



Report and Recommendation of the President to the Board of Directors

Project Number: 42235-023
November 2014

Proposed Policy-Based Loan for Subprogram 2 Socialist Republic of Viet Nam: Microfinance Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 November 2014)

Currency unit	–	dong (D)
D1.00	=	\$0.000046
\$1.00	=	D21,295

ABBREVIATIONS

ADB	–	Asian Development Bank
BSA	–	Banking Supervision Agency
CCF	–	Central People's Credit Fund
CIC	–	Credit Information Center
CIL	–	Credit Institutions Law
IRRs	–	implementing rules and regulations
MFI	–	microfinance institution
MOF	–	Ministry of Finance
PCF	–	people's credit fund
SBV	–	State Bank of Vietnam
TA	–	technical assistance
VBSP	–	Vietnam Bank for Social Policies

NOTE

In this report, "\$" refers to US dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 42235-023	
Project Name	Microfinance Development Program Subprogram 2	Department /Division	SERD/SEPF
Country Borrower	Viet Nam, Socialist Republic of Viet Nam	Executing Agency	State Bank of Vietnam
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		50.00
		Total	50.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Institutional systems and political economy		
Partnerships (PAR)	Application and use of new knowledge solutions in key operational areas		
	Commercial cofinancing		
	Private Sector		
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	High
		Urban	Low
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign Program loan: Asian Development Fund		50.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		50.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Socialist Republic of Viet Nam for subprogram 2 of the Microfinance Development Program.¹

2. The programmatic approach comprises two subprograms sequenced to support the government in developing a sustainable market-oriented microfinance² in line with the Vietnam Microfinance Development Strategy, 2011–2020.³ It focuses on (i) creating a supportive policy and regulatory environment, (ii) enhancing supervisory and regulatory capacities, (iii) strengthening financial institutions involved in microfinance, and (iv) developing financial infrastructure. The proposed policy-based loan will support subprogram 2. The Viet Nam country partnership strategy 2012–2015 of the Asian Development Bank (ADB) highlights microfinance as a key area for ADB assistance.⁴

II. THE PROGRAM

A. Rationale

3. **Extensive outreach in microcredit delivery needing sustainability.** ADB's special evaluation study on the Microfinance Development Strategy 2000⁵ found that, as of 2010, Viet Nam attained a much higher penetration rate of 75% of microcredit delivery relative to other Asian countries. The Vietnam Bank for Social Policies (VBSP)⁶ has remarkable microcredit outreach to 98% of 11,000 communes with almost 7 million borrowers, of which 50% are categorized as poor. VBSP has a dominant share of 67% of total microfinance borrowers and 65% of outstanding microfinance loans in 2010. However, the extensive outreach achieved through the current state-driven approach cannot be sustained into the future.

4. **Achievement with an adverse impact.** The notably high outreach of microcredit delivery has, however, resulted in adverse impacts: (i) increased fiscal burden through financing operations and interest rate subsidies, and budget allocation to lending resources, making the system unsustainable; and (ii) unequal treatment with the state-driven approach discouraging the entry and expansion of market-based financial institutions. With persistent budget deficit recorded since 2009, the sustainability of VBSP became at risk.

5. **Sector reform with policy change.** Against this background, in 2010, the government refocused microfinance as a formal banking service from a social protection tool. This policy change was a timely response to the rising demands of low-income household and

¹ The design and monitoring framework is in Appendix 1.

² ADB's microfinance development strategy defines microfinance as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises" (ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*, Manila).

³ Vietnam Microfinance Development Strategy, 2011–2020 (accessible from the list of linked documents in Appendix 2).

⁴ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila, (para. 29).

⁵ Independent Evaluation Department. 2012. *Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare*. Manila: ADB.

⁶ VBSP is a government-owned policy bank operating social policy lending programs.

microenterprise clients needing diverse financial services suitable to them.⁷ The new direction called for sector-wide reform to transform state-led credit delivery to a wider variety of market-driven financial services including savings, credit, remittances and insurance.

6. **Formulation of the national microfinance development strategy.** In December 2011, the Prime Minister announced the Vietnam Microfinance Development Strategy, 2011–2020 formulated with ADB assistance.⁸ The national strategy provides a road map to developing a market-oriented system, relying more on self-sustaining financial institutions in providing market-based financial services, while the government provides an enabling environment through regulations and supervision, capacity development, and financial infrastructure supportive to microfinance transactions. The Microfinance Working Committee⁹ guides implementation of the national strategy and provides policy advice and coordination to the work plan. Further, the implementation of the national strategy requires a comprehensive program which ADB agreed to support.

7. **ADB assistance.** On 5 July 2012, ADB approved the programmatic approach for the Microfinance Development Program and a \$40 million policy-based loan for subprogram 1 and \$0.5 million attached technical assistance (TA).¹⁰ It was the first full-scale ADB assistance after over a decade of TA projects in nurturing formal microfinance institutions (MFIs).¹¹ The program supports government initiatives to develop a vibrant microfinance sector and improve access to formal financial services for the poor, especially in rural areas. It aims to promote fair competition among diverse financial institutions, and support a market orientation in microfinance, thereby gradually reducing the government's direct involvement in microfinance operations. Lessons from the past ADB assistance and other development partners identified the following four major requirements still lacking in Viet Nam:

- (i) **Supportive policy and regulatory environment.** The development of inclusive and sustainable microfinance requires a supportive policy and regulatory environment. This includes key development policy and banking legislation to promote microfinance;
- (ii) **Enhanced supervisory capacity for effective supervision and regulation over microfinance.** To promote quality financial services, supervisory capacity needs to be enhanced. This can be achieved through training on supervisory skills and procedures, securing a pool of microfinance supervisors;
- (iii) **Strengthened financial institutions involved in microfinance.** A vibrant microfinance sector can be developed by strengthening three different types of financial institutions involved in microfinance; VBSP seeking self-sustaining

⁷ In Viet Nam, the microenterprise is defined as “a business entity with less than 10 employees” by Government Decree No. 56/2009/ND-CP of 30 June 2009 on assistance for development of small and medium-sized enterprises.

