



Completion Report

Project Number: 47178-002
Technical Assistance Number: 8587
May 2019

Viet Nam: Supporting Microfinance Development

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TA Number, Country, and Name:			Amount Approved: \$600,000	
TA 8587-VIE: Supporting Microfinance Development			Revised Amount: Not Applicable	
Executing Agency: State Bank of Vietnam		Source of Funding: Technical Assistance Special Funds (TASF)-V	Amount Undisbursed: \$73,712	Amount Utilized: \$526,288
TA Approval Date: 12 December 2013	TA Signing Date: 11 November 2014	Fielding of First Consultants: 23 March 2015	TA Completion Date Original: 31 March 2016 Actual: 31 October 2017 Account Closing Date Original: 31 March 2016 Actual: 31 January 2018	

Description: The objective of the policy and advisory TA was to support activities under the Asian Development Bank (ADB) Microfinance Development Program (MDP). The MDP was a programmatic approach comprising 2 subprograms designed to assist the Government of Viet Nam to pursue its National Microfinance Development Strategy 2011–2020. Subprogram 1 of the MDP (\$40 million) was approved in 2012 and subprogram 2 (\$50 million) was approved in 2014. The TA formulated an updated microfinance sector assessment and roadmap for ADB's long-term assistance while monitoring, coordinating, and strengthening activities under the MDP. It also updated the medium-and long-term sector development agenda beyond the MDP period to align with the microfinance development strategy and recommended actions to achieve them.

Expected Impact, Outcome, and Outputs: The TA's impact was greater financial inclusion and deepened microfinance sector. The outcome was improved institutional and regulatory environment for microfinance development. The TA had 3 outputs: (i) an updated microfinance sector assessment and road map for ADB's long-term assistance; (ii) strengthened sustainability of the MDP; and (iii) longer-term sector development issues and actions identified. The TA was *relevant* because: (i) the TA's objectives were well-articulated and aligned with ADB and the government's strategy of improving financial inclusion; (ii) the results chain clearly stated the issues of limited financial access for the poor to be addressed under the TA; and (iii) the modality was appropriate to deliver the expected outcome of improving institutional and regulatory environment for microfinance development.

Delivery of Inputs and Conduct of Activities:

The TA utilized 88% of the total funding, with savings coming from equipment and consulting costs due to the lower actual unit cost. The TA originally required 14 person-months of international consulting inputs from 3 international experts and 21 person-months of national consulting inputs from 3 national experts. A total of 16 person-months of international consulting inputs and a total of 24 person-months of national consulting inputs were needed to complete all the activities. Performance of the consultants was rated *excellent* for their practical knowledge in microfinance and the quality of work completed. The executing agency (EA) provided information related to the assignment, reviewed consultants' reports and provided logistical support during the TA implementation period. ADB recruited and supervised consultants, reviewed their outputs and liaised closely with the government. Performance of both the EA and ADB was *satisfactory*. The TA was originally scheduled to be closed on 31 March 2016 but was extended until October 2017 (additional 19 months), bringing the actual implementation period to 31 months. The first extension of the TA closing date was due to the delay in government's TA approval process and the second extension was to ensure proper implementation and completion of the TA activities.

All activities were conducted as originally planned. A sector assessment report (making towards greater financial inclusion) was completed and circulated to the State Bank of Vietnam. ADB experts also provided status reports on the national sector strategy, update ADB sector roadmap and proposal for the ensuring loan, technical inputs for the preparation of the proposed Financial Sector Development and Inclusion Program. The TA also provided policy advice to both the government and ADB and major stakeholders in the microfinance sector to strengthen the supervisory functions and the sustainability of the MDP. These include: (i) drafting the implementing rules and regulations for the microfinance institution's (MFI) licensing and operations; (ii) policy advice to the Insurance and Supervisory Authority of MOF on microinsurance regulation framework; (iii) survey of major microfinance players; (iv) policy advice to promote digital financial services and pro-poor innovations such as agent banking. Finally, the TA identified long-term development issues which laid the foundation for reforms under the subsequent financial sector program.¹

