

**ASIAN DEVELOPMENT BANK**

**TAR: VIE 34368**

**TECHNICAL ASSISTANCE  
(Financed from the Japan Special Fund)**

**TO THE**

**SOCIALIST REPUBLIC OF VIET NAM**

**FOR PREPARING THE**

**FRAMEWORK FOR MICROFINANCE DEVELOPMENT**

**October 2001**

## **CURRENCY EQUIVALENTS**

(as of 16 September 2001)

Currency Unit	-	Dong(D)
D1.00	=	\$0.000067
\$1.00	=	D15,003

## **ABBREVIATIONS**

ADB	-	Asian Development Bank
MF	-	microfinance
NGO	-	nongovernment organization
PCF	-	People's Credit Fund
PH	-	poor household
SBV	-	State Bank of Viet Nam
TA	-	technical assistance
VBARD	-	Viet Nam Bank for Agriculture and Rural Development
VBP	-	Viet Nam Bank for the Poor

## **NOTE**

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

## I. INTRODUCTION

1. During the Country Programming Mission in 2000, the Government of the Socialist Republic of Viet Nam requested the Asian Development Bank (ADB) for advisory technical assistance (TA) for preparing a framework for microfinance (MF) development. ADB fielded a Fact-Finding Mission to Viet Nam during March 2001, and held discussions with the State Bank of Viet Nam (SBV), the central bank; Viet Nam Bank for Agriculture and Rural Development (VBARD); Viet Nam Bank for the Poor (VBP); Viet Nam Women's Union; International Monetary Fund; World Bank; International Finance Corporation; selected bilateral agencies; and nongovernment organizations (NGOs). The Mission also met MF clients. The Mission's findings and understandings with the Government formed the basis for formulating the TA. The TA is included in the Country Assistance Plan for 2001.<sup>1</sup>

## II. BACKGROUND

2. Rapid economic growth in the 1990s has reduced poverty from 58 percent in 1992/1993 to 37 percent in 1997/1998.<sup>2</sup> This has been accompanied with improvements in social indicators that compare favorably with those of other countries at similar income levels. Nonetheless, with a low per capita income (\$350), a significant proportion of the population continues to live in relatively impoverished conditions. Ongoing poverty reduction measures of the Government include national programs<sup>3</sup> that adopt an integrated approach for poverty reduction through infrastructure, health, education, agriculture, and credit. The Socio-Economic Development Strategy (2001-2010) of the Government aims to accelerate economic growth and poverty reduction through macroeconomic and structural policies designed to protect macroeconomic stability. Sectoral policies are focused to improve the access to resources for the poor, reduce their vulnerability, and enhance social equity.

3. Efforts to increase access to financial services in Viet Nam coincided with agricultural reforms, particularly the formation of private farms. The reforms created a demand for capital by the 12 million rural households, of which about 10 million are decollectivized farms and about 6 million are considered poor households (PHs). The concurrent expansion of the banking network made financial services accessible to about 6 million rural households, of which nearly 3 million are estimated to be PHs. Impressive as these figures are, compared with those for other countries, nearly half of PHs do not have access to financial services or MF<sup>4</sup> from institutional sources. This group predominantly comprises (i) farmers in the rainfed midlands or uplands and remote mountainous areas, (ii) agricultural laborers and small fisherfolk, and (iii) nonmembers of quasi-official mass organizations. The demand for MF is significant, particularly to support agricultural production, livestock rearing, income-generating activities, and for secure savings facilities.

4. A wide landscape of formal and semiformal institutions, and informal arrangements essentially provide microcredit. Among the formal institutions, VBARD and VBP, the two state-

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 15 February 2001.

<sup>2</sup> Food poverty line (Government/World Bank), equivalent to 2,100 calories per capita per day.

<sup>3</sup> Major programs are National Target Program on Hunger Eradication and Poverty Reduction; Program on Socio-economic Development in Especially Disadvantaged Communes in Mountainous, Isolated, and Remote Areas; National Target Program on Employment; and Program 327 (project to reforest 5 million hectares).

