involuntary resettlement, and indigenous peoples).

## **C. Gender**

33. The program is categorized as providing some gender benefits. Traditionally, there has been strong participation of women in the Viet Nam microfinance sector; however, not enough gender-related data is available. Improved data collection would ensure that microfinance plays a significant catalytic role in promoting women's economic empowerment. The program will formulate rules and regulations to require licensed MFIs to report sex-disaggregated microfinance client data.

## **D. Risks and Mitigating Measures**

34. The program assumes political stability in the country and continued adoption of sound macroeconomic policies. Despite the sound track record of Viet Nam, implementation of the program is still subject to the risks described in Table 2.

**Table 2: Summary of Risks and Mitigating Measures**

<b>Risk</b>	<b>Mitigating Measures</b>
Exogenous, international financial shock and macroeconomic instability	The government is strengthening its monetary policy framework, expanding the tax base, and strengthening public expenditure management with the assistance of development partners including ADB. ADB and other development partners in Viet Nam, including the World Bank and the International Monetary Fund, hold regular consultative meetings with the government on the macroeconomic policy and the stability and development of the finance sector.
Political resistance and vested interest against the reform	The government has shown strong commitment to the reform agenda. Government commitment is also manifested in the scope of legal and regulatory reforms implemented across the finance sector. The Microfinance Development Program reduces this risk by focusing policy actions on a small number of important reforms, which will have a high impact, with firm and wide support from the government and the concerned stakeholders.
Poor governance and corruption	The government is increasingly adopting a tougher stance on corruption and has recently taken measures, including enacting the Anti-Corruption Law, 2005 and setting up a steering committee against corruption. Results of investigations against corruption overseen by the government inspectorate have been disclosed, and a legal framework is established to protect and reward whistle-blowers.

ADB = Asian Development Bank.

Source: Asian Development Bank.

## **V. ASSURANCES**

35. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender,

procurement, consulting services, and disbursement as described in detail in the loan agreement. The government has agreed with ADB on certain covenants, which are set forth in the loan agreement.

## **VI. RECOMMENDATION**

36. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the programmatic approach for the Microfinance Development Program, and
- (ii) the loan in various currencies equivalent to SDR25,919,000 to the Socialist Republic of Viet Nam for subprogram 1 of the Microfinance Development Program, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Bindu Lohani  
Vice President

13 June 2012

### DESIGN AND MONITORING FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets and Indicators with Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<b>Impact</b>  Greater financial inclusion and deepened finance sector	Rural areas share of total loans outstanding increased to 20% by 2014 (2010 baseline: 17%)  Savings mobilized by MFIs increased by 20% in 2014 (2010 baseline: D248.65 billion)  M2:GDP ratio increased by 10% in 2014 (2010 baseline: 133% of GDP)	SBV banking statistics  SBV banking statistics  National statistics and IMF reports	<b>Assumptions</b>  Macroeconomic and political stability is maintained.  Economic growth remains positive in 2011–2014.  <b>Risk</b>  Effects of external shocks are not addressed amicably and thus affect the overall economy.
<b>Outcome</b>  Increased access of poor women and men to sustainable and affordable microfinance services	Number of male and female microfinance borrowers increased by 10% in 2014, disaggregated by sex (2010 baseline: 12.5 million)  Number of microfinance savings accounts increased by 10% in 2014, disaggregated by sex (2010 baseline: 9.7 million)	SBV reports  SBV reports	<b>Assumptions</b>  The government remains committed to microfinance development.  Coordination among concerned government agencies is maintained for sector development.  <b>Risk</b>  Resistance persists against reform measures.
<b>Outputs</b>  1. Creating a policy and regulatory environment conducive to an inclusive, sustainable, and market-oriented microfinance sector	A national microfinance development strategy and road map approved by the prime minister in December 2011  Number of licensed MFIs and cooperative banks increased (2011 baseline: licensed MFIs = 2, cooperative banks = 0)  Regulatory requirements for the	Official gazette  Report from SBV  SBV IRR	<b>Assumption</b>  Adequate resources are allocated for the formulation of regulations.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	reporting of microfinance client data disaggregated by sex are in place		
<p>2. Strengthening the supervisory and regulatory capacities of microfinance sector regulators</p> <p>3. Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor</p> <p>4. Supporting development of the infrastructure for the microfinance sector</p>	<p>At least 30% of regulators trained through Microfinance Center by 2014, (disaggregated by sex)</p> <p>Strategy for reforming VBSP approved by the prime minister in 2012</p> <p>The operational self-sufficiency of VBSP improved to 90% (2010 baseline: 77%)</p> <p>The number of PCF members increased to 2.0 million in 2014 (2010 baseline: 1.7 million)</p> <p>A microfinance center within the Banking Academy established to provide training, research, consultancy, and other services related to the microfinance sector</p> <p>An IT-based and cost-effective localized credit information exchange system for microfinance developed at CIC</p>	<p>Report from SBV, the Ministry of Finance, and Microfinance Center</p> <p>Official gazette</p> <p>VBSP project reports</p> <p>PCFs/CCF project reports</p> <p>Banking Academy project reports</p> <p>CIC project reports</p>	<p><b>Assumption</b></p> <p>The government is committed to reforms of CCF and VBSP.</p>



