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Review of the Vietnam Bank for Social Policies (VBSP)

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At the invitation of the Ministry of Finance of Vietnam (MOF) and the Vietnam Bank for Social Policies (VBSP), a World Bank Group team comprising Viet Quoc Trieu, Senior Financial Sector Specialist (Task Team Leader), Eva Gutierrez, Lead Financial Sector Specialist, Rekha Reddy, Senior Financial Sector Specialist, Hanh Hong Nguyen, Operations Officer, and Hoang Sen, local expert prepared this diagnostic report.

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LIST OF ABBREVIATIONS

VBARD	Vietnam Bank for Agriculture and Rural Development
CEMA	Committee on Ethnic Minority Affairs
CIC	Credit Information Center
CPC	Commune People's Committee
EAP	East Asia and Pacific
GDP	Gross Domestic Product
GSO	General Statistics Office
IPSARD	Institute of Policy and Strategy for Agriculture and Rural Development
MARD	Ministry of Agriculture and Rural Development
MFI	Microfinance institutions
MOF	Ministry of Finance
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NGO	Non-government organization
NPL	Non-performing loan
PCF	People's Credit Fund
PCG	Partial Credit Guarantee
SBV	State Bank of Vietnam
SCG	Savings and Credit Groups
SME	Small and medium sized enterprise
VBARD	Vietnamese Bank for Agriculture and Development
VBP	Vietnam Bank for the Poor
VBSP	Vietnam Bank for Social Policies
VWUCC	Vietnam Women's Union Central Committee

EXECUTIVE SUMMARY

This report summarizes the 2018 World Bank diagnostic of the Vietnam Bank for Social Policies (VBSP) requested by the Ministry of Finance and VBSP. This report reviews VBSP's performance to date with respect to the goals set out for this public financial institution its 2011-2020 strategy and provides options for VBSP going forward, with the goal of informing the new strategy for VBSP.

VBSP, a state-owned development bank, is an important source of financial services in Vietnam, particularly in rural areas. Its 6.7 million Vietnamese at the end of 2018 mean that not only is it the largest provider of microfinance services in Vietnam, it is also one of the largest providers of microfinance in Asia.

I. Context for Finance for Poor and Low-Income Populations in Vietnam

- **Financial inclusion:** In Vietnam, financial inclusion has been increasing from a low base: from 21.4 percent of those older than 15 years having an account at a financial institution in 2011 to 30.0 percent in 2017, well below the average of 70.6 percent for East Asia and Pacific (EAP), excluding high income countries. Access to branch networks and ATMs per capita remains relatively low, but digital finance is taking root, with 23 percent of those aged 15 or over reporting to have made or received a digital payment in the last year.
- The Vietnamese financial sector is dominated by banks. Commercial bank assets represent 95 percent of financial system assets, with VBSP representing 2 percent of system assets.

II. VBSP'S Mandate, Clients and Products

- VBSP was created by the Government in 2003 to provide subsidized credit to the poor and other targeted policy beneficiaries, responding to the need to differentiate commercial and policy credit.
- As poverty in Vietnam has declined, VBSP has experienced changes to its traditional market of the poor and has increasingly served higher income segments.
- VBSP has adhered to its goal in the strategy of 2011 to 2020 of diversification of products and services and has moved towards a more multi-product environment. Although credit remains the main product of VBSP, savings are increasing from a low base. For VBSP's next strategy starting 2021, potential exists to make use of products beyond credit, particularly payments.

III. Financial Performance and Product Pricing

- **High solvency:** VBSP's capital to asset ratio has ranged from 18 to 21 percent from 2011 to 2018, with 18.5 percent of assets in 2018. VBSP's equity base consists of funding contributed from the state (charter capital, capital contributed for credit programs under the policy decision of the Prime Minister), and entrusted capital from local state budgets, economic organizations and individuals. Large amounts of capital bolstered by Government support provides room for expanding VBSP's balance sheet through additional borrowings, but small or negative margins on lending products discourage balance sheet expansion.
- **Non-performing loans (NPLs):** VBSP formally reports low levels of non-performing loans (1.17 percent at the end of 2018), but internal reports indicate 8.58 percent of loans are being rescheduled. In contrast to other Vietnamese financial institutions subject to prudential requirements, VBSP does not consider loan extensions (restructured loans) in its definition of impaired loans.

- **Liquidity:** Low liquidity levels indicate that available funds are being fully deployed. Just 3.5 percent of VBSP assets are liquid relative to total assets in 2018, far lower than the systemwide average for depository institutions of 12.7 percent (IMF, 2017).

- **Financial sustainability:** Given its mandate to lend at below market rates to the poor at subsidized rates, VBSP was a loss-making bank for all years from 2011 to 2018, with the exception of 2015 and 2016. Financial sustainability has increased greatly in recent years as VBSP moves away from heavily subsidized provision of loans to "last mile segments" into lending to segments at more market-oriented rates, with the subsidy for losses provided from the Government to VBSP dropping from VND bn 3034 (179 percent of gross income) in 2011 to VND bn 2043 (34 percent of gross income) in 2018.

- **Efficiency of operational expenses/total assets:** VBSP is a relatively efficient retail bank that works in partnership with mass organizations to originate, collect and monitor its credits and leverages the network of people's communes facilities for its savings and credit meetings.

IV. Risk Management

- **Credit Risk:** VBSP's primary risk is that of credit risk, which has been contained, so far, by VBSP's People Banking model which enables VBSP to exert repayment pressure on borrowers with the support of mass organizations and local authorities. However, to reduce loan extensions, more frequent repayment periods should be introduced.

- **Liquidity risk:** While in the past liquidity was not a concern given funding structure, as deposits are becoming a larger share of bank liabilities, liquidity may have to increase going forward

- Interest rate risk: VBSP appears exposed to interest rate risk as maturity of assets is longer than maturity of liabilities. As long as the bank receives interest rate equalization this risk is absorbed by MOF via subsidies. However, as the bank moves up-market, this risk should be managed by the bank for these higher income segments.

- **Operational risk:** Many functions in the credit process are performed by third parties (mass organizations) which is a source of efficiency but also of operational risk as it requires additional monitoring. VBSP is exposed to operational and know your client (KYC) risks related to records management as many documents are solely paper based.

V. Oversight Framework, Corporate Governance and Development Impact

- Although several institutions provide oversight to VBSP, including MOF, MPI, MOLISA and SBV, VBSP is not subject to prudential requirements applicable to other Vietnamese credit institutions (banks or microfinance institution) specifying loan classification, loan loss provisions, or capital requirements. Establish prudential oversight for VBSP in line with global good practices for state-owned deposit-taking financial institutions would help the institution move towards financial sustainability.

- There is opportunity to improve the governance of VBSP and diversify the Board of Directors by adding highly qualified independent board members with experience in banking and finance and providing VBSP with increased autonomy over key managerial functions such as pricing and product parameters.

- Since its inception in 2003, VBSP has reported substantial contributions to development outcomes, including 34.1 million households receiving loans, 3.6 million disadvantaged students supported, 105,000 houses built in the Mekong Delta and 5.1 million households escaping poverty. VBSP could consider partnering with a research institution to increase its use of its client administrative data and consider a rigorous impact evaluation of its subsidized credit programs.

VI. VBSP 2020 and Beyond: Operating Models to Consider and Lessons from International Experiences

- Two potential operating models are possible for VBSP in the coming years that represent a shift from its existing operations.

- Option A envisions a smaller, more focused VBSP, receiving government subsidies to serve poor and near poor customers, while Option B visualizes a more financially sustainable VBSP, that continues to serve clients across the income spectrum but receives government support only for services for its poor or near poor clients and otherwise provides credit at market rates.

- Policymakers in Vietnam can consider VBSP's trajectory while considering experiences of development banks trying to achieve development impact and financial sustainability in other countries. Three cases are presented. (i) BANSEFI (recently renamed Banco del Bienstar, Mexico) which has some similarities to Option A, a Bank focused on the poor/near poor; and (ii) Bank BRI: Indonesia, and (iii) Land Bank: South Africa, which represent more closely the model of the bank for the poor and low-income, with mixed policy and market functions, in Option B. These three middle-income countries all have some similarities to Vietnam.