⁸ ADB. 2010. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Microfinance Sector Development Program*. Manila (TA7499-VIE).

⁹ Microfinance Working Committee was established in March 2014, by virtue of the Prime Minister Decision 381/QĐ-TTg. The committee comprises SBV governor as the chair; SBV vice governor as the vice chair, high-level representatives from the concerned agencies as well as Vietnam Women's Union, Vietnam Farmers Association, Vietnam Bank for Agriculture and Rural Development, Vietnam Bank for Social Policies, and the Cooperative Bank.

¹⁰ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Administration of Technical Assistance Grant for Socialist Republic of Viet Nam: Microfinance Development Program*. Manila.

¹¹ In Viet Nam, the microfinance institution is defined as “a credit institution engaged in banking activities with the aim of serving low-income individuals, households and microenterprises” by Credit Institutions Law 2010, Article 4. 5.

operations, people's credit funds (PCFs) supported by an effective apex institution, and MFIs strengthening their operational capacity.

- (iv) **Financial infrastructure supportive to microfinance.** Sound microfinance development requires supportive financial infrastructure including training institutes to enhance overall sector capacity, a microcredit information exchange system to secure loan portfolio quality, and financial literacy programs aiming to enhance knowledge in microfinance and protect clients.

8. Following the achievements in subprogram 1, subprogram 2 has continued to support the government in implementing comprehensive microfinance sector reform by focusing on these four broad areas (para. 7), aiming to achieve self-sustaining operations and improved financial services, leading to greater financial inclusion, and a deepened finance sector.

B. Impact and Outcome

9. The impact will be greater financial inclusion and deepened finance sector. The outcome will be increased access of low-income clients to diverse, sustainable, and affordable microfinance services.

C. Outputs

10. All policy actions including 9 triggers and 12 milestones have been complied with (Appendix 4). There were minor modifications to five policy actions. Policy actions 2-2, 2-3 and 2-15 were revised from the issuance of implementing rules and regulations (IRRs) to the formulation of IRRs. The IRRs, in the form of State Bank of Vietnam (SBV) circulars, are expected to be issued in early 2015 after a careful approval process of the government which included impact studies. Policy action 2-4 was revised to reflect the overachievement of the action.¹² Policy action 2-9 was revised to more precisely reflect the government action, to the issuance of IRRs on MFI supervision, from original action of approval and implementation of the Manual of Supervision for MFIs. This is because an MFI is supervised as a credit institution under the prudential norms applicable to the banking sector, requiring microfinance specific IRRs but not a separate supervision manual. Subprogram 2, through implementation of its policy actions, has delivered the following outputs.

11. **Output 1: A policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector.** Following the formulation of a development strategy for microfinance under subprogram 1, subprogram 2 helped the government implement the strategy and formulate detailed regulations. Detailed regulations on MFI licensing and sound operations are needed to support the increasing number of semiformal MFIs becoming formal financial institutions under SBV prudential norms. Formalization will help these MFIs achieve the full potential to provide a variety of formal financial services while complying with prudential requirements. Following the promulgation of the Credit Institutions Law, 2010 and the formulation of the Vietnam Microfinance Development Strategy, 2011–2020 under subprogram 1, the Banking Supervision Agency (BSA) of SBV formulated rules and regulations on sound microfinance operations, governance structure, and

¹² The original policy action called for the conduct of a study on options for fiscal and regulatory incentives to promote the microfinance sector. Following the study, the government introduced incentives for MFIs in the form of lower corporate income tax. Flexible interest rates were also allowed for microfinance services. These fiscal and regulatory incentives promote the sustainability of microfinance operations.

consumer protection. An SBV circular on PCF licensing, organization structure and operations was formulated to guide PCFs in the conduct of sustainable microfinance operations for their clients under subprogram 2. SBV circulars on MFI licensing, ownership, and governance, and on MFI prudential requirements were formulated as well to promote sustainable growth of MFIs.

12. The government also responded to the growing demand for insurance services suitable and accessible to the low-income segment with a two-step approach to setting up the regulatory framework. While the Insurance Supervisory Agency at the Ministry of Finance (MOF) is formulating the microinsurance regulations for issuance and implementation in 2015, it has issued a set of regulations guiding the sound operation of approved microinsurance pilot projects. This interim regulation meets the growing demand for microinsurance with a semi-formal status, while ensuring its reliability until the final regulatory framework is formulated. The policy and advisory TA attached to the subprogram 1 loan has provided policy advice and supported the formulation of the microinsurance regulations (footnote 10).

13. **Output 2: Strengthened supervisory and regulatory capacities of the microfinance sector regulators.** The supervisory capacity of SBV and MOF over microfinance needs to be strengthened through training to supervisors based on newly issued microfinance rules and regulations. Subprogram 1 initiatives helped the inclusion of microfinance as a formal banking service under the SBV's supervision. Under subprogram 2, an associated capacity development TA has been providing supervisory training sessions, and supporting regulatory agencies to deploy an adequate number of qualified and experienced supervisors in charge of microfinance operations.¹³ The ADB TA has been coordinated with the Agence Française de Développement and the World Bank in strengthening BSA's supervision over the PCF system and MFIs in conducting microfinance operations. Further, subprogram 2 complements the assistance provided by the Government of Canada to enhance BSA's regulation over the banking sector as a whole. ADB has been working closely with the International Finance Corporation in conducting a diagnostic study on responsible finance in Viet Nam. Results of the study will enable the ADB TA further develop microfinance training modules.¹⁴

14. Since MFIs and PCFs are allowed to mobilize deposits, prudential regulations based on international banking supervisory standards are applied to ensure the stability of these financial institutions and protect their depositors. At the same time, considering the unique characteristics of microfinance,¹⁵ supervisory practices and procedures have been adapted to maintain a minimal cost to the supervised financial institutions, as cost affects the efficiency of a microfinance operation given its labor-intensive business model dealing with many small accounts. Subprogram 2, with the policy and advisory TA inputs, has encouraged both microfinance supervisors and operators to rely on the globally accepted loan monitoring system in generating reports to comply with supervisory requirements based on a risk-based approach.¹⁶ The recommended loan monitoring practice has been included in training provided by the capacity development TA, helping strengthen microfinance supervision and operation.