<sup>4</sup> MF is the provision of a range of services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. In Viet Nam, a loan limit of D3 million (or \$200 approximately) is considered as microcredit. Other services including savings are only selectively available.

owned banks, are the largest suppliers.<sup>5</sup> Established in 1995 with the mandate to exclusively focus on PHs, VBP has provided microcredit to nearly 2 million PHs. VBARD has a significant outreach to 4 million households, of which nearly 800,000 are considered PHs. The People's Credit Fund (PCF) is a network of commune-level, autonomous, small-scale financial institutions. There are nearly 300,000 PHs, mostly the better off poor, among the 900,000<sup>6</sup> PCF clients.

5. The semiformal sector comprises Government departments and mass organizations. The Ministry of Planning and Investment, Ministry of Labor Invalids and Social Affairs, and Ministry of Agriculture and Rural Development provide microcredit under national programs. Mass organizations – primarily Viet Nam Women's Union, Viet Nam Farmers' Union, and Viet Nam Youth Union, with a combined membership of about 20 million – are associated with MF as they (i) collect member contributions and extend small loans, (ii) implement about 70 savings and credit schemes funded by international NGOs, and (iii) act as facilitators for VBARD and VBP in forming savings and credit groups. It is estimated that the semiformal sector has been instrumental in the formation of 157,000 savings and credit groups.<sup>7</sup> Informal sources attend to the needs of one third of the PHs and constitute loans from traders and moneylenders and reciprocal arrangements to meet urgent consumption needs.

6. The Government wields considerable influence on the growth of the MF sector through state-owned banks and budgetary allocations. The supply side response solely prioritizes outreach and has been accompanied with interest rate ceilings and emphasis only on microcredit. Notwithstanding the success in extending outreach, the approach being pursued constitutes the first generation of measures that should evolve with the expansion of the MF sector and emergence of successful MF practices.<sup>8</sup> Consequently, major challenges have emerged that combine to potentially undermine the impressive gains in outreach and are currently reflected in legal, prudential, institutional, and product-related aspects.

7. The status of nonfinancial entities that undertake MF is ambiguous. The national programs, though well-intentioned, provide MF without concern for its continuity beyond the program duration, adopt pricing norms that lead to decapitalization of the allotted resources, and are not effectively targeted. Mass organizations supported by international NGOs have been credited with adopting successful MF practices. However, an indeterminate legal provision for transforming them into recognized financial institutions affects long-term investments in institutional capacity for MF specialization. Existing initiatives, therefore, merely serve as entry points for social sector interventions.

8. The responsibility for supervising and coordinating the semiformal sector and its relationship with banks remain unclear. Prudential concern for savings mobilized by semiformal arrangements is growing, as MF providers and their MF activities transcend banking laws. Supervisory concerns are also heightened due to the absence of an information base on MF to guide policy responses. VBARD and PCFs have a legal status that enables them to mobilize savings, expand branch networks, and access Government funds. While VBP has the same status, its operations are conducted through VBARD staff, within VBARD premises, and at times through VBARD credit lines. In essence, VBP is a VBARD window to provide below-cost MF. This

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<sup>5</sup> Rural Share Holding Banks and the credit cooperatives also provide MF. Their presence is negligible and they are under review due to serious financial and institutional concerns.

<sup>6</sup> Separate data on MF is neither aggregated at the sector level nor collated at the institutional level. Instead, loans below D3 million (\$200 approximately) are used as a proxy for sector information (footnote 3).

<sup>7</sup> For funding through banks or from own resources. Semiformal sources do not maintain segregated data.

<sup>8</sup> These, among others, are (i) client perspective, (ii) savings and credit, (iii) low transaction cost, (iv) simplified procedures, (v) regular repayments, (vi) risk management, (vii) provisioning for loan losses, and (viii) viability.

stretches VBARD's institutional capacity.<sup>9</sup> The aim to create a specialized MF bank for additional retail capacity remains unfulfilled.