ROADMAP FOR VBSP: ACTIONS RECOMMENDED

Topic	Current Status (2019)	Actions Recommended	Priority	Institutional Responsibility
Policy Mandate	**Broad mandate to serve poor, near poor, and others who are targeted through policy objectives**	**Clarify efficient operational model for the 2020 strategy and beyond, for example, a policy bank focused on the poor and near-poor or a bank for the poor and low income with mixed market and policy functions**	**High**	**MOF, VBSP**
Credit Products	19 credit products, some with overlapping functions and targets	Conduct a coordinated exercise among ministries to consolidate credit programs to reduce overlap in target market and product parameters	Low	MoF, Ministries, VBSP
Savings Products	Savings mobilized at commune transaction points, limited opportunity for transactions	Partnership with a telecom provider would increase the opportunity for VBSP clients to access a range of savings and payment options	Medium	VBSP
Financial Sustain-ability	Net income is negative, dependent on government subsidies for interest rate equalization	Gradually introduce market-based interest rates for borrowers who are not poor or near poor.	Medium	MoF, Ministries, VBSP
	Prices and parameters are set for each product by the relevant ministry.	VBSP's autonomy in pricing and product development needs to be strengthened so they are better able to achieve financial sustainability goals.	Medium	Prime Minister
Credit Pricing	Uniform pricing for each product	Move towards a pricing model that considers operational costs per product and the credit risk premium based on loss experience.	Medium	Prime Minister

Topic	Current Status (2019)	Actions Recommended	Priority	Institutional Responsibility
Savings Pricing	VBSP savings accounts pay less than commercial accounts.	Consider aligning savings rates to market levels to attract more deposits	Medium	VBSP
Efficiency	VBSP does not currently work to facilitate the development of private financial institutions serving marginalized communities.	A role could be considered for VBSP that involves developing the industry, for example, providing technical assistance to financial services providers or wholesale financing, subject to structural changes and strengthening of capacity to manage this role.	Low	MOF, VBSP
Credit Risk	Most loans have annual or bi-annual principal repayment - relatively infrequent large principal payments leading to a high level of restructured (rescheduled) loans.	Consideration could be given to piloting a new credit product with more frequent principal payments and an initial grace period to explore impact on repayment.	Medium	VBSP
	“Frozen” and overdue loans are registered and reported, but not rescheduled loans	**Adjust NPL management methodology so that overdue and restructured loans are captured and reported in line with prudential requirements for credit institutions.**	**High**	**VBSP**
	Useful, available external data not used for credit evaluation	Utilize data to make more informed credit decisions (e.g. CIC data on total indebtedness), particularly for larger loans.	Low	VBSP
	Provisions are set at 0.75 percent, below the current amount of frozen and overdue loans	Link provisions to credit quality rather than a percentage of total lending.	Medium	VBSP
Liquidity Risk	Liquidity levels are low to optimize use of available funding (3.5% of total assets).	Liquidity should be monitored closely and may need to increase going forward.	Medium	VBSP

Topic	Current Status (2019)	Actions Recommended	Priority	Institutional Responsibility
Interest Rate Risk	VBSP is exposed to asset-liability duration mismatches as liabilities reprice faster than loans given the longer maturity of loans.	As the bank becomes more market-oriented, this risk should be managed by the bank for higher income segments rather than subsidized by MOF.	Low	VBSP
Operation-al Risk	Records are mostly paper-based and many functions in the credit process are performed by third parties (mass organizations and credit and saving groups).	Technological advancements (such as deployment of electronic devices) could be explored to help and transfer the data electronically to or from VBSP and better monitor third-party activities.	Medium	VSBP
Oversight	**Several institutions provide oversight to VBSP, but it is not subject to prudential requirements.**	**Establish prudential oversight for VBSP in line with global good practices for state-owned deposit-taking financial institutions.**	**High**	**SBV, VBSP**
Corporate Gover-nance	VBSP's board lacks independent members.	A gradual addition of independent board members with substantial qualifications in banking and finance could be considered.	Medium	MOF
Monitoring and Evaluation	Intensive monitoring of poverty Measures contribution but not attribution	- VBSP could strengthen its existing framework by using administrative data to verify key outcomes (ex: social security datasets to verify formal employment created). - Track data on use of non-VBSP credit by borrowers to monitor overindebtedness - Partner with researcher to conduct rigorous impact evaluation studies of subsidized programs	Medium	VBSP

INTRODUCTION

The purpose of this report is to review the performance of VBSP as a public financial institution and to assess the implementation of its model of a development bank evolving toward market-orientation[1] in accordance with the World Bank's scope of work with the VBSP and the Ministry of Finance. The goal of the market-oriented development bank model is to help VBSP sustainably respond to the changing needs of its clientele as per the directions outlined in its Development Strategy in the period of 2011 - 2020 and in Decision No. 1726/QD-TTg approving the Proposal for Expanding Access to Banking Services for the Economy in September 2016. With review of VBSP's performance to date and options for VBSP going forward, this report has been designed to provide independent inputs to the new strategy for VBSP.

Scope of Analysis:

This report is based on the review of the following information:

- Data on VBSP financial performance provided to the team by VBSP as of October 2018.
- Existing regulations comprising of the policies, processes and internal guidance documents which were made available to us during our work; including;
    - o Decree 78/2002/ND-CP of the Government on credit for the poor and other policy beneficiaries dated 4 October 2002;
    - o Circular No. 161/2010/TT-BTC of the Ministry of Finance on resolving non-performing loans of Vietnam Bank for Social Policies dated 20 October 2010;
- Two weeks of meetings with: VBSP management and departments, Government ministries (MOF, MARD, MOLISA, MPI, CEMA, SBV), Mass organizations: Women's Union, Farmer's Union, Vietel, and other relevant market institutions (banks and microfinance) from October 15-26.
- Field visits to Hòa Bình and HưngYên: district transaction offices, transaction points, discussion with VBSP staff, clients and mass organizations

In addition to the Executive Summary and Roadmap of Recommendations already presented, this report includes the following sections:

I. Finance for the Poor and Low-Income Populations in Vietnam

II. VBSP's Mandate, Clients and Products

III. Financial performance and product pricing

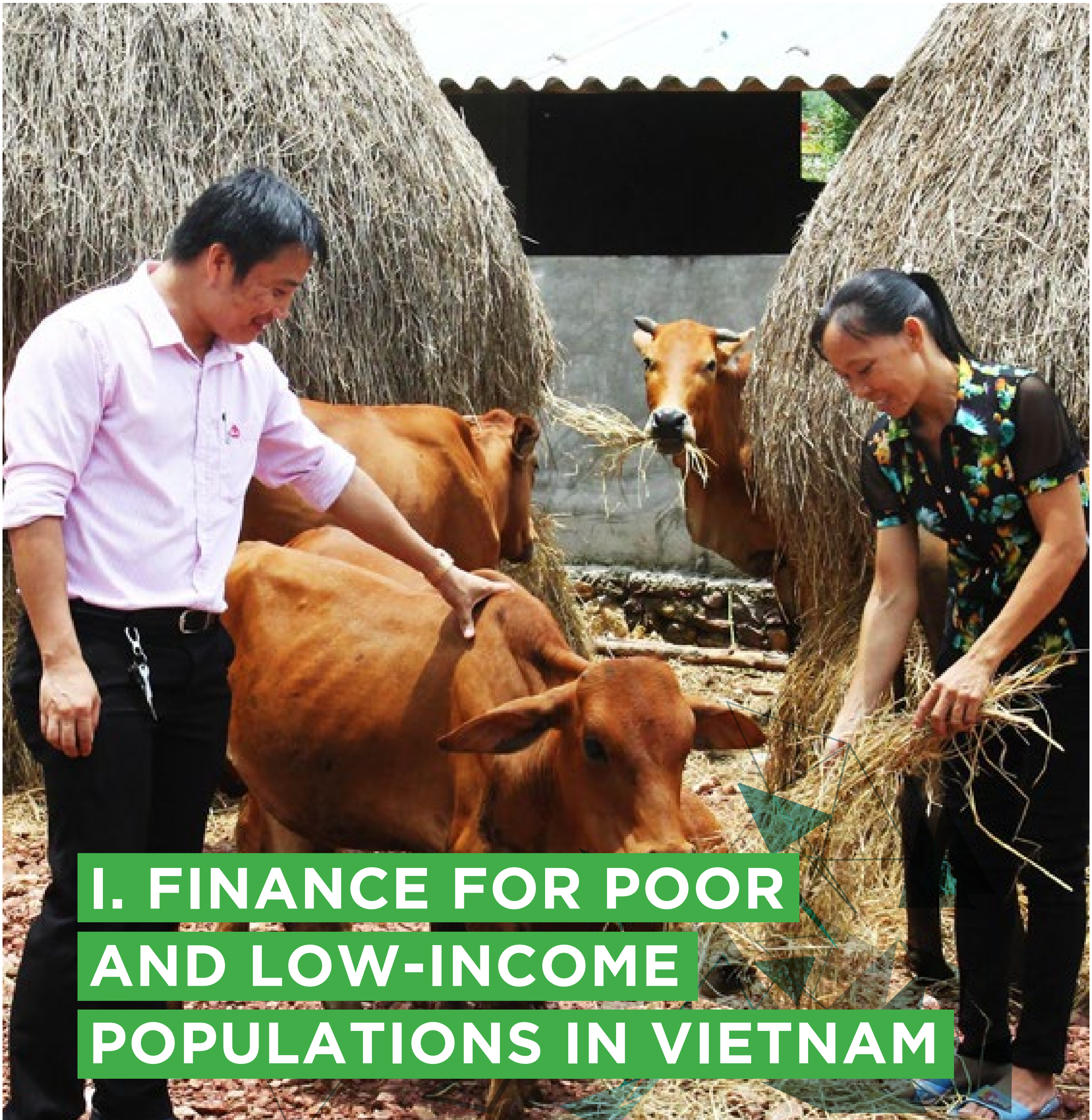
IV. Risk Management

V. Oversight Framework and Governance and Development Impact

VI. VBSP in 2020 and Beyond: Options and International Experiences

This report does not cover in detail the topics of human resources, either at the headquarters or district levels, nor did it delve into issues of information technology, including core banking and other information technology systems. Limitations in the data provided constrained the analysis of liquidity and government subsidies provided to VBSP.

1 Market oriented development bank focus on discovering and meeting the needs and desires of its customers through its product mix. In the case of VBSP – a development finance institution, the adoption of a market-oriented approach is understood as an attempt to satisfy the demands of target clients and to gradually transition out of government subsidies.



I. FINANCE FOR POOR AND LOW-INCOME POPULATIONS IN VIETNAM

SUMMARY

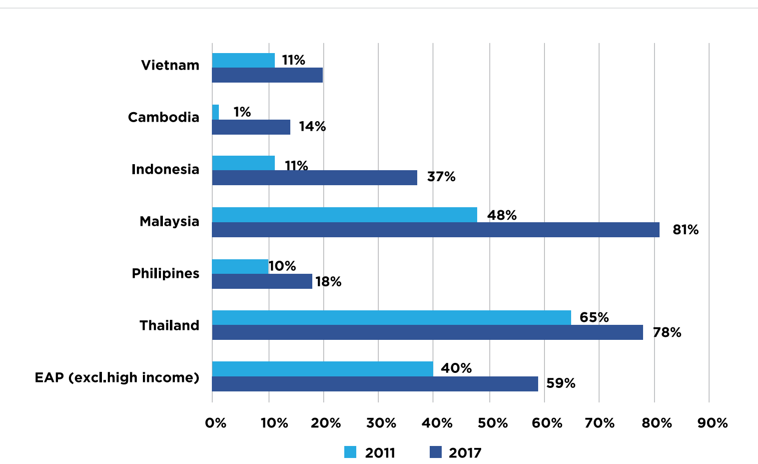
- In Vietnam, financial inclusion has been increasing from a low base, although access to branch networks and ATM per capita remains relatively low.
- The Vietnamese financial sector is dominated by banks. Commercial bank assets represent 95 percent of financial system assets, with VBSP representing 2 percent of system assets.

A. FINANCIAL ACCESS AND USE

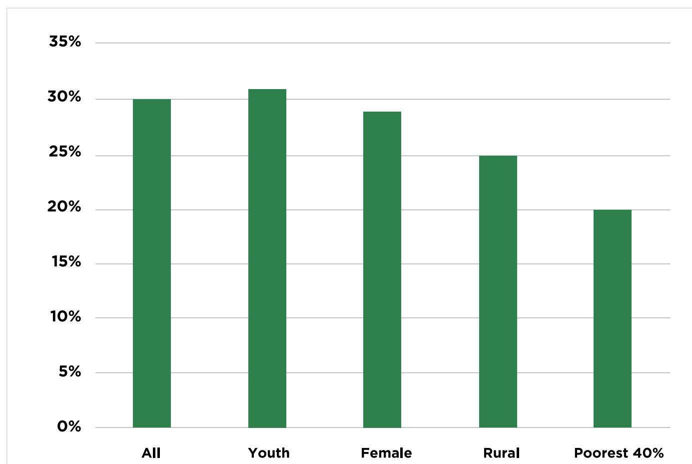
1. **In the last decade, financial inclusion in Vietnam has increased from low base, and opportunities remain to further strengthen financial inclusion to the poor and low-income populations that are the target of VBSP.** The percentage of those older than 15 years (adults) having an account at financial institution increased from 21.4 percent in 2011 to 30.0 percent in 2017, a moderate increase, but below the average for East Asia and Pacific (EAP), excluding high income countries of 70.6 percent. The share of adults in the poorest 40 percent of the population terms of income in Vietnam with a financial account also increased from 11.0 percent in 2011 to 20.3 percent in 2017, higher than in Cambodia and the Philippines but well below that of Indonesia, Malaysia and Thailand and the EAP average, excluding high income countries of 59.3 percent (Figure 1a). The Government of Vietnam has issued Decision 986/QD-Ttg approving the development strategy of the Vietnam banking sector to 2025, with vision to 2030 and is in the process of drafting a national financial inclusion strategy to increase the portion of the population with access to finance.

Figure 1. Account Penetration in Vietnam

a. Share of Poorest 40% with an Account at a Financial Institution



b. Share with Account at Financial Institution, Total and Subgroup



Source: World Bank Findex 2011, 2017.
Note: Data reported for the adult population aged 15+, except for data for youth (ages 15-24)

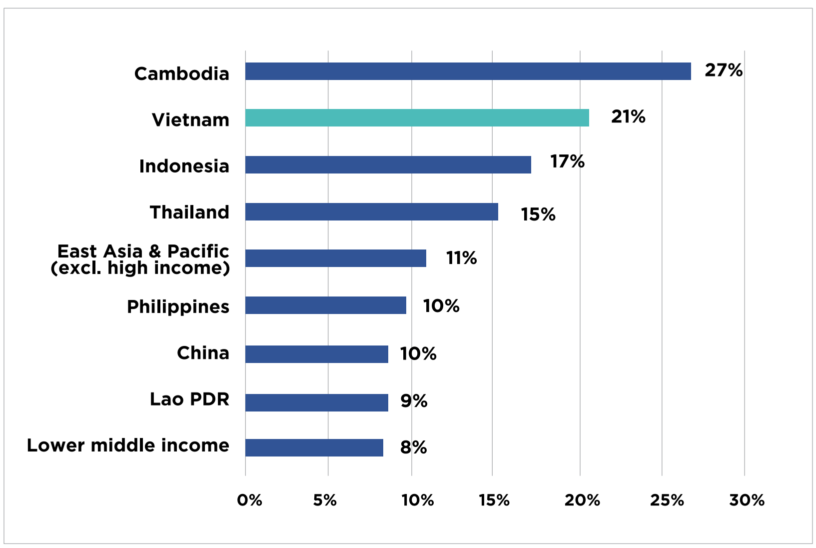
2. **The poorest 40 percent of the population in Vietnam lag other key subgroups in penetration of financial accounts.** With an overall penetration of financial accounts of 20.3 percent, the poorest 40 percent of the Vietnamese population with an account as a financial institution lag the population of youths (31 percent), females (29 percent) and those in rural areas (25 percent).

3. **Nearly half of those surveyed (45 percent) indicated their reason for lack of a financial account was insufficient funds.** Other key reasons cited for respondents' lack of account ownership in the 2017 Findex survey include that someone in the family already had an account (23 percent), lack of necessary documentation (15 percent), no need for financial services (14 percent) and the expense and the distance to access the account (listed by 12 percent each).

4. **The share of adults borrowing in Vietnam compares favorably with regional averages.** Twenty one percent of Vietnamese adults reported borrowing from a financial institution, exceeding EAP average of 11 percent. At 24 percent and 23 percent respectively, the share of rural borrowers and borrowers with income in the bottom 40 percent range was slightly higher than that of the general population. Surveys have highlighted that access to credit was the main business environment constraint for SMEs.