¹³ ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam for Strengthening Microfinance Sector Operation and Supervision*. Manila (TA 8391-VIE).

¹⁴ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁵ Microfinance lending is provided in a smaller amount than traditional lending, not secured by a traditional collateral such as land, land use right and chattels, but by the borrower's future cash flow.

¹⁶ For supervisors, loan monitoring for microfinance should be a risk-based approach focusing on financial institutions' risk management capacity and procedures, given a huge number of small accounts involved in microfinance. Peculiar features of microfinance should be well understood by supervisors to examine how effectively a monitoring system works. Microfinance operators should demonstrate their monitoring procedures, organizational structure, appropriate skills mix, and other related capacities needed by adequacy requirements.

15. **Output 3: Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor.** Following reforms initiated by subprogram 1, subprogram 2 has strengthened three major types of financial institutions providing microfinance in Viet Nam: VBSP, PCFs and MFIs.

16. **Vietnam Bank for Social Policies.** Despite its leading status in microcredit delivery, VBSP's over dependence on government resources and its focus on social policy lending have resulted in the following adverse impacts:

- (i) growing fiscal burden caused by the public financing of VBSP operations, posing a serious threat to the sustainability of future VBSP operations;
- (ii) traditional focus on credit delivery not meeting client needs for other financial services such as savings, which could have supported VBSP's lending operations and enhanced self-sustainability; and
- (iii) unequal treatment due to government subsidies to VBSP, which can discourage the entry of other market-based microfinance operators and hamper a sound competition.

17. Following policy dialogue on VBSP reform under subprogram 1, subprogram 2 called for and confirmed two key policy actions: (i) the Prime Minister's approval of the development strategy of VBSP to 2020 aiming to transform VBSP to a more self-sustaining financial institution, and (ii) strengthening of the capacity of VBSP and its savings and credit groups for market-based operations through training and advocacy along with ADB's capacity development TA. The average interest rate of VBSP's lending has come closer to the market rate, accounting for about 80% of the market rate, improved from about 40% since 2012. The program's medium-term direction requires close monitoring of the review process on the government's role in micro-credit delivery; and the shift of VBSP operations to self-sustenance with further market orientation through increased deposit mobilization, enhanced information technology solutions, and financial product development.

18. **People's credit fund system.** A key thrust in strengthening the PCF system is to establish an apex institution supportive to financing and capacity development needs of member PCFs and small community-based financial institutions. The traditional role of the Central People's Credit Fund (CCF) has been enhanced with clear mandates and greater authority granted to its successor – Cooperative Bank under subprogram 2. Cooperative Bank is vested with the deputized authority to supervise PCFs and the mandate to help PCFs strengthen their operational capacity and financial positions. The government's capital injection to Cooperative Bank assisted in developing the PCF system during the subprogram 2 period.

19. **Emerging microfinance institutions.** Subprogram 1 supported formalization of two MFIs licensed by SBV under the old licensing requirements. New regulations were formulated under subprogram 2 to facilitate formalization of an increasing number of MFIs. The impacts of formalization includes: (i) diversification of funding source including deposits from the public and donor funding; (ii) enhanced operating capacity with qualified staff motivated by the formalized status; (iii) a wider variety of savings products offered to clients; and (iv) an extended outreach to clients. As of December 2013, clients of licensed and unlicensed MFIs accounted for only 7% of all microfinance clients. However, MFI operations have been growing rapidly with

government support and ADB assistance.¹⁷ During 2010-2012, five major MFIs under ADB's earlier assistance¹⁸ increased their client number by 92%, credit provision by 180%, and savings mobilized by 364%. Other MFIs participating in the ADB project also increased their outreach to clients by 20% on average during the same period. The proven growth potential of private sector-led MFIs should be further promoted by facilitating formalization under SBV prudential norms. The number of newly licensed MFIs is expected to grow in the future under the development framework formulated by subprogram 2.

20. Table 1 provides an overview of microfinance lending by financial institutions in 2010 and 2013. All three types of financial institutions covered by the program (i.e., VBSP, PCFs, and MFIs) achieved steady growth in their loan portfolios, taking a share of the microfinance operations of the Vietnam Bank for Agriculture and Rural Development, a state-owned commercial bank.

Table 1: Microfinance Lending^a by Financial Institutions

Institution	Number of Borrowers (million)		Loans Outstanding (\$ million)		Average Loan Size (\$)	
	2010	2013	2010	2013	2010	2013
Vietnam Bank for Social Policies	7.8 ^b	7.0	4,398	5,350	564	764
Vietnam Bank for Agriculture and Rural Development	3.2	1.5	3,500	1,390	1,094	927
People's credit funds	1.0	1.1	1,006	1,294	1,006	1,176
Microfinance institutions ^c	0.6	0.8	122	189	203	236

^a Based on the State Bank of Vietnam definition of a microfinance lending with the amount up to D30 million (\$1,423).

^b In 2010, Vietnam Bank for Social Policies (VBSP) recorded a borrower as an individual. In 2012, VBSP started to record a borrower by a household, which includes several VBSP borrowers. This ongoing change resulted in the number of VBSP borrowers decreasing.

^c Microfinance institutions include formal (licensed) and semi-formal (unlicensed) institutions involved in microfinance services.

Sources: Vietnam Bank for Social Policies, Vietnam Bank for Agriculture and Rural Development, Central People's Credit Fund, and Viet Nam Microfinance Sector Assessment and its updates prepared by ADB. 2010, 2011, 2012, 2013, 2014. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Microfinance Sector Development Program*. Manila (TA 7499-VIE).

21. **Output 4: Infrastructure for the microfinance sector developed.** With inputs from associated TA projects (footnotes 10 and 12), subprogram 2 helped develop financial infrastructure supportive to microfinance.

22. Subprogram 2 has supported three initiatives to develop financial infrastructure, including (i) establishment of the Microfinance Center to provide capacity development services to microfinance practitioners nationwide; (ii) the development of a microcredit information exchange system, following the enactment of the Credit Institutions Law, 2010 under subprogram 1; and (iii) formulation and implementation of financial literacy programs aiming to enhance the awareness of clients and operators on microfinance best practices, and promote client protection.