9. Banks are subject to a ceiling lending interest rate of approximately 12-14 percent per annum. VBP is required to lend at about 8-9 percent per annum and the national programs at even less. With increasing reliance on public savings, both VBARD and PCFs strive to charge as near as possible to the ceiling lending interest rate. MF projects of mass organizations price their products higher, with no effect on the demand for their services. Despite sufficient empirical evidence that product pricing needs to consider sustainability, the continuation of an administratively suppressed lending interest rate (i) leads to MF portfolio concentration in accessible areas and to better-off PHs that require relatively less delivery cost, (ii) erodes financial viability, and (iii) precludes savings at positive interest rates. At the product level, predominantly noncollateralized microcredit could be delivered to PHs either individually or through savings and credit groups, with monthly interest repayments and the principal repayable at maturity. Product homogeneity is in contrast to client expectation of adaptable services. Secure savings options with interest income and greater flexibility in determining lending interest rates are only selectively provided under externally funded projects.

10. MF has been considered integral to poverty reduction in providing opportunities to the poor, building assets, and enhancing income-earning capacity. For this, efficient institutional and market mechanisms are required where viable institutions can efficiently allocate funds to PHs through appropriately designed and priced services. However, the direction of the MF sector in Viet Nam indicates that continuity of access is not assured,<sup>10</sup> as reliance on budgetary resources for MF is increasing. Rationing of credit has been observed. Recourse to the intermittent supply from informal sources as an alternative does not allow consumption and asset buildup for improving living standards. Pricing constraints restrict product choices. As a result, PHs are unable to stabilize their income and consumption in the absence of secure savings facilities and risk reduction measures. More significantly, the synergy that mass organizations provide to link MF with social intermediation remains underfunded and thus underutilized. Private investments and public-private partnerships in MF have not emerged.

11. In the absence of a long-term strategic framework to guide and coordinate MF activities, the response to emerging challenges has been ad hoc. Assistance by funding agencies has primarily emphasized expansion of savings and credit projects in selected areas. Given the systemic issues involved, it is essential to build the components of a sustainable MF system through a consultative process involving all stakeholders, with tangible milestones for the orderly growth of the MF sector. Along with the ongoing banking sector reforms that include restructuring of banks,<sup>11</sup> strengthening of SBV, and moving toward interest rate deregulation, the Government intends to review the MF sector so as to (i) develop a long-term strategic framework, (ii) create supportive financial infrastructure,<sup>12</sup> (iii) work out complementary roles for the Government and the private sector, and (iv) consider innovative institutional options and pro-poor innovations. These objectives are consistent with the MF development strategy of ADB and will contribute to the Government's long-term measures for achieving poverty-reducing growth.<sup>13</sup> The present TA

<sup>9</sup> For example, on an average, VBARD credit officers handle 700 loan accounts.

<sup>10</sup> Continuous access to loans for 4-5 years would be required for PHs to cross the poverty threshold.

<sup>11</sup> Excluding VBP. The Government has explored the feasibility of a "policy bank" to consolidate MF operations of ministries, mass organizations, and VBP. However, neither the concept nor institutional details have emerged.

<sup>12</sup> Supervisory and regulatory arrangements, disclosure requirements, auditing standards, etc.

<sup>13</sup> R106-00: *Finance for the Poor: Microfinance Development Strategy*, 16 May 2000; Government's Socio-Economic Development Strategy 2001-2010; and Interim Poverty Reduction Strategy Paper (for a three-year arrangement under the Poverty Reduction Growth Facility of the International Monetary Fund).

will allow building a long-term relationship between the Government and ADB for MF development and will be linked with other external efforts at promoting MF.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Objectives**

12. The TA will help the Government in (i) preparing a framework to develop a sustainable pro-poor financial system to efficiently provide services to a larger segment of PHs; (ii) developing corresponding policy, legal, and regulatory guidelines; and (iii) enhancing the institutional capacity of SBV for implementing the framework. The TA will contribute to the ultimate goal of poverty reduction. The TA framework is in Appendix 1.