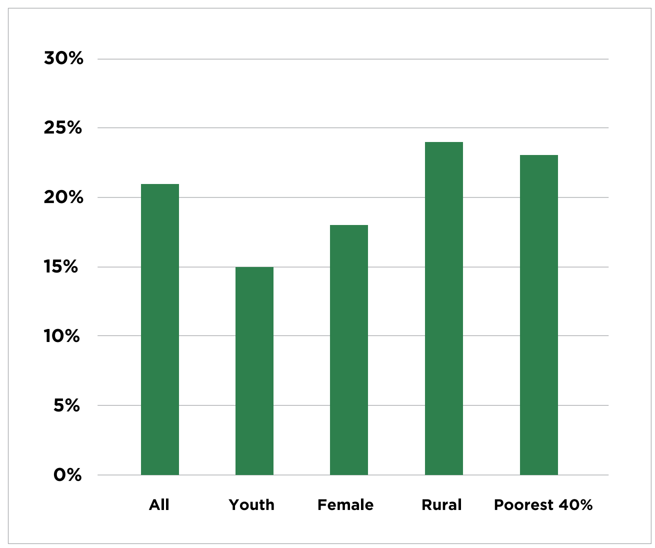
Figure 2. Borrowing Activity in Vietnam

a. Adults who Borrowed from a Financial Institution (age 15+)



Source: World Bank Findex 2017

b. Share Borrowing from a Financial Institution



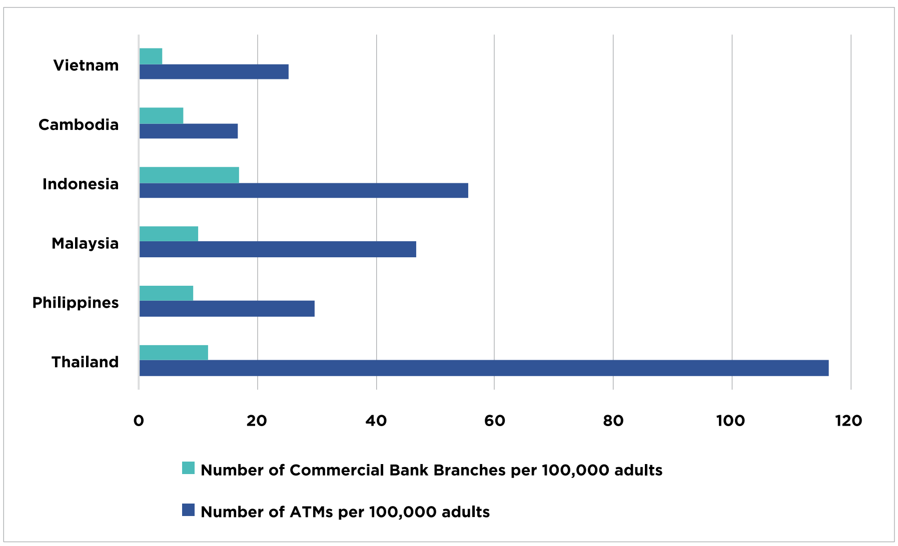
Source: World Bank Findex 2017

B. BRANCHES AND OTHER CREDIT INFRASTRUCTURE

5. **Access to financial institutions via branches and ATMs is relatively low in per capita terms.** At 3.9 commercial bank branches per 100,000 adults, Vietnam lags the East Asian comparators shown in Figure 3. There are 25.3 ATMs per 100,000 adults, but again, this is lower than all the other comparators shown except for Cambodia. SBV has noted gaps, particularly in rural and remote areas, and several districts remain without any branches.

Figure 3: Availability of Branches and ATMs

Commercial Bank Branches and ATMs per 100,000 adults



Source: IMF FinAccess Database, 2018

2 The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of the World Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

C. FINANCIAL SYSTEM STRUCTURE

Table 1. Banking System in Vietnam, end-2018

Categories of Credit Institutions	# Institutions	Total Assets (bn VND)	Total Assets (bn US$)	% System	CAR	Return on Assets	Return on Equity
State-owned commercial banks	7	4,863,353	209.7	43.9%	9.52	0.52	10.21
Joint stock commercial banks	31	4,554,977	196.4	41.1%	11.24	0.76	9.88
Joint venture, 100% foreign-owned banks, foreign banks' branches	57	1,136,614	49.0	10.3%	25.9	0.88	5.70
Finance and leasing companies	27	167,822	7.2	1.5%	19.5	3.02	13.83
Cooperative bank	1	32,429	1.4	0.3%	24.1	0.42	3.22
People's Credit Funds		113,171	4.9	1.0%	-	0.87	12.95
Microfinance institutions (excl. VBSP)	4	12,908	0.6	0.1%	-	-	-
VBSP	1	198,791	8.6	1.8%	N/A	-	-
Financial System		11,080,065	478		12.2	0.70	9.06

Note: SBV data based on Financial Statements at end Dec 2018, Vietnam Development Bank data is not included.

State-owned commercial banks include VBARD, Vietinbank, Vietcombank, Joint Stock Commercial Bank for Invesment and Development of Vietnam, Vietnam Construction Bank; Global Petro Commercial Bank, OCEAN Commercial Bank.

Official exchange rate: VND/USD = 23,195, as of December 30, 2018

6. **The Vietnamese financial system is dominated by state owned banks.** As indicated in Table 1, Vietnam has a relatively large number of banks, both domestic and foreign, and commercial banks represent 95 percent of the assets of the system. VBSP makes up 1.8 percent of system assets, while microfinance institutions make up just 0.3 percent. Capital adequacy of the system is 12.19 percent, with Return on Assets and Return on Equity at 0.70 and 9.06 percent respectively. However, these ratios cannot be easily compared with those of VBSP, which does not adhere to the same prudential standards applicable to commercial banks as described in Section III of this report.

Table 2. Top Ten Banks and VBSP, end-2018

Vnd bn	Total Assets	Loans	Total Customer Deposits	Sharehold-ers' Equity	Net Interest Income	Net Fees and Comissions	Net Income (loss)
Bank for Investment and Development of Vietnam	1,313,038	976,334	989,671	54,693	34,956	3,551	7,542
Vietinbank	1,164,318	851,921	825,816	67,469	22,520	2,770	5,428
Agribank	1,152,904	864,461	1,007,694	48,529	34,022	2,148	3,931
Vietcombank	1,072,983	622,358	802,223	63,889	28,409	3,401	14,658
Saigon Commercial Bank	508,954	299,174	384,914	16,578	2,907	1,299	299
Sacombank	406,041	253,100	349,197	24,632	7,634	2,682	1,790
Military Commercial Bank	362,325	209,175	239,964	34,173	14,583	-305	6,190
Asia Commercial Bank	329,333	227,983	269,999	21,018	10,363	1,498	5,137
Vietnam Development Bank	325,116	289,604	3,463	18,251	-4,362	5,511	-491
Saigon-Hanoi Commercial Bank	323,339	214,001	225,226	16,554	5,538	642	1,666
VBSP	198,791	186,224		37,173			

7. **Vietnam's banking system is dominated by four large state-controlled banks.** As shown in Table 2, the four largest state-controlled banks are Bank for Investment and Development of Vietnam (BIDV), Vietnam Bank for Industry and Trade (Vietinbank), the Commercial Bank for Foreign Trade of Vietnam (Vietcombank) and the Vietnam Bank for Agriculture and Rural Development (VBARD) and which dominate local banking activity and account for about 43 percent of total sector assets Digital finance is taking root in Vietnam, with 23 percent of those aged 15 or over reporting to have made or received a digital payment in the last year (Findex 2017), up from 18 percent three years before (Findex 2014), but well below the East Asia and Pacific average of 58 percent (Findex 2017). Most payments are transacted in cash.

II. VBSP'S MANDATE, CLIENTS AND PRODUCTS

SUMMARY

- VBSP was created by the Government to provide subsidized credit to the poor and other targeted policy beneficiaries, responding to the need to differentiate commercial and policy credit.
- As poverty in Vietnam has declined, VBSP has experienced changes to its traditional market of the poor and has increasingly served higher income segments.
- VBSP has adhered to its goal in the strategy of 2011 to 2020 of diversification of products and services and has moved towards a more multi-product environment.
- Credit is the main product of VBSP, but savings are increasing from a low base.
- For VBSP's next strategy, potential exists to make use of products beyond credit, particularly payments.

A. POLICY MANDATE AND VBSP'S ROLE IN THE MARKET

8. **VBSP was created in 2002 by the Government to provide subsidized credit to the poor and other targeted policy beneficiaries, responding to the need to differentiate commercial and policy credit.** The VBSP was established under Decision 131/2002/QD-TTg of October 4, 2002, with the charter approved on January 22, 2003 (Decision No. 16/2003/QD-TTg)[3]. The VBSP was created to take over the small-scale policy and directed lending programs previously administered by the state-owned commercial banks and other government entities, including the Vietnam Bank for the Poor (VBP) and consolidate numerous policy lending programs into one institution. The VBP was seen as successful in reaching the poor, but also as institutionally weak and highly dependent on other entities for its operations.[4] VBSP was inaugurated in March 2003 as a restructured model of the VBP and was spun off from the Bank for Agriculture and Rural Development. VBSP delivers its mandates through multiple programs decided by the government and Prime Minister, including the New Rural Development Program and Sustainable Poverty Reduction Programs among others.