¹⁷ It was through ADB. 2001. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Framework for Microfinance Development*. Manila (TA3741-VIE), ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Improving the Regulatory and Supervisory Framework for Microfinance*. Manila (TA4638-VIE), and 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).

¹⁸ 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).

23. **Microfinance Center.** Under subprogram 2, the Microfinance Center was set up within the Banking Academy¹⁹ through an SBV Decision.²⁰ A budget allocation was also made for its operation in 2013 and 2014. It is a leading training institute for the microfinance industry, collaborating with other training institutes such as training units of VBSP, Cooperative Bank, the Vietnam Microfinance Working Group, as well as large MFIs. In cooperation with these partners, the Microfinance Center has responded, on a fee basis, to needs for capacity development through training, research, and training needs assessment. ADB's capacity development TA has been collaborating with the Microfinance Center in strengthening capacity for operation and supervision in the microfinance sector, and supporting knowledge sharing on microfinance. In the medium term, the Microfinance Center is expected to play a hub role in enhancing the overall capacity of microfinance stakeholders ranging from policy makers to practitioners in conducting best practices in microfinance.

24. **Microcredit information exchange system.** SBV issued Circular No. 03/2013/TT-NHNN on 28 January 2013 mandating all credit institutions to report all credit information to the Credit Information Center (CIC) in SBV. Prior to the circular, only loans of D50 million and above were required for reporting, thus microcredit information was not covered by the CIC system. Subprogram 2 and the policy and advisory TA attached to the subprogram 1 loan (footnote 10) helped CIC set up a microcredit information exchange system. The new system accesses all formal financial institutions operating microfinance which, in turn, upload and access credit information at the CIC system in an effective and cost-efficient manner, helping ensure the quality of the loan portfolio through proper client selection and credit management.

25. **Formulation and implementation of financial literacy programs.** The government has allocated budget to VBSP and CCF in formulating and implementing advocacy and financial literacy programs on sustainable microfinance and customer protection to their clients, management and staff, credit and savings groups, and government agencies concerned. ADB's capacity development TA will complement the implementation. The programs help promote better understanding of stakeholders on the importance of sustainable microfinance, relevant rules and regulations, and client-protection practices including pricing transparency and grievance procedures. It empowers clients to make informed choices for useful access to microfinance services and protects them from inappropriate transactions. The financial literacy programs under subprogram 2 should be further developed to a nationwide program in the medium term, helping establish a unified vision and common understanding on the basic principles and good practices in a robust and responsive microfinance sector.

D. Development Financing Needs

26. 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 amount of SDR33,723,000, covers July 2012–September 2014.

27. The government has requested a loan in various currencies equivalent to SDR33,723,000 from ADB's Special Funds resources to help finance subprogram 2. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter; and such other terms and conditions set forth in the draft

¹⁹ The Banking Academy is a national university under the auspices of the Ministry of Education and the State Bank of Vietnam providing professional training and research in the fields of economics, finance, and banking.

²⁰ SBV Decision No. 278/QD-HV-TCCB of 27 December 2012.

loan agreement. The proceeds of the policy-based loan will be disbursed upon loan effectiveness in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*.²¹ 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 costs relating to the implementation of reforms under the program.

28. The programmatic approach has supported reforms outlined in the development policy letter (Appendix 3) and policy matrix (Appendix 4). The loan amount is determined by the significance of the microfinance sector to the overall economy, the expected development impact of the policy package, and the development financing needs of the government, including costs for (i) developing the formal MFI sector to improve services to clients; (ii) helping VBSP to increase its self-sustainability along with its development strategy; (iii) supporting the transformation of CCF to Cooperative Bank and improving the PCF's capacity to better serve their clients; and (iv) helping the Banking Academy establish the Microfinance Center to provide capacity development services to the microfinance sector.

E. Implementation Arrangements

29. The implementation arrangements are summarized in Table 2. SBV, as the executing agency, established a steering committee to provide overall policy direction and coordination for program implementation. The steering committee is chaired by the SBV deputy governor, with high officials representing stakeholders including MOF, VBSP, Cooperative Bank, CIC, and the Banking Academy as members. SBV also established a program management unit to provide technical support to the steering committee. The unit oversees loan implementation, confirms policy actions taken, coordinates associated TA activities among implementing agencies, undertakes program administration, and communicates with ADB on behalf of the government. The implementing agencies will be SBV, MOF, VBSP, Cooperative Bank, CIC, and the Banking Academy, each of which is responsible for compliance with policy actions tasked for, program reporting, and discussing implementing issues with SBV.

Table 2: Implementation Arrangements

Aspects	Arrangements
Implementation period	July 2012–September 2014
Estimated completion date	June 2015
Management	
(i) Oversight body	Steering committee chaired by the SBV deputy governor, with agencies and stakeholders representing the Ministry of Finance, VBSP, Cooperative Bank, CIC, and the Banking Academy.
(ii) Executing agency	SBV
(iii) Implementing agencies	MOF, VBSP, Cooperative Bank, CIC, and the Banking Academy
Disbursement	The \$50 million loan will be disbursed in a single tranche.