#### **B. Scope**

13. The TA will have the following components:

- (i) Assist SBV to (a) review existing policies, and institutional and operational aspects relating to sustainable MF; (b) increase the familiarity of policy makers with key issues in MF development; (c) conduct workshops for senior policy makers and MF stakeholders to analyze the impact of various policy options; and (d) prepare a framework for MF development.
- (ii) Assist SBV to (a) develop a draft legal, supervisory, and regulatory framework; (b) conduct workshops to analyze, discuss, and finalize the draft; and (c) examine innovative institutional and noninstitutional options and their linkages.
- (iii) Create institutional capacity for implementing the framework through (a) training for SBV staff; (b) study tours for four SBV staff responsible for MF to two developing member countries implementing MF frameworks with ADB assistance; (c) establishing a data center, library, and web site on MF within SBV; and (d) workshops for MF providers to familiarize them with disclosure/reporting requirements.

#### **C. Cost Estimates and Financing Plan**

14. The total cost of the TA is estimated to be \$380,000 equivalent, comprising \$176,000 in foreign exchange costs and \$204,000 equivalent in local currency costs. The TA will be financed by ADB on a grant basis from the Japan Special Fund, funded by the Government of Japan. ADB will provide \$300,000 equivalent to finance the entire foreign exchange costs and \$124,000 equivalent of local currency costs. The Government will provide the balance of the local currency costs of \$80,000 by providing counterpart services including (i) staff, (ii) office space for consultants on full-time basis during the TA, (iii) secretarial and coordinating services, (iv) translation and interpretation services other than for translation of reports and training materials, and (v) part of the training costs other than the cost of renting training facilities and reproducing training materials provided under the TA. The detailed cost estimates are in Appendix 2.

#### **D. Implementation Arrangements**

15. SBV will be the Executing Agency. To implement the TA, SBV will form a TA management committee headed by the deputy governor. The committee will comprise representatives from

concerned departments of SBV and key stakeholders including mass organizations, funding agencies, NGOs, government departments providing MF services, and banks. The committee will be responsible for overall coordination between consultants and relevant agencies and for ensuring logistic support. SBV will assign at least two full-time counterpart staff for the TA. After the completion of the TA, follow-up duties will be assigned to SBV departments in accordance with their functions.

16. The TA will be implemented over one year beginning in December 2001 and ending in November 2002. SBV will organize three tripartite review meetings involving the Government, the TA consultant, and ADB during the TA period in conjunction with ADB Missions to review the progress of implementation and to resolve any outstanding issues. The meetings will be chaired by the deputy governor of SBV or a person designated by the deputy governor. Members of the TA management committee and representatives of other agencies as decided by SBV will attend the meetings. A counterpart staff will act as member secretary at meetings. The Government and ADB will jointly make a final evaluation of the TA based on the draft final report to be prepared by the TA consultant.

17. The required consulting services will consist of 5 person-months of international consultants in the fields of MF sector development (2 person-months) and MF supervision and regulation (3). Domestic consultants (20 person-months) will supply consulting services in the fields of institutional development (12), banking law (3), information systems (2), and web site/software development (3). The outline terms of reference for consulting services are in Appendix 3. The MF institutional development specialist, who will be the team leader, will work on a full-time basis for the duration of the TA. The consulting services will be supplied by an international consulting firm that will provide both international and domestic consultants. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. The technical proposals invited from the shortlisted firms will be in ADB's simplified format.