Activities and Milestones	Inputs
<ol style="list-style-type: none"> <li>1. Create a policy and regulatory environment conducive to the development of inclusive and sustainable market-oriented microfinance               <ol style="list-style-type: none"> <li>1.1 Study and recommend fiscal and regulatory incentives for microfinance operating credit institutions</li> <li>1.2 Review and recommend current insurance regulations to support the development of microinsurance</li> </ol> </li> <li>2. Strengthen the supervisory and regulatory capacities of the microfinance sector regulators               <ol style="list-style-type: none"> <li>2.1 Strengthen the supervisory capacity of the SBV Banking Supervision Agency through the formulation of draft IRR of the new CIL provisions on microfinance and training to the Banking Supervision Agency and microfinance operating credit institutions based on the manuals developed in line with the IRR</li> </ol> </li> <li>3. Strengthen credit institutions involved in microfinance to provide affordable and sustainable services to the poor               <ol style="list-style-type: none"> <li>3.1 Enhance VBSP's operational sustainability</li> <li>3.2 Transform CCF into a cooperative bank and restructure the CCF/PCF network to a member-based financial cooperative system</li> </ol> </li> <li>4. Support the development of infrastructure for the microfinance sector               <ol style="list-style-type: none"> <li>4.1 Develop the Banking Academy's training capacity on microfinance</li> <li>4.2 Plan, develop, and train for a microfinance credit information exchange system to be used by reporting credit institutions and the CIC</li> </ol> </li> </ol>	<p><b>Program Loan:</b>            Subprogram 1 – ADF \$40 million            Subprogram 2 – ADF \$50 million (indicative)</p> <p><b>Technical Assistance:</b>            JFPR: \$0.5 million            Government contribution: \$0.1 million</p>

ADF = Asian Development Fund, CCF = Central People's Credit Fund, CIC = Credit Information Center, CIL = Credit Institutions Law, GDP = gross domestic product, IMF = International Monetary Fund, IRR = Implementing Rules and Regulations, IT = information technology, JFPR = Japan Fund for Poverty Reduction, MFI = Microfinance Institution, PCF = People's Credit Fund, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.  
 Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=42235-013-3>

1. Loan Agreement
2. Sector Assessment (Summary): Microfinance
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

**Supplementary Documents**

10. Policy and Advisory Technical Assistance
11. Summary Program Impact Assessment
12. Viet Nam Microfinance Development Strategy 2011–2020
13. Profile of the Vietnam Bank for Social Policies
14. Profile of the People's Credit Funds/Central People's Credit Fund System
15. Profile of the Banking Academy



## STATE BANK OF VIETNAM

Office : 47 - 49 Ly Thai To, HaNoi  
Tel : (84-4) 9 343 359 Fax : (84-4) 8 250 612

### DEVELOPMENT POLICY LETTER

*Ha Noi, May 2012*

Mr. Haruhiko Kuroda  
President  
The Asian Development Bank

#### **Viet Nam: The Microfinance Development Program**

*Dear Mr. President*

On behalf of the government of Viet Nam, allow me to thank you for the continuing commitment and support of the Asian Development Bank (ADB) towards our overall poverty reduction efforts. Poverty reduction is a priority goal of the government of Viet Nam's national development agenda. The government's national poverty reduction program focuses on modernizing agriculture and value-added agro-processing industries, promoting non-farm household businesses which will help create more jobs in rural areas, generating higher income levels and contributing to the overall sustainable economic growth of the country. Given poverty reduction as a priority goal of the government, the role of ADB as a partner in supporting our reform efforts towards the establishment of an inclusive and sustainable microfinance sector for Viet Nam is greatly appreciated.