CIC = Credit Information Center, MOF= Ministry of Finance, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

²¹ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

30. An assessment of the benefits and costs of the policy reforms under subprogram 2 will provide an estimate of net benefits accounting for nearly \$250 million, equivalent to 0.15% of gross domestic product. Benefits are brought by economic growth from allocative efficiency resulting from an enabling policy and regulatory environment for sustainable market-oriented microfinance, improvement in savings mobilization, increased sustainability of VBSP, lower fiscal burden from the reduction of direct subsidies, strengthened PCF network, and formalization of MFIs. Estimated gross benefits account for some \$450 million. Costs, estimated at around \$200 million, comprise (i) administrative costs incurred by legislative and/or regulatory initiatives, and policy and strategy formulation and implementation; (ii) enforcement costs incurred by SBV supervision and examination over Cooperative Bank, PCFs, VBSP, and MFIs; MOF supervision over VBSP; and microinsurance; and (iii) fiscal costs incurred by equity infusion into Cooperative Bank, budgetary allocation to the Microfinance Center, and reduced tax rate applied to MFIs.²²

B. Governance

31. The government's public management reforms include the enactment of the Anti-Corruption Law, 2005 establishing a legal framework to protect and reward whistle-blowers. The Budget Law, 2002 is under review to improve budget execution and monitoring by enhancing the implementation of the medium-term expenditure framework and performance-based budgeting. Aggregate public debt information has been disclosed through the implementation of the National External Debt and Public Debt Strategy, 2011–2020. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

C. Poverty and Social

32. The government's 5-year Socio-Economic Development Plan, 2011–2015 aims to achieve a sustainable economic development and reduce the poverty rate by 2% each year through various economic reforms, including reforms of commercial banks and financial institutions.²³ The program aims at an overall reform to develop microfinance as a formal banking service in response to the rising demands of microenterprise and low-income household clients in need for diverse financial services suitable and accessible to them in conducting their businesses and livelihood activities. The program encourages a sound competition among diverse types of microfinance providers in an improved enabling environment for operations, which will benefit their clients with easier access to lower cost and more flexible financial services. Moreover, the program supports strategic reform and development of VBSP to a self-sustaining microfinance operating financial institution, increasing fiscal space for social development purposes. Subprogram 2 is categorized as providing some gender benefits. The microcredit information exchange system developed will report sex-disaggregated client data, helping formulate initiatives to promote gender empowerment (para. 26).

D. Safeguards

33. Subprogram 2 is categorized C for environment, involuntary resettlement, and indigenous peoples.

²² Summary Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

²³ Poverty rate in 2013 is 10% according to Government Statistics Office estimate in 2014.

E. Risks and Mitigating Measures

34. Subprogram 2 assumes political and macroeconomic 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 risks described in Table 3. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan.²⁴

Table 3: Summary of Risks and Mitigating Measures

Risk	Mitigating Measures
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. 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 macroeconomic policy and the stability and development of the financial sector.
Political resistance and vested interest against the reform	The government has shown strong commitment to the reform agenda. Its commitment is also manifested in the scope of policy and regulatory reforms across the finance sector. The Microfinance Development Program reduces this risk by focusing policy actions on key reforms, which will have a high impact, with firm and wide support from the government and 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.

IV. 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 documents.

V. RECOMMENDATION

36. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR33,723,000 to the Socialist Republic of Viet Nam for subprogram 2 of the Microfinance Development Program, from ADB's Special Funds resources, with an interest rate of 2.0% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 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.

Takehiko Nakao
President

17 November 2014

²⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact 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 International Monetary Fund reports	Assumptions Macroeconomic and political stability is maintained. Economic growth remains positive in 2011–2014. Risks Effects of external shocks not addressed amicably and thus affects the overall economy.
Outcome Increased access of low-income clients to diverse, sustainable, and affordable microfinance services	Number of microfinance household borrowers to increase by 5% 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	Assumptions The government remains committed to microfinance development. Coordination among government agencies concerned is maintained for sector development. Risks Resistance persists against reform measures.
Outputs 1. A policy and regulatory environment conducive to the development of an inclusive and sustainable 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 (2010 baseline: 2 licensed MFIs, 0 cooperative banks) Regulatory requirements for the reporting of microfinance client data disaggregated by sex are in place	Official gazette Report from SBV SBV IRRs	Assumption 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
<p>2. Strengthened supervisory and regulatory capacities of the microfinance sector regulators</p> <p>3. Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor</p> <p>4. Infrastructure for the microfinance sector developed</p>	<p>At least 30% of regulators trained through the Microfinance Center by 2014, (disaggregated by sex)</p> <p>Strategy for reforming VBSP approved by the Prime Minister in 2012</p> <p>Operational self-sufficiency of VBSP improved to 90% (2010 baseline: 77%)</p> <p>Number of PCF member borrowers increased to 1.2 million in 2014 (2010 baseline: 1.0 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 information technology-based and cost-effective credit information exchange system for microfinance developed at CIC</p>	<p>Report from SBV, the Ministry of Finance, and the Microfinance Center</p> <p>Official Gazette</p> <p>VBSP project reports</p> <p>Cooperative Bank project reports</p> <p>Banking Academy project reports</p> <p>CIC project reports</p>	<p>Assumption The government is committed to reforms of CCF and VBSP.</p>

Activities and Milestones	Inputs
<ol style="list-style-type: none"> 1. A policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector <ol style="list-style-type: none"> 1.1 Provide fiscal and regulatory incentives for microfinance operating credit institutions 1.2 Formulate regulations to support the development of microinsurance 2. Strengthened supervisory and regulatory capacities of the microfinance sector regulators <ol style="list-style-type: none"> 2.1 Issue IRRs on MFI supervision 2.2 Provide training to the staff of VBSP oversight agencies including the Ministry of Finance on the supervision of VBSP based on the best prudential practices 3. Credit institutions involved in microfinance strengthened to provide affordable and sustainable services to the poor <ol style="list-style-type: none"> 3.1 Enhance VBSP's operational sustainability 3.2 Transform CCF into a cooperative bank and restructure the PCF network to a member-based financial cooperative system 4. Infrastructure for the microfinance sector developed <ol style="list-style-type: none"> 4.1 Develop the Banking Academy's training capacity on microfinance 4.2 Develop and train for a microfinance credit information exchange system to be used by reporting credit institutions and CIC 	<p>Loan: Subprogram 2 – Asian Development Fund \$50 million</p> <p>Technical Assistance: Policy and advisory TA – Japan Fund for Poverty Reduction: \$0.5 million, Government contributions: \$0.1 million Capacity Development TA – Technical Assistance Special Fund (TASF-V): \$1.0 million Government in-kind contributions: \$0.18 million Stakeholders' contributions to finance the participation to the TA training: \$0.02 million</p>

CCF = Central People's Credit Fund, CIC = Credit Information Center, GDP = gross domestic product, IRRs = implementing rules and regulations, MFI = microfinance institution, PCF = People's Credit Fund, SBV = State Bank of Vietnam, TA = technical assistance, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=42235-023-3>

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. Summary Program Impact Assessment
11. Vietnam Microfinance Development Strategy 2011–2020



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DEVELOPMENT POLICY LETTER

Hanoi, 19 September 2014

Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Viet Nam: Microfinance Development Program (Subprogram 2)

Dear Mr. President,

On behalf of the Government of Viet Nam, I would like to thank you for the continuous support of the Asian Development Bank (ADB) to our overall poverty reduction efforts. Viet Nam has significantly reduced its poverty incidence from 58% in 1993 to 10% in 2013. This is largely attributed to the successful implementation of the Government's National Poverty Reduction Program which focused on modernizing agriculture and value-added agro-processing, promoting non-farm household businesses and increasing employment opportunities through geographically dispersed industrialization and the promotion of small and medium enterprises.