9. **The 2018 strategy for the banking sector emphasizes VBSP's role in alleviating market failures.** In August 2018, the Prime Minister approved the development strategy of the Vietnam Banking Sector to 2025 (Decision No. 986/QD-TTg). Regarding VBSP, the strategy states it should "Focus on unifying the policy credit function from commercial banks to VBSP and develop VBSP into an organization capable of autonomy and stable and long-term development, while maintaining its role as a public financial institution implementing the Government's social policies; focusing on areas where financial institutions operating on market principles cannot meet or only partially meet".

10. **The solvency of VBSP is guaranteed by the Government and it acts as a non-profit institution with a compulsory reserve rate of 0 percent.** VBSP's operating duration was set at 99 years and it is fully exempt from taxes, state budget remittances, and the deposit insurance scheme. The guarantee of the Government means that the will honor VBSP's borrowings from financial institutions and other creditors in the event of a default. The VBSP also operates under the Law on Credit Institutions and the Government's Decrees, overseen by state authorities such as the Ministry of Planning and Investment, Ministry of Finance, Ministry of Labour, War Invalids and Social Affairs, Ministry of Construction, Committee on Ethnic Minorities and the State Bank of Vietnam (SBV) as discussed in greater detail in Section V on Oversight.

11. **VBSP's client segments are determined based on the proposals made by the ministries.** Any relevant ministry can propose a credit scheme for VBSP, to be mandated by the Government. Ministries with active credit schemes include Ministry of Labor, Invalids and Social Affairs (MOLISA) and Ministry of Agriculture and Rural Development (MARD). VBSP's clients, which are defined as poor and near poor households and other policy beneficiaries in its operational guide, depending on customer characteristics, are the eligible beneficiaries in more than 20 credit programs. Customers can only borrow loans from one credit program for the business and production purpose and can borrow other credit programs for non-production purpose.

3 Decree No. 78/2002/ND-CP of October 4, 2002 on Credit for Poor People and Other Policy Beneficiaries and Decision No. 180/2002/QD-TTg of December 19, 2002 Promulgating the Regulation on Financial Management Applicable to the Social Policy Bank also directly relate to the governance of the operations of the VBSP.

4 Financial Sector Issues Note. Vietnam Bank for Social Policies. World Bank: 2004.

12. **In the 2011-2020 VBSP strategy, it committed to the following financial performance and sustainability goals:**

- 100 percent of poor households and other policy-based beneficiaries who have borrowing needs and eligible conditions are entitled to access products and services by VBSP
- Average annual growth rate of outstanding loans of about 10%
- Simplification and standardization of professional procedures
- Diversification of products and services
- Modernization of operational expertise, and integration with global and regional banking systems
- To improve and promote effective and efficient operation of monitoring and control

13. **VBSP is a financial institution that provides the most microfinance products and services in Vietnam and one of the largest providers of microfinance in Asia.** VBSP's product offerings and target segments play a critical role in financial inclusion. As of late 2018, VBSP served nearly 6.7 million active clients through a nationwide network, including 63 provincial branches, 631 district transaction offices, nearly 11,000 transaction points at commune level and nearly 200,000 savings and credit groups at village, hamlet. VBSP has strong partnerships with mass (grassroots) organizations and local authorities who provide manpower for its credit delivery by identifying and monitoring clients for VBSP for a fee. Through this network, VBSP covers approximately 92 percent of borrowers in the Vietnamese microfinance market and 87 percent of volume (MIX Market 2018). The Vietnamese market is listed as the third largest in terms of microfinance borrowers (Microfinance Barometer 2018). VBSP has a diverse set of lending instruments, with over 20 credit programs for different types of lending needs, with a combination of preferential rates or close-to-market rates.

14. **VBSP provides financial services in association with mass organizations who collaborate on credit monitoring.** VBSP delegates some tasks in the lending process to four mass organizations, including the Women's Union, Farmer's Union, Youth Union, and War Veteran's Association and Ho Chi Minh Communist Youth Union, by establishing Savings and Credit Groups (SCG) consisting of 5 to 60 members living in the same area. These tasks include communication, SCG monitoring and supervision. The management boards of SCGs are entrusted by VBSP to collect monthly interest and deposits from group members and conduct some other tasks in the lending process, while individuals still have the responsibility to repay the principal of the loan directly to VBSP. The SCG is not responsible for repaying the loan when the borrowers fail to do so. Each SCG has its own Management Board consisting of two people (the Head and Deputy Head) selected by its members. The operations of the group are subject to the direction, monitoring and inspection of the Commune People's Committee, and the entrusted mass organizations. VBSP pay fees to the mass organizations and commissions to the SCG's Management Board.

15. **As the dominant market player in microfinance in Vietnam, VBSP's functions, credit terms and conditions and target segments will influence the development of Vietnam's nascent microfinance industry.** Section V describes two options for VBSP's business model considering the potential for industry development.

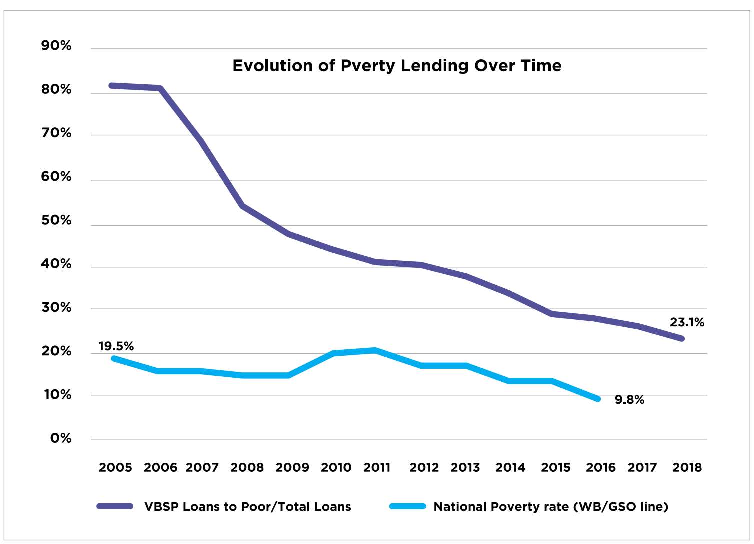
B. CLIENTS

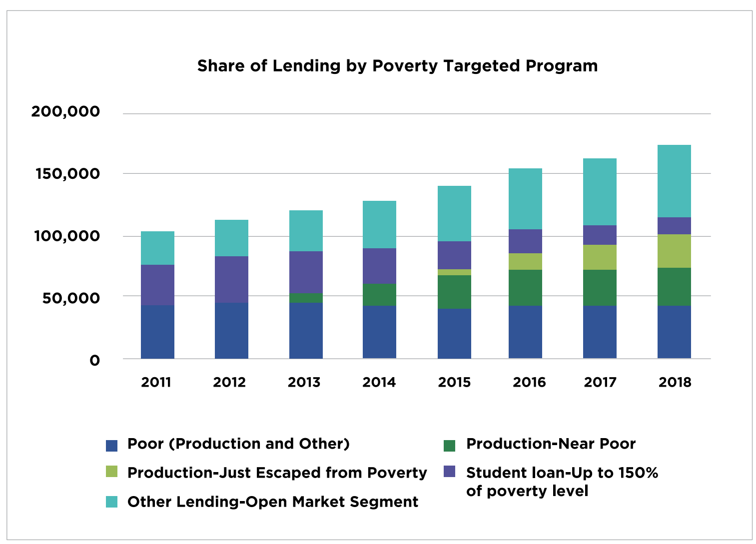
16. **As poverty in Vietnam has declined, VBSP has experienced changes to its traditional market of the poor.** The proportion of the population living below the national poverty line (using the General Statistics Office of Vietnam and World Bank poverty line) reached 13.5 percent in 2014—down from close to 60 percent in 1993. From 2003 when VBSP was first established until 2017, the poverty rate was reduced by more than two thirds from its peak of 19.5 percent[5] As of 2017, the poverty incidence dropped down to 6.7 percent in proportion of poor households per MOLISA's multi-dimensional poverty standards. Combined with 5.32 percent of near poor households, the core market of VBSP totaled 2.9 million households.