The creation of a formal microfinance sector is embedded in the Government's "Comprehensive Poverty Reduction and Growth Strategy 2000-2010". To demonstrate our commitment to implementing the Strategy, in 2005 we began issuing a series of decrees and regulations to transform semi-formal microfinance institutions (MFIs) into formal MFIs and commenced the process of licensing these institutions. In 2006, the State Bank of Viet Nam (SBV) introduced a 10-year strategy to guide the expansion of the People's Credit Funds (PCF) network, and the transformation of the Central People's Credit Fund (CCF) into a cooperative bank. This letter outlines the policy direction that we would like to pursue in partnership with ADB and reaffirms our commitment to the creation of a market-oriented microfinance sector that is affordable and easily accessible to the poor.

The Microfinance Development Program (MDP) was prepared by a joint team of representatives from the ADB and the government of Viet Nam with reform initiatives grouped into the following broad development objectives:

- (i) the creation of a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector;
- (ii) the strengthening of the supervisory and regulatory capacities of the microfinance sector regulators;
- (iii) the strengthening of the financial institutions involved in microfinance to provide affordable and sustainable services to the poor; and

- (iv) the development of infrastructure for the microfinance sector.

Specific elements of the government's development expenditure program include the investment, administrative, enforcement and fiscal costs to the Government in implementing and enforcing the reforms, and developing the institutional capacities called for under the MDP and the Government's National Microfinance Development Strategy.

### **Creating a policy and regulatory environment**

A 10-year National Microfinance Development Strategy was formulated with ADB assistance and approved by the Prime Minister in December 2011. The Strategy is designed to guide and coordinate, at all levels, our efforts to develop a market-oriented, self-sustaining, and responsive institutional microfinance market.

In June 2010 a notable achievement was made in the micro-finance sector with the promulgation of the new Credit Institutions Law (CIL). It is a landmark legislation that integrates microfinance as a sub-set of the financial system and establishes an enabling legal and regulatory framework for the development of a robust and responsive microfinance sector. Among others, the new CIL provides: (i) the inclusion of MFIs as regulated credit institutions (CIs), (ii) a definition of the ownership and governance structures of MFIs and PCFs; (iii) the right of CIs to fix and/or negotiate with clients the interest rates on loans, deposits and service fees; (iv) the right of CIs to provide e-banking products and services; (v) customer protection through deposit insurance, prohibition on illegal actions, transparency on loan and deposit interest rates, customer rights and responsibilities, and daily transaction limits; (vi) the right of MFIs and PCFs to be agents of insurance companies; (vii) for policy banks to develop and issue internal procedures, and adopt operational reports stipulated by SBV; (viii) the right for PCFs to accept deposits and lend to non-members; and (ix) to require micro credit information to be submitted to the Credit Information Center (CIC).

In order to guide the implementation of the CIL, the government through SBV has prepared draft implementing rules and regulations on the licensing requirement, prudential ratios, the credit classification, and provision standards for MFIs as well as the transformation of CCF into a cooperative bank. The government has also introduced an implementing regulation to allow an MFI to open up to 2 branches a year. The government has included the formulation of a legal framework for micro-insurance development. At the same time, in promoting gender equality, the government has endorsed the National Strategy on Gender Equality 2011–2020, which provides specific targets to promote female laborers access to finance. In order to monitor the progress of this initiative, we will issue rules and regulations to require licensed MFIs to report client data which is disaggregated by sex.

### **Strengthening the capacities of the microfinance sector regulators**

A central pillar of the MDP is a series of measures to strengthen institutional capacity and prudential regulations of the microfinance sector regulators. In order to strengthen the supervisory and regulatory capacity of SBV, we have developed and implemented various measures, which include among others, the completion of the proposed Manual of Supervision, ongoing training for microfinance supervision staff of the SBV, and the issuance of the internationally based prudential standards and regulatory norms for MFIs including the CAMEL rating system for the PCFs. The government will ensure the availability of an adequate pool of trained regulators to maintain effective surveillance of licensed CIs and continue to improve public confidence in the sector.