However, there were still 2.1 million poor households (9.6%) and 1.5 million near poor households that are vulnerable (6.6%) to external shocks according to a Ministry of Labour, Invalids and Social Affairs report in 2012. Poverty Incidence is disproportionately higher in the rural areas and among ethnic minorities. Likewise, only about 11% of the bottom 40% population has an account in a formal financial institution according to World Bank Financial Inclusion Database, 2011. A deeper financial inclusion is vital to poverty reduction. We recognize the development of a vibrant microfinance sector as a key to the poverty reduction initiatives, and appreciate the leading role of the ADB in supporting our efforts to achieve an inclusive and sustainable microfinance sector in Viet Nam.

Since 2010, the government has been implementing initiatives to integrate microfinance into the formal banking system and achieve its full potential through formalization under an appropriate development and regulatory framework. The increased fiscal cost to support social policy lending programs through the Vietnam Bank for Social Policies (VBSP) has made it more difficult to rely on the state budget for microcredit delivery. At the same time, government's policy shift was a timely response to the rising demand of low-income households and microenterprise clients for diverse financial services suitable and accessible to them. This new direction in the microfinance sector requires a sector wide reform shifting focus from state-led financing approach to effective financial intermediation under proper prudential norms.

Towards this end, our government formulated and approved in December 2011 the Viet Nam Microfinance Development Strategy, 2011–2020, prescribing a roadmap to developing a market oriented microfinance sector, relying more on self-sustaining players in providing market-oriented financial services, while the government focuses on formulating an enabling development environment through regulation and supervision, capacity development, and building financial infrastructure supportive to microfinance.

On 5 July 2012, ADB approved Microfinance Development Program (MDP) Programmatic Approach with a \$40 million policy-based loan for Subprogram 1 and \$0.5 million piggy-backed technical assistance (TA), following our decade-long collaboration in nurturing formal microfinance institutions (MFIs). The MDP supports the Government's initiatives to develop a market-oriented microfinance sector and improve access to formal financial services for the poor, especially in rural areas. It was formulated to promote fair competition among diverse financial institutions, and to support the private sector's role in microfinance, thereby gradually reducing the government's direct involvement in microfinance operations.

Working with ADB in implementing MDP, we envision greater financial inclusion and deepened financial sector. It is our ultimate goal to facilitate low-income clients in accessing sustainable, diverse, and affordable microfinance services.

In accordance with agreement with ADB, we have accomplished all policy actions under MDP subprogram 2 as succinctly described below:

1. Creating a policy and regulatory environment conducive to an inclusive, sustainable, and market-oriented microfinance sector

Following the promulgation of the Credit Institutions Law of 2010 (CIL 2010) and the government's formulation of the National Microfinance Development Strategy, 2011–2020 under subprogram 1, the Banking Supervision Agency (BSA) at SBV formulated rules and regulations on sound microfinance operations, governance structure, and consumer protection.

Three (3) SBV Circulars on MFI licensing, MFI prudential regulations and PCF operations were formulated to guide MFIs and PCFs to conducting sound microfinance operations to reach out to low-income clients with responsive and quality financial services. The government also responded to the growing demand for insurance services suitable and accessible to the low-income sector through a two-step approach to set up the microinsurance regulatory framework.

While the Insurance Supervisory Agency (ISA) at the Ministry of Finance (MOF) is formulating the comprehensive microinsurance regulatory framework for issuance and implementation in 2015, it also proposed a transitional measure to allow existing insurance operations of MFIs under a special licensing scheme. This interim arrangement is designed to meet the growing demand for microinsurance in a semi-formal status, while ensuring its reliability until the formal regulatory framework for microinsurance becomes effective. We highly appreciate ADB's provision of the policy and advisory technical assistance (PATA) attached to subprogram 1 loan supporting our efforts in formulating microfinance regulations with valuable policy advices.

Meanwhile, I would like to inform you that a high level Microfinance Working Committee was established in March 2014 to provide policy advice and coordination to the implementation of the Viet Nam Microfinance Development Strategy. Under the Committee's guidance, I hope that we will deliver a number of necessary achievements envisaged in the Strategy in the coming years.

2. Strengthening the supervisory and regulatory capacities of microfinance sector regulators.

Under subprogram 2, the supervisory capacity of SBV and MOF over MFIs, PCFs and the VBSP has been strengthened through a range of supervisory training. We provided fiscal support for training supervisors and highly appreciate ADB's provision of an associated

capacity development technical assistance (CDTA) that allowed us to deploy a number of qualified and experienced supervisors in charge of microfinance operations.

Likewise, prudential regulations based on the international financial supervisory standards are now applied to MFIs and PCFs as deposit-taking credit institutions in order to ensure their stability and protect their depositors. At the same time, considering the unique characteristics of microfinance, supervisory practices and procedures have been tailor-fitted to such peculiar features to minimize costs to the supervised entities. Both supervisors and microfinance operators now rely on the widely accepted loan monitoring system in generating reports for supervision and compliance purposes.

3. Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor.

Subprogram 2 has strengthened 3 major players in microfinance in Viet Nam.

a. VBSP reform

VBSP's over-dependence on the government resources and its focus on social policy lending have resulted in the following adverse impacts:

- (i) growing fiscal burden in government support to its funding and on-lending activities, posing a serious threat to the sustainability of VBSP's operations;
- (ii) traditional focus on credit delivery, depriving its clients of access to other financial services such as savings which could have supported VBSP's lending operations; and
- (iii) uneven playing field due to government subsidies to VBSP which can discourage the entry of other non-subsidized players and hamper sound competition.