17. **As a significant portion of the poor is less vulnerable to falling back into poverty than before, VBSP has witnessed gains in poverty reduction in its target market in recent years.** Most poor households escaping poverty have successfully sustained their gains, that is, 98 percent of those above the poverty line in 2014 remained non-poor in 2016. The risk of falling into poverty also declined. During the period of 2014 to 2016, the probability of falling into poverty was only 7 percent during 2014 to 2016. Some groups among the poor are still subject to multiple sources of vulnerability and/or rely on informal sources of income, i.e. family farming, small household enterprises, and causal employment in the wage sector.[6] Small shocks may therefore relatively easily send such households back into poverty.

18. **VBSP's lending to the poor has declined over time, in conjunction with the overall drop in poverty in Vietnam.** In 2018, lending volume to the poor is approximately ***23 percent*** of the portfolio[7], while lending to the near poor and "just escaped from poverty" segments totals ***31 percent***. (Figure 4). Eligible VBSP clients may also utilize other credit programs for disadvantaged students, safe water and rural sanitation, ethnic minorities, and other beneficiaries. Of the 3 million poor and near poor households in Vietnam, reports suggest that 2.5 million households have loans with VBSP.

Figure 4. Evolution of Lending to the Poor





5 Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004, Vietnamese Academy of Social Sciences, p.12

6 "Well begun but not yet done – Progress and emerging challenges for poverty reduction in Vietnam", Valerie Kozel, editor, World Bank, 2014.

7 Loans to the poor were defined as the following products: loan to poor households, loans to extremely disadvantaged ethnic minority households, loans to poor households in the Mekong River Delta, and housing loans to poor households. Other loan types such as "safe water and rural sanitation" serve both poor and non-poor households but were not included in this calculation as data are not available to differentiate the lending volume assigned to poor and non-poor households.

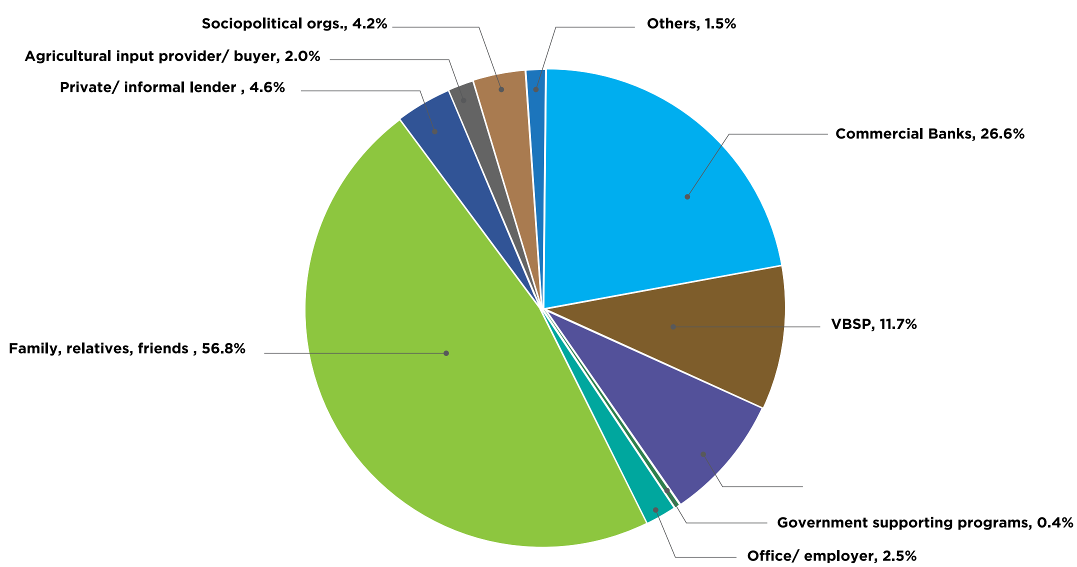
19. **The majority of VBSP's poor clients live in rural areas and engage in agriculture with low levels of productivity and profitability.** Eight-two percent of the near poor and 84 percent of those below the 40th income percentile ("bottom 40") are in rural areas. The northern mountains and central highlands are home to 56 percent of the poor. Partly because of lack of land titles needed to secure credit, the poor lack access to finance needed to invest in annual and perennial crops that require high upfront investments. VBSP clients include poor households, near poor households, farming households do not have access to water supply and sanitation facilities, ethnic minorities, traders etc. The average consumption level of Vietnamese in the bottom 40 percent has increased, reflect increased opportunities for VBSP lending. Consumption has been growing by 6.8 percent annually from 1993 to 2014[8], and at a slightly slower pace between 2014 and 2016. Box 1 presents additional data on VBSP clients and VBSP's role in the financial system.

Box 1: VBSP's Clients: Insights from a New Financial Inclusion Survey

A 2019 national financial inclusion survey provides useful information on VBSP's role in financial services in Vietnam. The survey was conducted from March 5 to April 30, 2019 with a total of 5,496 responses.

The data show a large role of VBSP in the provision of credit. According to the survey results, 37 percent of adults in Vietnam have borrowed VND 1 million ($US43) and above in the past 12 months. Among those who have a loan, borrowing from family, relatives or friends accounts for highest share (56.8 percent), followed by borrowing from commercial banks (26.6 percent) and then VBSP (11.7 percent) as shown in Figure 5.

Figure 5: The Percentage of Adults Borrowing VND 1 million and Above in the last 12 months



Source: Demand side survey, Vietnam 2019. **Note**: Borrowers can choose more than one source of credit.

The penetration of VBSP credit varies among geographic regions and by educational attainment. In the Northern midland and mountainous area, VBSP is the second most popular financial source after borrowing family and friends (19.98 percent), while it is commercial banks in other economic regions. The survey results show that the higher the education level, the higher rate of borrowing from commercial banks and the lower the rate of borrowing from VBSP. Twenty-one percent of adults who have not finished grade 1 or lower education who have a loan borrow from commercial banks and 23.3 percent from VBSP, meanwhile, for a group of tertiary graduate and higher education, the proportions are 44 percent and only 1.5 percent for commercial banks and VBSP, respectively. In addition, VBSP was alone among formal financial institutions in having a higher share of female clients than male clients.

8 Vietnam CPF 2018-2022

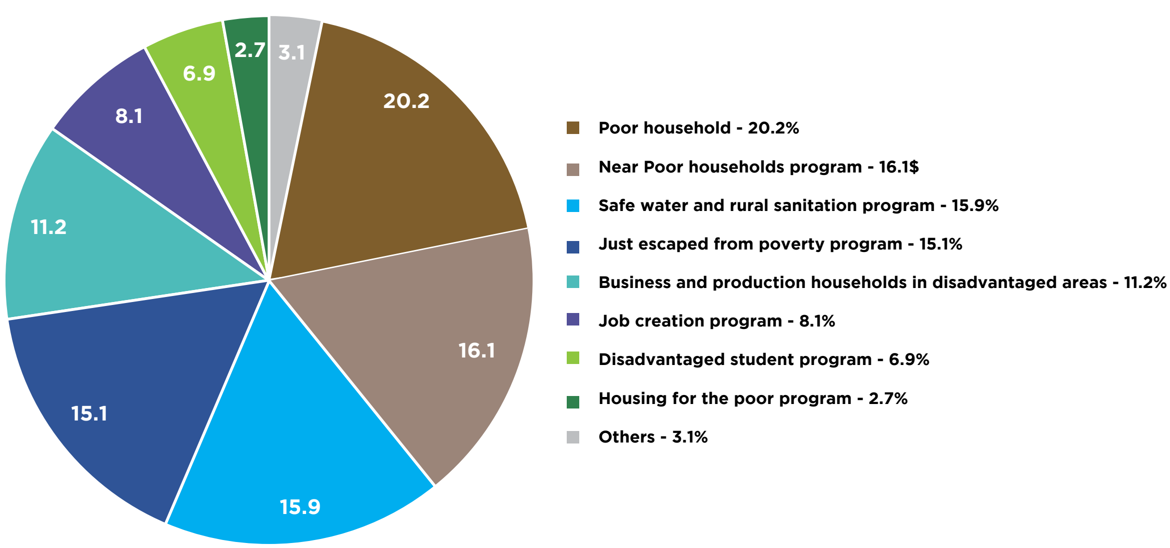
C. CREDIT PRODUCTS

20. **Although, VBSP products are largely focused on credit, VBSP is advancing towards its 2011-2020 strategic goal of diversification of product and services.** VBSP had 8.6 million loans outstanding to nearly 6.7 million borrowers as of 2018 end (an average of 1.3 credit products per borrower), with some borrowers availing of VBSP loans for productive purposes and for student loans for example. Nearly all loans (over 99 percent) are lent directly to each household via the mass organizations, with just a small number of loans to customers without entrusting third parties. VBSP does not play a role as a second-tier credit provider to other financial institutions.