### **Strengthening the financial institutions involved in microfinance**

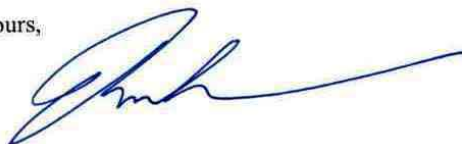
The government recognizes the importance of developing strong financial institutions necessary for microfinance sector growth. We have therefore embarked on various initiatives to strengthen the capacity of all licensed microfinance institutions and promote sound competition in the microfinance industry. We plan to implement measures to gradually reform the Viet Nam Bank for Social Policies (VBSP) into a market-oriented, self-sustaining financial institution that will provide a range of services including microfinance to low income clients. The Draft Paper for the Development of VBSP towards 2020 has been submitted for approval by government. In order to deepen financial inclusion through an effective financial cooperative system, the government has commenced to formulate the regulations necessary for the transformation of the CCF to a cooperative bank. The CCF, once transformed to a cooperative bank, will act as an apex institution for the PCF network to better serve member clients based on international best cooperative practices. Finally, the government has taken the initiative to establish a microfinance center at the Banking Academy as a formal microfinance training institute that will cater to educating the general public and staff of microfinance providers nationwide. The activities to reform VBSP and transform CCF plus the establishment of a microfinance center, noted below, will be financed from the Budget as well as internal resources of the implementing agencies.

### **Development of the infrastructure for the microfinance sector**

Finding adequately trained and skilled people to meet the needs of a growing microfinance industry continues to be an ongoing challenge. Not only does growth put pressure on the delivery side of the business but also on the customer side. The government will cause the Banking Academy to establish a microfinance center to provide on-going training, research, consultancy and other services required for a growing microfinance sector. Moreover, the government will cause VBSP and CCF to formulate and implement advocacy and financial literacy programs to disseminate the key features of the sustainable microfinance and customer protection to microfinance clients, management and staff of VBSP, CCF and PCFs, through the Vietnam Association of People's Credit Funds, credit and savings groups, concerned government agencies, and mass organizations. To further build confidence in the sector, the government will develop an IT based and cost effective credit information system within the CIC for the exchange of credit information by licensed microfinance institutions. This is part of the government's efforts to promote sound credit assessment and risk management within the microfinance sector.

The government of Viet Nam remains firmly committed to the development agenda outlined above and to continue with reform efforts already instituted. We would appreciate your favorable consideration of the proposed cluster program as well as its Subprogram I and technical assistance grant and we look forward to working together with the ADB on succeeding subprogram as targeted milestones are achieved. The attached matrix provides the details of the envisaged action plan. ✓

Sincerely Yours,



Nguyen Văn Bình  
Governor  
State Bank of Vietnam

## POLICY MATRIX

Objectives	Actions/Results Achieved April 2008–June 2012	Indicative Milestones and Triggers (in bold) July 2012–September 2014	Medium-Term Direction
<b>A. Creating a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector.</b>			
<b>Formulate a policy framework for the development of a vibrant and robust microfinance sector.</b>	(1-1) The government through the Prime Minister has approved the National Microfinance Development Strategy and Roadmap.	<b>(2-1) The government has started to implement the National Microfinance Development Strategy and Roadmap.</b>	Continued implementation of the National Microfinance Development Strategy and Roadmap.
<b>Issue rules and regulations to support the growth and sustainability of the microfinance sector.</b>	(1-2) The government has included provisions in the Credit Institutions Law (CIL) 2010, which recognizes microfinance institutions (MFIs) as a credit institution (CI) under the State Bank of Vietnam (SBV); defines the ownership and governance structure of MFIs and PCFs (People's Credit Funds); <sup>1</sup> and allows CIs to fix and/or negotiate loan and deposit interest rates.	<b>(2-2) The government will have issued the relevant implementing rules and regulations (IRRs) of CIL 2010 on the ownership and governance structure of MFIs and PCFs; and on the mechanisms for CIs to fix and/or negotiate loan and deposit interest rates.</b>	Review and improvements of IRRs to level the field for various types of microfinance operating CIs.
<b>Promote a sound microfinance operations through licensing, and setting up prudential regulations and performance standards</b>	(1-3) The government through SBV has issued IRRs on the licensing requirements, prudential ratios, the credit classification, and provision standards for MFIs.	<b>(2-3) The government through SBV will have issued the necessary IRRs on the licensing requirements and prudential norms for MFIs in line with the CIL 2010 and ensure their implementation.</b>	A transition measures formulated for unlicensed MFIs either to be licensed, or operate in a limited scope.