It is in this context that government took two policy actions, i.e.: (i) approval of the Development Strategy of VBSP towards 2020 aiming to transform VBSP to a more self-sustaining financial institution; and (ii) providing fiscal support for strengthening the capacity of VBSP and its savings and credit groups for market-based operations through training and advocacy.

Again, we thank ADB for supporting these efforts through an ADB CDTA. Average interest rate of VBSP's lending has come closer to the market rate with the current average rate pegged at 80% of the market rate, up from 40% of the market rate during the subprogram 2 implementation period. In coordination with ADB, the government is also committed to continuously monitoring and reviewing VBSP's micro-credit delivery; and the shifting of its operations towards self-sustenance with market-orientation through: increased deposit mobilization, adoption of enhanced information technology solutions and provision of diversified financial services including remittances, payments and microinsurance.

b. Developing the PCF system

The government's key thrust in strengthening the PCF system is to establish an apex institution supportive to capacity development of member PCFs. To this end and in accordance with CIL 2010, the Central Credit Fund (CCF) was transformed into the Cooperative Bank, with enhanced and clear mandates to support PCFs. The newly established Cooperative Bank is now vested with the deputized authority to supervise PCFs, while at the same time helping PCFs strengthen their institutional and operational capacities through technical and financial

assistance. Fiscal support in the form of capital injection of D948 billion (\$45 million) to the Cooperative Bank, along with the ADB's CDTA, has supported the development of the PCF system as an effective commune based financial cooperatives.

c. Emerging MFIs

MFI operations have been growing rapidly with the government support and ADB assistance in recent years. Subprogram 1 has seen the formalization of 2 MFIs licensed by SBV under the old licensing requirements which were replaced by the new regulations formulated under subprogram 2.

The impacts of formalization includes: (i) diversification of funding source including deposits from public and donor funding; (ii) enhanced operational capacity with qualified staff motivated by the formal status; (iii) a wider variety of savings products offered to clients, as the regulations allow deposit taking; and (iv) an extended outreach to clients.

The number and performance of licensed MFIs are expected to grow further under the development framework formulated under subprogram 2, recognizing that the formulation of policy and regulations, and strengthening the operational and supervisory capacities are keys to achieving a robust sector development.

4. Supporting development of the infrastructure for the microfinance sector

With the government's and ADB's associated TAs' inputs, the program helped develop financial infrastructure supportive to microfinance under subprogram 2 as follows:

a. Microfinance Center

Under subprogram 2, the Microfinance Center was set up within the Banking Academy through a SBV Decision. State budget was allocated for its operation in 2013 and 2014. The Microfinance Center is envisioned to be the training hub for the microfinance industry, linked with other training institutes such as training units of VBSP, the Cooperative Bank, Vietnam Microfinance Working Group as well as MFIs. In cooperation with these partners, the Microfinance Center has started to respond to demands for capacity building services including training, research and training needs assessment on a fee basis.

We highly appreciate ADB's CDTA which has been collaborating with the Microfinance Center in strengthening operational and supervisory capacities in the microfinance sector, developing a nation-wide certification system of formal microfinance training, and supporting an international knowledge sharing on microfinance. In the medium term, the Microfinance Center is expected to play a hub role in enhancing the overall capacity of microfinance stakeholders ranging from policy makers to practitioners in conducting best microfinance policy-making, supervisory and operational practices.

b. Microcredit information exchange system

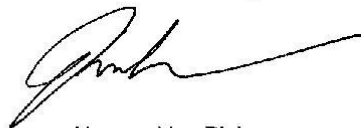
SBV issued Circular No. 03/2013/TT-NHNN on 28 January 2013 mandating all credit institutions to report all credit information to the Credit Information Center (CIC) in SBV. Prior to the circular, only loans of D50 million and above were required for reporting, thus credit institutions engaged in microfinance were not covered by the CIC system. Following the policy action, the microcredit information exchange system was set up within the CIC. The new system covers all microfinance operating financial institutions which, in turn, upload and access credit information at the CIC system in an effective and cost-efficient manner, helping ensure the quality of loan portfolio through appropriate client selection.

c. Formulation and implementation of financial literacy programs

The government, in cooperation with the ADB CDTA, supports, by budget allocation, VBSP and CCF in implementing advocacy and financial literacy programs on sustainable microfinance and customer protection directed to their clients, management and staff credit and savings groups, concerned government agencies, and mass organizations. The initiative helps promote better understanding of stakeholders on the importance of sustainable microfinance, relevant rules and regulations, and consumer protection including the transparency of pricing. It empowers clients to make informed choices for useful access to microfinance services and protects them from inappropriate transactions.

The financial literacy programs under subprogram 2 should be further developed to a nationwide program in the medium term, helping establish a unified vision and common understanding on the basic principles and good practices in a robust market-based, sustainable and responsive microfinance sector.

The Government of Viet Nam remains firmly committed to the development agenda outlined above and to continuing with reform efforts already instituted. We would appreciate your favorable consideration to the proposed MDP subprogram 2 loan, as we look forward to working together with ADB to ensure that medium-term program milestones are achieved.