21. **Each credit program has a different set of parameters.** The current average outstanding loan amount is VND 30 million/household to June 30, 2019 with a maximum mortgage-free loan amount at 100 million VND (around $US4,300) since March 1, 2019. The maturity of agricultural loans attempts to match the cycle of agricultural production and can be up to 5 years depending on the needs of farmers, or even up to 25 years (ex: up to 20 years for forestation and 25 years for social housing loans). The group of lending programs for poor, near-poor and newly-escaped from poverty households has the maximum loan amount of VND 50 million/household, the average outstanding loan is VND 30.8 million/household. Lending to the program of rural clean water and environmental sanitation has the average outstanding loan of VND 10.85 million/household and the maximum loan amount of VND 20 million/household).

22. **Eight lending products make up 97 percent of lending volume.** As shown in Figure 6, some VBSP products are specified for general business activities by client segment (ex: loans to poor /near poor /just escaped from poverty) while others have a more narrowly focused credit destination (ex: water and rural sanitation, housing). The credit product for those Just Escaped from Poverty has increased sharply since its introduction in 2015, reflecting a demand for VBSP products in higher income segments, while the volume of lending to disadvantaged students has declined.

Figure 6. VBSP Major Loan Products, Share of Total Portfolio



Source: VBSP data, 2018

Table 3. Portfolio Volume 2011 to 2018, by Credit Product

bn VBSP	2011	2012	2013	2014	2015	2016	2017	2018	2018 % Portfolio
Poor households program	38,482	41,560	41,650	39,252	36,384	38,653	39,061	38,014	20.2%
Near Poor households program	0	0	7,110	17,140	27,481	29,799	30,295	30,142	16.1%
Just escaped from poverty program	0	0	0	0	3,504	11,828	20,653	28,293	15.1%
Safe water and rural sanitation program	8,540	10,631	12,116	15,386	20,096	23,894	26,573	29,898	15.9%
Business and production households living in extremely disadvantaged areas and communes	11,015	12,871	13,167	13,961	15,483	16,344	18,107	21,123	11.2%
Job creation program	5,204	5,663	5,959	6,284	6,824	8,101	10,834	15,234	8.1%
Disadvantaged student program	33,446	35,802	34,262	29,794	24,456	19,375	15,813	13,046	6.9%
Housing for the poor program	3,335	3,833	3,810	3,766	3,646	3,831	4,733	5,142	2.7%
Migrant workers program for social policy beneficiaries serving as migrant workers abroad for limited terms	728	560	446	460	461	509	580	775	0.4%
Social Housing program under Decree 100/2015/ QD-TTg of the Prime Minister								905	0.5%
Housing purpose with deferred payment	686	743	923	1,049	1,045	974	889	786	0.4%
Extremely disadvantaged ethnic minority households program	534	496	546	549	793	925	831	659	0.4%
Businessmen doing business in disadvantaged areas program in accordance to Decision 92/2009/ QD-TTg of the Prime Minister	317	313	304	287	261	248	240	230	0.1%
Forest sector development program (FSDP)	348	388	452	551	535	495	457	411	0.2%

bn VBSP	2011	2012	2013	2014	2015	2016	2017	2018	2018 % Portfolio
Extremely disadvantaged ethnic minority households in Cuu Long river delta program in accordance to Decision No. 74/2008/QD-TTg of the Prime Minister	463	460	450	447	479	432	373	301	0.2%
Small and medium enterprises program (KFW project)	195	176	169	133	116	108	98	96	0.1%
Loans for the poor to Construct Houses against Flood	0	4	7	7	87	167	177	189	0.1%
Loans for supporting production and job change according to Decision 755/QD-TTg of the Prime Minister	0	0	0	61	502	820	790	701	0.4%
Ethnic minority program under Decision 2085/2016/QD-TTg								485	0.3%
Loan for production afforestation and husbandry development under Decree 75/2015							161	212	0.1%
Other loan projects (funded by foreign organizations):	78	75	75	75	68	73	61	49	0.0%
Other lending	360	345.6	252	255	306	798	1,064	1,102	0.6%

Source: VBSP Annual Report, 2018

23. **Eleven other lending programs focus on some priority regions or are small projects funded by international donors.** As shown in Table 3, Each of these loan products makes up less than 1 percent of the portfolio. Many such lending programs have expired in recent years, and others are set to expire shortly, and the remaining products should be considered for opportunities to reduce overlap. Each credit product is governed by a ministry, so changes to these products involves agreement at both the ministerial and central government levels. A coordinated approach among ministries to streamline these products would be useful to minimize duplication of efforts.

24. **VBSP appears to have the opportunities to more fully satisfy the financial needs of more poor clients and to productively provide more credit to poor households.** The provision of credit at favorable terms (relatively long maturities of 3 to 5 years at interest rates that are often below market) make VBSP's lending products attractive to borrowers. For some programs, certain officials reported that not all eligible borrowers are not always able to get credit when they need it due to lack of resources following excess demand. During site visits, some VBSP clients and staff stated that due to a capital shortage, not all eligible poor and near poor borrowers are able to get credit from VBSP when they need it, although they are not currently tracking data on unmet demand.

25. **Some VBSP's customers noted that they borrow from other higher cost credit sources as the credit provided by VBSP is insufficient to fund certain productive investments (e.g. milk production).** In 2018, in Vietnam for the lending program for the poor, the average loan balance across credit programs was 70 percent of maximum applicable loan size. However, it could be that those borrowers are accessing other loans with VBSP. Furthermore, in 2019, VBSP increased the limit for certain loans, including the lending program for the poor. VBSP is not currently tracking data on use of external credit sources by its borrowers, although MFIs serving the poor reported having among their borrowers active VBSP borrowers. Given the finite resources available for credit provision, VBSP could consider prioritizing the allocation of lending to poor and near poor households to more fully satisfy their credit needs. VBSP could collect metrics on number and duration of borrowers waiting to receive credit.

D. SAVINGS AND OTHER NON-CREDIT PRODUCTS

26. **Deposit services at VBSP are growing from a small base.** The poor/near poor need a variety of financial services beyond credit, including savings and payments and in some cases insurance. The share of savings in total liabilities of VBSP increased from 2.7 percent in 2011 to 15.5 percent from 2011 to 2018. Nearly all VBSP accounts (96 percent) are demand deposits, with an average demand deposit size of US$28. Money transfers are also underdeveloped. Just 4 percent are time deposits, which have an average size of US$2,638. Although there is no formal deposit insurance, the solvency of VBSP is guaranteed by the State.

27. **Savings products have limited transactionality.** VBSP encourages borrowers to deposit a small amount of money every month according to the group's regulations to create a saving habit and set up a debt repayment fund, with group leaders sometimes collecting the deposit at a customer's house on a monthly basis. They can deposit savings at VBSP, then receive a savings book and can withdraw money as required from the amount deposited or transfer to another deposit account. To withdraw money, customers can execute monthly transactions at communal transaction points or go to district transaction offices of VBSP. Savings are mobilized primarily from VBSP borrowers but not from the wider public as the saving products appear less attractive to depositors due to their limited opportunity to make transactions (primarily monthly at meeting times unless the VBSP customer travels to a branch).

28. **The payment activities at VBSP are mainly internal fund transfer and money transfer to customers through the internal money transfer settlement system.** Money transfer outside VBSP system is made through the interbank electronic payment system (Citad). All of 695 transaction offices and branches of VBSP conduct payment transactions with customers. The money transfer units within the VBSP's core banking system and VBSP's transaction center are members representing VBSP to join Citad system to be the focal point for money transfer outside the system.