Evaluation of Outputs and Achievement of Outcome: All impact indicators were achieved. The rural areas' share of total loan outstanding increased more than 24% by end of 2018. Four licensed MFIs' total savings as of end 2017 were VND 2.7 trillion, 10 times the baseline indicator. Finally, the M2 over gross domestic product ratio increased by 22.3%. However, both outcome indicators were not achieved. The number of microfinance borrowers decreased from 12.5 million to 9.68 million from 2010 to 2016. The number of microfinance savings accounts also decreased from 9.7 million to 8.55 million from 2010 to 2016. It is important to note that while the impact statement and the outcome statement is closely linked, the choices of indicators are not logically linked. For example, it is possible to achieve the impact indicators (total savings by MFIs) without achieving the outcome indicators (number of microfinance savings

accounts). This could be because the total savings per account are larger. It is also important to note that the fall in the number of microborrowers and savers was largely because of the decrease in the client base of Viet Nam Bank for Social Policy (VBSP) which dominate over 70% of the microfinance market in Viet Nam. All the outputs under the TA were completed. A Sector Assessment Report was completed and was highly appreciated by stakeholders. It has laid the foundation for the draft National Financial Inclusion Strategy which also includes emerging themes in financial inclusion space such as financial technology. Implementing rules and regulations for the microfinance sector were issued, the capacity of the regulators was strengthened through training and workshops. A detailed analysis of the VBSP was conducted to identify their key strengths and weaknesses in conducting microfinance business. The report was an important study that supported the government to prepare a medium-to-long-term plan to transform VBSP into a more commercially viable microfinance provider. The TA was rated *less than effective* despite delivering all the outputs as it did not achieve the desired outcome indicators. The TA was *efficient* despite the longer-than-expected implementation period because of the near-full utilization of TA fund within a reasonable time period and its leverage. Reforms supported under this TA subsequently led to the successful approval of the Financial Sector Development and Inclusion Program, subprogram 1 (\$100 million).

Overall Assessment and Rating: The TA was rated *successful*. The TA met its objectives of supporting a deeper microfinance sector through an improved institutional and regulatory environment. The sector assessment and roadmap has laid the foundation for the draft National Financial Inclusion Strategy. While limited progress in fully reforming VBSP was the main reason for missing the desired outcome indicators, initial efforts made under the TA have raised awareness among the stakeholders. The government is now preparing a plan to transform VBSP into a more sustainable, market-based financial institution. The TA is *likely sustainable* as support for microfinance and financial inclusion is now a high priority for the government and ADB and the work under the TA built the strong foundation for future reforms in the microfinance sector and financial inclusion.

Lessons: First, the coordination and collaboration among government agencies need further improvement to avoid or minimize the delays in TA approval process. Second, while the overall assessment of VBSP was appreciated by stakeholders, the process of reforming a policy bank that has long been associated with the government's poverty reduction agenda is challenging and needs strong political will. It is important to allow adequate time while closely consulting and building consensus with relevant stakeholders to ensure that proposed reforms are achievable and sustainable. Finally, the choice of outcome indicators should be carefully contemplated at the project design stage and should be reviewed and updated during the project implementation period as the risks are materializing.

Recommendations and Follow-Up Actions: The TA provided the needed assistance in establishing the appropriate policy and regulatory environment for the development of a viable and sustainable microfinance sector in Viet Nam. As the sector moves towards viability and sustainability, the following issues and challenges need to be considered in the short to medium term: (i) continue to improve the regulatory environment conducive to promoting and enhancing financial inclusion; (ii) promote the adoption while ensuring proper supervision of digital finance; (iii) encourage the entry of more players in the microfinance sector; (iv) explore financial intermediation modality to support the poor and women with access to finance; (v) continue policy dialogues to reform VBSP to a self-sustaining and responsive market player in microfinance; and (vi) expand the advocacy and financial literacy on financial inclusion.

TA = technical assistance.

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¹ ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Socialist Republic of Viet Nam: Financial Sector Development and Inclusion Program*. Manila.