Yours sincerely, 

Nguyen Van Binh
Governor
State bank of Vietnam

POLICY MATRIX AND MEDIUM-TERM DIRECTION

Objectives	Actions/Results Achieved April 2008–June 2012	Milestones and Triggers (in bold) ¹ July 2012–September 2014	Medium-Term Direction
A. Creating a policy and regulatory environment conducive to the development of an inclusive and sustainable market-oriented microfinance sector.			
Formulate a policy framework for the development of a vibrant and robust microfinance sector.	(1-1) The government through the Prime Minister has approved the National Microfinance Development Strategy and Roadmap.	(2-1) The government has started to implement the National Microfinance Development Strategy under the guidance of a high level committee.	Continued implementation of the National Microfinance Development Strategy and Roadmap.
Issue rules and regulations to support the growth and sustainability of the microfinance sector.	(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); ² and allows CIs to fix and/or negotiate loan and deposit interest rates.	(2-2) The government has formulated the relevant implementing rules and regulations (IRRs) of CIL 2010 on (i) the ownership and governance structure of MFIs and PCFs; and (ii) the mechanisms for CIs to fix and/or negotiate loan and deposit interest rates.	Review and improvements of IRRs to level the field for various types of microfinance operating CIs.
Promote a sound microfinance operations through licensing, and setting up prudential regulations and performance standards	(1-3) The government through SBV has issued IRRs on the licensing requirements, prudential ratios, the credit classification, and provision standards for MFIs.	(2-3) The government through SBV has formulated the necessary IRRs on the licensing requirements and prudential norms for MFIs in line with the CIL 2010 and ensure their implementation.	A transition measures formulated for unlicensed MFIs either to be licensed, or operate in a limited scope.
Encourage the expansion of microfinance	(1-4) The government through SBV has prescribed the necessary IRRs on MFI branching.	(2-4) The government has provided fiscal and regulatory incentives to promote the microfinance sector.	Adequacy and relevance of incentives reviewed and modified as necessary.

¹ Actions in bold are triggers for loan effectiveness, while others are milestones to achieving outputs.

² This amended Decrees 28 and 165, which were considered restrictive.

Objectives	Actions/Results Achieved April 2008–June 2012	Milestones and Triggers (in bold)¹ July 2012–September 2014	Medium-Term Direction
outreach, especially to the rural areas by providing appropriate fiscal, regulatory and other incentives.	(1-5) The government has issued a decree allowing a reduced enterprise income tax of 20% instead of 25% applicable to MFIs.		
Promote pro-poor innovations in delivering microfinance services to reduce costs and expand outreach.	(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 has issued the IRRs to promote pro-poor innovations on electronic banking products and services. ³	Review and improvement of the IRRs to capture technology development and improve delivery of microfinance services.
Ensure customer protection.	(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 has 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.
Ensure the delivery of gender equitable and socially-oriented microfinance services	(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 has 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.
Promote risk protection for the poor.	(1-9) The government has included provisions under CIL 2010 to allow MFIs and PCFs to be agents of insurance companies. (1-10) The government has	(2-8) The government through the Ministry of Finance (MOF) has 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

³ 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	Milestones and Triggers (in bold) ¹ July 2012–September 2014	Medium-Term Direction
	approved the National Microfinance Development Strategy and Roadmap to develop insurance for the low-income market.		and PCFs to set up mutual assistance insurances (MAIs). ⁴
B. Strengthening the supervisory and regulatory capacities of the microfinance sector regulators			
SBV and MOF effectively supervise and regulate MFIs, PCFs, and VBSP.	<p>(1-11) The government through SBV has prepared a draft Manual of Supervision for MFIs.⁵</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>(2-9) The government has issued IRRs on MFI supervision.</p> <p>(2-10) The government has provided training to the staff of VBSP oversight agencies including MOF on the supervision of VBSP based on the best prudential practices.</p> <p>(2-11) The government through SBV has 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.
C. Strengthening credit institutions involved in microfinance to provide affordable and sustainable services to the poor			
Strengthen and initiate reforms for VBSP to be a market-oriented, self-sustaining financial institution providing financial services including	(1-14) The government has initiated actions to reform and restructure VBSP to achieve sustainable market-oriented operations.	<p>(2-12) The government through the Prime Minister has approved the Development Strategy for VBSP towards 2020.</p> <p>(2-13) The government through the Ministry of Finance has provided fiscal support to VBSP and its credit</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>

⁴ 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.

⁵ Prepared by ADB TA 4638-VIE: Implementing the Regulatory and Supervisory Framework for Microfinance.

Objectives	Actions/Results Achieved April 2008–June 2012	Milestones and Triggers (in bold) ¹ July 2012–September 2014	Medium-Term Direction
microfinance.		and savings groups to strengthen their institutions towards self-sustaining and market-oriented operations.	
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.	(1-15) The government through SBV has prepared a draft IRR to transform CCF to a cooperative bank.	<p>(2-14) The government has continued the development of the PCFs and will have commenced the transformation of CCF into a cooperative bank.</p> <p>(2-15) The government through SBV has formulated IRRs to ensure that the ownership, governance structures and operations of PCFs will be in accordance with the generally accepted cooperative principles and practices.</p> <p>(2-16) The Cooperative Bank⁶ has strengthened its capital base through various mechanisms including the increase of PCFs contribution to the Cooperative Bank.</p> <p>(2-17) The government through the Ministry of Finance has provided fiscal support to the Cooperative Bank and the PCFs network to strengthen their capacity in expanding member-based operations.</p>	Strengthening of PCFs operations with improved services from the Cooperative Bank.

⁶ The Cooperative Bank was previously named as Central People's Credit Fund (CCF).

Objectives	Actions/Results Achieved April 2008–June 2012	Milestones and Triggers (in bold) ¹ July 2012–September 2014	Medium-Term Direction
D. Supporting the development of the infrastructure for the microfinance sector			
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.		<p>(2-18) The government through SBV has established a microfinance center within the Banking Academy to provide training, research, consultancy and other services related to the microfinance sector.</p> <p>(2-19) The government through the Ministry of Finance has 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.
Raise awareness on sustainable market-oriented microfinance among microfinance stakeholders.		(2-20) The government through the Ministry of Finance has provided fiscal support to VBSP and the Cooperative Bank for implementing the advocacy and financial literacy on sustainable microfinance and customer protection to their clients, management and staff, credit and savings groups, concerned government agencies, and mass organizations.	Formulation and implementation of a nationwide financial literacy program on microfinance.
Provide a cost-effective credit information exchange system for the microfinance sector	(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).	(2-21) The government has developed an IT based and cost effective localized credit information exchange system for microfinance at CIC.	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, MFI = microfinance institution, MOF = Ministry of Finance, PCFs = People's Credit Funds, SBV = State Bank of Vietnam, VBSP = Vietnam Bank for Social Policies.

Source: Asian Development Bank.