<sup>1</sup> This amended Decrees 28 and 165, which were considered restrictive.

<b>Objectives</b>	<b>Actions/Results Achieved April 2008–June 2012</b>	<b>Indicative Milestones and Triggers (in bold) July 2012–September 2014</b>	<b>Medium-Term Direction</b>
<b>Encourage the expansion of microfinance outreach, especially to the rural areas by providing appropriate fiscal, regulatory and other incentives.</b>	(1-4) The government through SBV has prescribed the necessary IRRs on MFI branching.  (1-5) The government has issued a decree allowing a reduced enterprise income tax of 20% instead of 25% applicable to MFIs.	(2-4) The government will have conducted a study on the options for fiscal incentives and regulatory requirements to promote the microfinance sector.	Adequacy and relevance of incentives reviewed and modified as necessary.
<b>Promote pro-poor innovations in delivering microfinance services to reduce costs and expand outreach.</b>	(1-6) The government has included a provision in the CIL 2010 to allow CIs to provide e-banking products and services.	(2-5) The government will have issued the IRRs to promote pro-poor innovations on electronic banking products and services. <sup>2</sup>	Review and improvement of the IRRs to capture technology development and improve delivery of microfinance services.
<b>Ensure customer protection.</b>	(1-7) The government has included a provision in the CIL 2010 on customer protection through deposit insurance, prohibition on illegal actions, transparency on loan and deposit interest rates, customer rights and responsibilities, and daily transaction limits.	(2-6) The government will have issued and implemented the IRR on Customer Protection consistent with the CIL 2010 to protect loan and deposit customers.	Review of the IRRs to ensure an effective consumer protection.
<b>Ensure the delivery of gender equitable and socially-oriented microfinance services</b>	(1-8) The government has endorsed a National Strategy on Gender Equality 2011–2020, which provides specific targets to promote female laborers' access to finance.	(2- 7) The government through SBV will have issued IRRs to require licensed MFIs to report client data, which will be disaggregated by sex.	Review of the compliance, and the effectiveness and efficiency of the IRRs requirements.

<sup>2</sup> Electronic banking (e-banking) generally refers to the provision of banking products and services through electronic channels such as the personal computer, landline and mobile phone connections, or through Automated Teller Machines (ATMs).

Objectives	Actions/Results Achieved April 2008–June 2012	Indicative Milestones and Triggers (in bold) July 2012–September 2014	Medium-Term Direction
<b>Promote risk protection for the poor.</b>	<p>(1-9) The government has included provisions under CIL 2010 to allow MFIs and PCFs to be agents of insurance companies.</p> <p>(1-10) The government has approved the National Microfinance Development Strategy and Roadmap to develop insurance for the low-income market.</p>	(2-8) The government through the Ministry of Finance (MOF) will have issued IRRs to develop insurance services suitable and responsive to the low-income sector.	Review and improvements of the CIL IRRs and the Insurance Law to support the development of microinsurance, including an option of allowing MFIs and PCFs to set up mutual assistance insurances (MAIs). <sup>3</sup>
<b>B. Strengthening the supervisory and regulatory capacities of the microfinance sector regulators</b>			
<b>SBV and MOF effectively supervise and regulate MFIs, PCFs, and VBSP.</b>	<p>(1-11) The government through SBV has prepared a draft Manual of Supervision for MFIs.<sup>4</sup></p> <p>(1-12) The government has promulgated a law to require VBSP to comply with the SBV reporting and internal control requirements as prescribed by SBV.</p> <p>(1-13) The government through SBV has completed the training to strengthen the capacity of SBV regulators.</p>	<p><b>(2-9) The government through SBV will have approved and implemented the Manual of Supervision for MFIs.</b></p> <p><b>(2-10) The government will have provided training to the staff of VBSP oversight agencies including MOF on the supervision of VBSP based on the best prudential practices.</b></p> <p>(2-11) The government through SBV will have ensured the availability of adequate pool of regulators capable to effectively supervise CIs engaged in microfinance services.</p>	Assessment of the capacities of microfinance supervision/regulation, and formulation and conduct of necessary training.