18. The TA consultant will prepare (i) an inception report including a detailed work program, to be submitted within three weeks of the start of the TA and to be discussed at the initial tripartite review meeting; (ii) quarterly progress reports for reporting overall work progress during the period under review, the work program for the following quarter, and any outstanding issues; (iii) an interim report, presenting a draft framework for MF development and the corresponding legal, supervisory, and regulatory mechanisms, to be submitted within six months of the start of the TA, and to be discussed at the second tripartite review meeting; (iv) a draft final report compiling all TA activities and consultants' recommendations, to be submitted at least one month before TA completion and to be discussed at the final tripartite review meeting; and (v) a final report at the completion of the TA. The TA consultant will organize and conduct six workshops to obtain the views of key stakeholders on TA activities and outputs, and conduct two training programs for SBV. The TA consultant will also organize regional study tours for four SBV staff to two developing member countries where MF frameworks have been established with ADB assistance. The participants in the study tours will be selected subject to approval by ADB.

#### **IV. THE PRESIDENT'S DECISION**

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Socialist Republic of Viet Nam in an amount not exceeding the equivalent of \$300,000 for the purpose of preparing the Framework for Microfinance Development, and hereby reports such action to the Board.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring System	Assumptions and Risks
<b>Sector Goal</b>  Develop a sustainable microfinance (MF) system to contribute to poverty reduction	Increased access of the poor, especially rural poor to MF services	Statistics on poverty reduction  Annual reports of State Bank of Viet Nam (SBV)  Financial statements and progress reports of MF providers  Asian Development Bank (ADB) review missions  Regular interactions with key stakeholders such as SBV, MF providers, mass organizations, and clients	Assumptions:  Government is committed to the development of an MF system based on successful practices.  The policy and legal framework is appropriate.  Nonbank MF providers can raise resources from the market.  MF operations are financially viable.  Macroeconomic stability is maintained.
<b>Purpose</b>  Increased institutional diversity and investments in MF  Increased savings services offered  Improved interinstitutional coordination  Increased outreach of MF consequent to the implementation of the MF framework	The level of diversity in institutional structure increases.  Number of clients with access to savings facilities increases.  MF providers forge alliances with agencies that provide social intermediation.  MF outreach increases from the current level.	Annual reports of SBV  Financial statements and progress reports of MF service providers  Partnership arrangements/agreements among institutions  Financial statements and progress reports of MF providers	Risks:  SBV may show inadequate interest in the sector.  Private investment may not flow in the sector due to perceived risk and return considerations.  Other funding agencies may hold different views.  Assumptions:  Policy workshops and study tours will be effective in convincing the key stakeholders of the need for policy changes.  Conducive framework will encourage investments in the MF sector.



Design Summary	Performance Targets	Monitoring System	Assumptions and Risks
<b>Outputs</b>			
Policymakers understanding of policy, legal, and institutional issues in MF is improved.	Three workshops held before April 2002	<ul style="list-style-type: none"> <li>• TA consultants' report</li> <li>• TA review mission</li> </ul>	Assumptions:  Counterpart staff are available and committed.
Conducive policy and legal framework for MF is prepared.	Agreements reached among key stakeholders on the policy and corresponding legal changes by June 2002	<ul style="list-style-type: none"> <li>• TA consultants' report</li> <li>• TA review mission</li> <li>• Regular interactions with key stakeholders</li> </ul>	Reforms are owned by the Government and stakeholders.  SBV provides proper guidance and ensures adequate consultation for participative sector development process.
Supervisory and regulatory framework for MF is introduced.	Supervisory and regulatory systems finalized by August 2002	<ul style="list-style-type: none"> <li>• TA consultants' report</li> <li>• TA review mission</li> </ul>	Existing MF providers are successfully transformed into licensed entities.
	Implementation mechanism instituted and effectively implemented within SBV	<ul style="list-style-type: none"> <li>• Regular interactions with key stakeholders</li> </ul>	MF providers are able to deliver demand-based services and win the trust and confidence of clients.
Capacity of SBP to support MF sector development is enhanced.	Training, workshops, manuals, and equipment provided to SBV	<ul style="list-style-type: none"> <li>• TA consultants' report</li> <li>• TA review mission</li> </ul>	Coordination between ADB and other funding agencies during TA implementation.
	Qualified and trained staff committed by SBV for MF-related functions	<ul style="list-style-type: none"> <li>• Regular interactions with key stakeholders</li> </ul>	
Dissemination of information on MF improved.	A MF library including a web site and data center established within SBV	<ul style="list-style-type: none"> <li>• TA consultants' report</li> <li>• TA review mission</li> </ul>	
	Use and access of the facilities by key stakeholders	<ul style="list-style-type: none"> <li>• Regular interactions with key stakeholders</li> </ul>	
Successful practices are widely applied.	Operational efficiency and financial viability	<ul style="list-style-type: none"> <li>• TA review missions</li> <li>• Financial statements of MF providers</li> </ul>	
<b>Inputs</b>	Total TA Cost: \$380,000		Assumptions:
ADB Financing	(Grant from ADB: \$300,000)	<ul style="list-style-type: none"> <li>• TA consultants' report</li> </ul>	Provision of counterpart resources is adequate and timely.
Consultants (including travel and per diem)	Consultants: \$203,000	<ul style="list-style-type: none"> <li>• TA review missions</li> </ul>	Provision of qualified counterpart staff is adequate.
Workshops/Training/Study Tours	Workshops/Training/Study Tours: \$45,000		Implementation is closely monitored.
Equipment	Equipment: \$12,000		Resources are used efficiently.
Administrative and Logistic Support	Administrative and Logistic Support: \$35,000		
Others (including contingencies)	Others (including contingencies): \$85,000		

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Remuneration and Per Diem	120	-	120
ii. Domestic Remuneration and Per Diem	-	68	68
b. International and Local Travel	10	5	15
c. Report and Communication	5	-	5
2. Equipment, Documents, and Software <sup>b</sup>	2	10	12
3. Training Courses and Workshops <sup>c</sup>	-	10	10
4. Study Tours <sup>d</sup>	10	-	10
5. Government Representative at Contract Negotiations <sup>e</sup>	3	-	3
6. Contingency	26	31	57
<b>Subtotal (A)</b>	<b>176</b>	<b>124</b>	<b>300</b>
<b>B. Government Financing</b>			
1. Counterpart Services	-	20	20
2. Office Expense and Logistic Support	-	15	15
3. Training Courses and Seminars	-	25	25
4. Others	-	20	20
<b>Subtotal (B)</b>	<b>-</b>	<b>80</b>	<b>80</b>
<b>Total</b>	<b>176</b>	<b>204</b>	<b>380</b>

<sup>a</sup> Financed from the Japan Special Fund, funded by the Government of Japan.

<sup>b</sup> Desktop computers (3 units, \$1,600 each); software (\$2,000); and books and journals (\$5,200).

<sup>c</sup> Six workshops, three each in Hanoi and Ho Chi Minh City; and two training courses for SBV staff, one each at Hanoi and Ho Chi Minh City (30 participants for each workshop/training).

<sup>d</sup> Regional study tours (estimated at \$2,500 per person) to two developing member countries where microfinance legal and supervisory systems are in place or are in final stages of development.

<sup>e</sup> Travel expenses for inviting a representative of the Executing Agency for contract negotiations.

Source: Staff estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

### A. Microfinance Sector Development Specialist (international, 2 person-months)

1. The microfinance (MF) sector development specialist will have more than 15 years of demonstrated extensive international experience in preparing policy frameworks and financial infrastructure required for MF sector development. Previous Viet Nam-related experience is desirable. The specific terms of reference include the following:

- (i) Review the information and analysis<sup>1</sup> contained in published reports, sector studies, and institutional diagnoses; and discuss with key stakeholders in order to analyze (a) the poverty situation, (b) characteristics of poor households, including socio-economic constraints, and (c) the quantum and nature of demand for MF services.
- (ii) Assess the policy framework within which the MF sector operates with specific reference to (a) monetary and fiscal policies, rural-urban terms of trade, and agricultural policies; (b) financial sector policies and reforms; (c) policy based lending; (d) direct government interventions; (e) institutional autonomy and governance; and (f) competition.
- (iii) Review the MF sector infrastructure with specific reference to (a) the legal framework, (b) regulatory and supervisory mechanisms (including self-regulatory organizations), and (c) auditing and accounting standards for transparency.
- (iv) Analyze MF sector institutions (i.e., banks—commercial and specialized banks, nongovernment organizations [NGOs], government departments) and noninstitutional sources in terms of their (a) target clientele, (b) products and services, (c) gender aspects, (d) outreach, (e) commercialization, (f) key performance indicators, (g) governance, and (h) institutional culture and orientation.
- (v) Analyze the poverty reduction impact of MF.
- (vi) Assess (a) public-private partnerships in MF; (b) linkages between MF providers; and (c) the impact of the dominance of state-owned institutions on competition in the MF sector.
- (vii) Review the support of major aid agencies for the MF sector.
- (viii) Based on the above and in consultation with the MF supervision and regulation specialist and the MF institutional development specialist (domestic consultant), specifically

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<sup>1</sup> Including (i) R106-00: *Finance For the Poor: Microfinance Development Strategy*, 16 May 2000; (ii) TA 5836: *Consultations on Bank's Microfinance Strategy: In-Country Consultation*, 1999; (iii) TA 5836: *Consultations on Bank's Microfinance Strategy: Study of Role of Central Banks in Microfinance*, 2000; (iv) Asian Development Bank. 2000. *Rural Asia Study: Beyond the Green Revolution*; (v) Government of Viet Nam, *Interim Poverty Reduction Strategy Paper*, 2000; (vi) Loan 1802-VIE: *Rural Enterprise Finance Project*, for \$80 million, approved on 12 December 2000; (vii) Loan 1781-VIE: *Tea and Fruit and Fruit Development Project*, for \$40.2 million, approved on 14 November 2000; (viii) TA 3392-VIE: *Central Region Poverty Reduction*, for \$824,000, approved on 18 January 2000; and (ix) small and medium enterprise analysis undertaken by the Mekong Project Development Facility.

- (a) comment on the inadequacy or otherwise of the prevailing policy environment, and legal and financial infrastructure;
- (b) comment on the major macroeconomic, policy, financial infrastructure, and institutional strengthening issues for the MF sector;
- (c) discuss the required investments in physical and social infrastructure to enhance the poverty reduction impact of the MF sector;
- (d) prepare a draft framework for MF development; and
- (e) conduct workshops to discuss the draft and, then, further refine and finalize it.

**B. Microfinance Supervision and Regulation Specialist (international, 3 person-months)**

2. The MF supervision and regulation specialist shall have extensive experience in bank regulation. The specialist, in consultation and coordination with the MF sector development specialist, MF institutional development specialist, and the legal expert, will be responsible for the following:

- (i) Assist the State Bank of Viet Nam (SBV) in developing a draft MF supervisory and regulatory framework, design implementing mechanisms, identify institutional development needs, and assess the scope for a self-regulating mechanism by the existing MF providers.
- (ii) Conduct workshops to discuss the draft framework with all stakeholders and circulate the draft to a wider audience.
- (iii) Incorporate comments and views received from stakeholders to finalize the supervisory and regulatory procedures; and accounting and financial reporting requirements.
- (iv) Develop operating manuals for on-site and off-site supervision and reporting formats to be submitted to SBV.
- (v) Based on the consensus with existing MF providers, design reporting and disclosure requirements for a self-regulating mechanism for MF providers whose scale of operations is too small for formal regulation.
- (vi) Develop transitory provisions governing integration of existing MF providers, how they can be integrated into the new framework, and the timetable within which they will be registered with SBV.
- (vii) Conduct dissemination workshops, seminars, and train assigned SBV staff.
- (viii) After the first training course, assist in institutionalizing the training arrangements in SBV training establishments.