<sup>3</sup> MAI is a legal entity established to conduct insurance business on a mutual assistance basis, with policy holders being the members and owners of a MAI.

<sup>4</sup> Prepared by ADB TA 4638-VIE: Implementing the Regulatory and Supervisory Framework for Microfinance.



Objectives	Actions/Results Achieved April 2008–June 2012	Indicative Milestones and Triggers (in bold) July 2012–September 2014	Medium-Term Direction
<b>C. Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor</b>			
<b>Strengthen and initiate reforms for VBSP to be a market-oriented, self-sustaining financial institution providing financial services including microfinance.</b>	(1-14) The government has initiated actions to reform and restructure VBSP to achieve sustainable market-oriented operations.	<p><b>(2-12) The government through the Prime Minister will have approved the Development Strategy for VBSP towards 2020.</b></p> <p>(2-13) The government through the Ministry of Finance will have provided fiscal support to VBSP and its credit and savings groups to strengthen their institutions towards self-sustaining and market-oriented operations.</p>	<p>Review of the government role in micro-credit delivery.</p> <p>VBSP and its credit and savings groups conducting self-sustaining and market-oriented operations.</p>
<b>Strengthen the PCF network and expand its scope and geographic coverage, as well as transform its apex institution, Central People's Credit Fund (CCF) into a cooperative bank.</b>	(1-15) The government through SBV has prepared a draft IRR to transform CCF to a cooperative bank.	<p>(2-14) The government will have continued the development of the PCFs and will have commenced the transformation of CCF into a cooperative bank.</p> <p><b>(2-15) The government through SBV will have issued and implemented IRRs to ensure that the ownership, governance structures and operations of PCFs will be in accordance with the generally accepted cooperative principles and practices.</b></p> <p>(2-16) CCF will have strengthened its capital base through various mechanisms including the increase</p>	An expansion of PCFs operations and the conversion of CCF into a cooperative bank.

Objectives	Actions/Results Achieved April 2008–June 2012	Indicative Milestones and Triggers (in bold) July 2012–September 2014	Medium-Term Direction
		<p>of PCF contribution to CCF.</p> <p>(2-17) The government through the Ministry of Finance will have provided fiscal support to CCF and the CCF/PCFs network to strengthen their capacity in expanding member-based operations.</p>	
<b>D. Supporting the development of the infrastructure for the microfinance sector</b>			
<b>Enhance the capacity of existing microfinance support service providers to provide relevant, adequate, and responsive training and other services to improve the viability and sustainability of the microfinance providers.</b>		<p><b>(2-18) The government through SBV will have established a microfinance center within the Banking Academy to provide training, research, consultancy and other services related to the microfinance sector.</b></p> <p>(2-19) The government through the Ministry of Finance will have provided fiscal support to the establishment of a microfinance center within the Banking Academy.</p>	The Banking Academy providing sustainable programs to meet the capacity building needs of CIs engaged in microfinance services and other stakeholders including local microfinance training institutes.
<b>Raise awareness on sustainable market-oriented microfinance among microfinance stakeholders.</b>		(2-20) The government through the Ministry of Finance will have provided fiscal support to VBSP and CCF for implementing the advocacy and financial literacy on sustainable microfinance and customer protection to their clients, management and staff, credit and	Formulation and implementation of a nationwide financial literacy program on microfinance.

Objectives	Actions/Results Achieved April 2008–June 2012	Indicative Milestones and Triggers (in bold) July 2012–September 2014	Medium-Term Direction
		savings groups, concerned government agencies, and mass organizations.	
<b>Provide a cost-effective credit information exchange system for the microfinance sector</b>	(1-16) The government has included a provision under the CIL 2010 to require micro credit information to be submitted to the Credit Information Center (CIC).	<b>(2-21) The government will have developed an IT based and cost effective localized credit information exchange system for microfinance at CIC.</b>	Operation of the credit information exchange system actively used by CIs engaged in microfinance.

CCF = Central People's Credit Fund, CI = credit institution, CIC = Credit Information Center, CIL = Credit Institutions Law, IRRs = Implementing Rules and Regulations, MAIs = mutual assistance insurances, MFIs = Microfinance Institutions, MOF = Ministry of Finance, PCFs = People's Credit Funds, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.