**C. Microfinance Institutional Development Specialist (domestic, 12 person-months)**

3. The MF institutional development specialist should have at least 10 years experience in the MF sector in Viet Nam, demonstrated training and research capability, familiarity with the Asian Development Bank's (ADB's) priorities in MF, and awareness of other funding agencies' support to the MF sector. Specific duties include the following:

- (i) Coordinate the delivery of consulting inputs and prepare, in collaboration with other consultants, reports required under the TA; and while doing so, study the implementation of ongoing ADB-funded assistance in related sectors or institutions.<sup>2</sup>
- (ii) Provide inputs and support to the MF sector development specialist and the MF supervision and regulation specialist.
- (iii) Give technical support to SBV in institutionalizing the framework for MF development through (a) a medium-term capacity building plan for SBV to effectively implement the MF policy and supervisory framework; (b) training and seminars for SBV staff based on the manuals and guidelines developed under the TA; (c) institutionalizing the training modules in the training centers/establishments of SBV; and (d) designing a module for MF providers to acquaint them with policy and regulatory changes and corresponding institutional and operational changes required.
- (iv) Assist SBV in establishing a resource center on MF to compile and disseminate data on MF in Viet Nam to the public; to provide a venue for exchange of information among MF providers; to develop a library on MF; and to integrate the web site on MF (developed under the TA) with these activities. The resource center will also cover environmental concerns relating to MF.
- (v) Establish, in collaboration with the information systems specialist an early warning system on potential problems in MF operations. The system will include key indicators for financial performance including capital, assets, management, earnings, and liquidity.
- (vi) Assist SBV in piloting innovative institutional arrangements and their linkages with mass organizations to reduce transaction cost, enhance gender coverage, and sequence social and financial intermediation.
- (vii) Advise MF providers being transformed into supervised/regulated entities.
- (viii) Advise SBV and MF providers on savings products and mechanisms to reduce the vulnerability of poor households.

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<sup>2</sup> TA 3227-VIE: *Strengthening Corporate Governance at VBARD*, for \$900,000, approved on 19 July 1999.

**D. Banking Law Expert (domestic, 3 person-months)**

4. The banking law expert will be well-versed with the local banking laws. Working with the MF supervision and regulation specialist and the MF institutional development specialist, the banking law expert will perform the following functions:

- (i) Review existing legislation relating to banking operations.
- (ii) Research issues affecting the development of a legal framework for MF.
- (iii) Assist in drafting enabling legal changes or recommending amendments to existing legislation.

**E. Information Systems Specialist (domestic, 2 person-months)**

5. The information systems specialist will have in-depth familiarity with banking operations, specifically reporting requirements. Working with the MF supervision and regulation specialist and the MF institutional development specialist, the information systems specialist will be responsible for the following tasks:

- (i) Review the management information system of MF providers to assess their capacity to provide prompt and accurate information as needed by SBV and make practical recommendations for improvement.
- (ii) Assess data requirements from the perspective of both SBV and MF providers to ensure (a) efficiency in reporting, and (b) transparency in accounting and financial reporting.
- (iii) Devise a simple and cost-effective system of data collection and processing, and incorporate it in an operating manual.

**F. Web Site Software Development Specialist (domestic, 3 person-months)**

6. The consultant must have extensive experience in the design and installation of banking and financial reporting software. Working with the information system specialist and the MF institutional development specialist, the consultant will perform these tasks:

- (i) Review software needs vis-à-vis the information requirements.
- (ii) Modify off-the-shelf software as needed or develop software to satisfy existing and anticipated requirements.
- (iii) Advise on hardware and peripheral needs.
- (iv) Install and test software, including a web site on MF in SBV.
- (v) Train selected SBV staff.
- (vi) Prepare a user's manual.