29. **VBSP's new strategy could support a move to a more multi-product environment to increase access to and convenient use of financial services.** This could include:

    a. **A connection with a telecom service provider:** Viettel, Vietnam's largest telecom provider has been in discussions with VBSP about a partnership. Use of Viettel's network could provide greater ability for VBSP clients to conduct savings and payment transactions on a more regular basis through their phone (fixed line or mobile), rather than on collection days of VBSP. Viettel estimated that 70 to 80 percent of VBSP customers are Viettel users, and that 4 million customers of Viettel have VBSP accounts. Viettel a network that enables cash in cash out, services which would provide VBSP customers with more opportunities for savings and payment-related transactions. Viettel also has a credit scoring model, the kind of which could complement VBSP's existing customer data analytics for the credit underwriting process. Such a partnership would be transformational have implications for all aspects of VBSP's business model: from points of delivery to human resources to risk management.

    b. **A payment product for social transfers into VBSP accounts and other types of payments.** Providing government to beneficiary payment services is something VBSP, with its extensive network to service points across Vietnam, would be well positioned to do. If combined with a savings account that enables recipients to store payments and other funds until they wish to access them, this would be particularly useful to the VBSP client and to VBSP, who would be paid a fee to provide such a service.

c. **For insurance,** While VBSP is focused on credit products, it might consider to let a third-party utilize its network to provide agent services for insurance providers (for example with the MARD program for agricultural insurance). This would be particularly relevant as the legal framework for microinsurance is set up.

d. **Financial education** and further support for business plan development, cash flow management for borrowers could also support VBSP's existing credit programs. Specifically as VBSP contemplates greater use of technology in the delivery of its financial services, it could use its meetings to educate its customers on aspects of the responsible use of digital financial services,

30. **Some development finance institutions have the mandate to strengthen private financial sector institutions in marginalized areas, a role that could be considered for VBSP.** Currently VBSP makes up more than 90 percent of the Vietnamese microfinance market. Vietnamese microfinance providers suggest that VBSP crowds them out with their market power and lower rates, due to subsidies and economies of scale. VBSP could evolve into an organization that, in addition to its traditional functions, coordinates or provides capacity building to financial institutions serving marginalized clients and providing wholesale financing as needed. Considering VBSP's role as a wholesale lender would require a thorough assessment of the actions VBSP would need in the area of financial resources, legal and governance structure, development of human resources and systems requirements to fulfill this role. In the case of undertaking this business, it is necessary to determine the financial institutions which could borrow from VBSP, the purpose of borrowing, the conditions of borrowing and arrangements VBSP must undertake, such as resources, policies, structures, etc.

III. FINANCIAL PERFORMANCE AND PRODUCT PRICING

SUMMARY

- **High solvency:** Capital to asset ratio has ranged from 18 to 21 from 2011 to 2018. Large capital bolstered by Government support would provide room for expanding balance sheet through additional borrowings, but small or negative margins on lending products discourage balance sheet expansion.
- **Non-performing loans:** VBSP reported low levels of overdue (0.39 percent) and frozen debts (0.45 percent) in 2018. However, VBSP reports its rate of extended loans in July 2019 as 8.58 percent. In contrast to other Vietnamese financial institutions subject to prudential requirements, VBSP does not consider loan extensions in its definition of impaired loans which underestimates its portfolio at risk.
- **Liquidity:** Liquidity levels are low to optimize use of available funding (3.5 percent of total assets in 2018).
- **Financial sustainability:** Given its mandate to lend at below market rates to the poor at subsidized rates, VBSP was a loss-making bank for all years from 2011 to 2018, except for 2015 and 2016. Financial sustainability has increased greatly in recent years as VBSP moves away from heavily subsidized provision of loans to "last mile segments" into lending to segments at more market-oriented rates.
- **Efficiency of operational expenses/total assets:** VBSP is relatively efficient as it leverages mass organizations to originate, collect and monitor credit and use of people communes facilities to expand network.

A. PORTFOLIO GROWTH AND USE OF CAPITAL

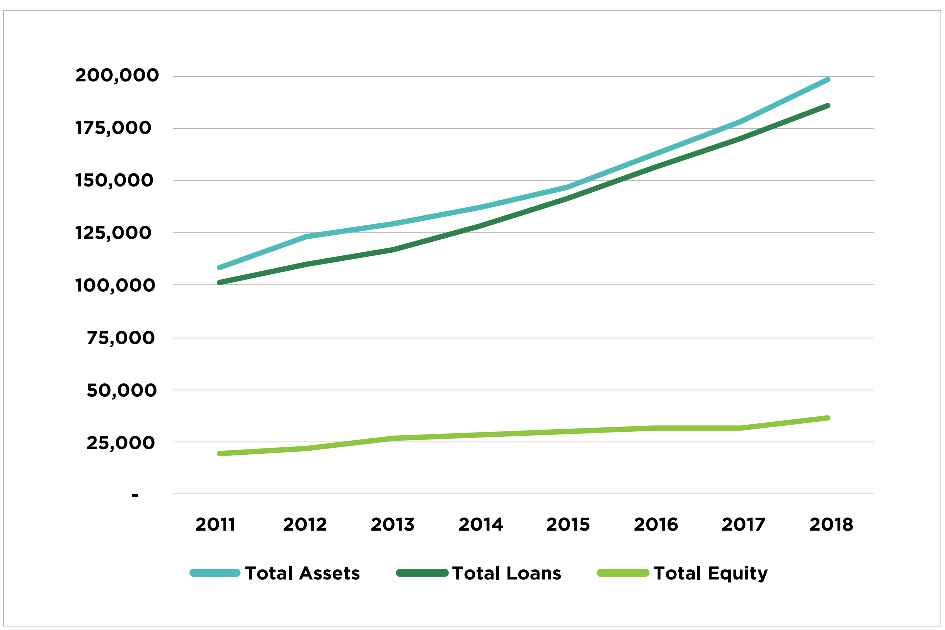
31. **From 2011 to 2018, VBSP's loan portfolio grew nearly 10 percent per year in line with the goal established in its 2011-2020 strategy.** As shown in Figure 6, as of December 2018, VBSP had VND bn198,790 (US$8.52 bn) in assets, up from VND bn107,447 in 2011. VBSP's loan portfolio increased 85 percent between 2011 and 2018, with annual growth rates ranging from a high of 15.1 percent from 2015-2016 to a low of 6 percent from 2012-2013, with an average of annual averages of 9.3 percent in the last 8 years. This increase was driven mainly by an increase in loan sizes rather than an increase in number of clients. VBSP's loan portfolio makes up most of total assets, 94 percent in 2018.

Figure 7. Evolution of Assets and Equity: 2011 to 2018

a. Assets, Equity and Growth rates

bn VND	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	107,447	122,260	129,210	136,450	146,462	162,466	178,749	198,791
Total Loans	100,042	109,737	116,525	128,312	141,291	156,033	170,332	186,224
Total Equity	18,478	21,004	26,616	28,146	30,710	31,994	32,204	37,173
Assets growth rate		13.79	5.68	5.60	7.34	10.93	10.02	11.21
Loan growth rate		9.69	6.19	10.12	10.12	10.43	9.16	9.33
Loans/ Assets	0.93	0.90	0.90	0.94	0.96	0.96	0.95	0.94

b. Assets and Equity: 2011 to 2018



Source: World Bank analysis of VBSP data

Table 4. VBSP Indicators of Financial Soundness and Efficiency-2011 to 2018

Percent	2011	2012	2013	2014	2015	2016	2017	2018	Average 2011-18
Capital/ assets	18.1%	18.2%	21.0%	20.2%	20.7%	19.5%	17.9%	18.5%	19.3%
Loans to customer deposits	3519.1	2712.0	2523.7	1968.7	1657.6	1386.3	922.1	745.5	1929.4
Frozen loans [2]	0.13	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.34
Provisions/ gross loans allocated	0.78	0.5	0.6	0.4	0.3	0.6	0.74	0.30	0.52
Return on assets (ROA) before subsidy	-2.5	-2.2	-2.2	-1.2	-0.2	-0.5	-0.9	-0.9	-1.3
Return on equity (ROE) before subsidy	-13.2	-11.7	-10.4	-5.6	-1.2	-2.6	-5.0	-4.6	-6.8
Interest margin to gross income	91.7	88.0	92.0	93.8	95.1	94.2	92.5	89.0	92.0
Noninterest expenses to gross income	209.0	268.0	191.4	128.3	99.2	98.2	105.5	119.4	152.4
Liquid assets to total assets	1.6	3.8	2.4	2.3	2.0	1.5	2.3	3.5	2.4
Liquid assets to short-term liabilities	61.5	1.2	65.9	50.4	35.9	22.2	22.7	27.7	35.9

Source: World Bank analysis of VBSP data

Note: [1] Liquid assets are defined as cash on hand, deposits at the SBV and deposits at domestic credit institutions. [2] See Box 2 for a further discussion of frozen loans.

32. **VBSP's equity base is large, but small or negative margins on lending discourage balance sheet expansion.** For the last 8 years, the capital to asset ratio has been in the range of 18 to 21 percent, with VND bn 35,865 (18.5 percent of assets) in 2018. VBSP's equity base consists of funding contributed from the state (charter capital, capital contributed for credit programs under the policy decision of the Prime Minister), and entrusted capital from local state budgets, economic organizations and individuals. VBSP's large capital provides room to expand the balance sheet through additional borrowings. However, small or negative margins on lending products discourage balance sheet expansion.

B. PORTFOLIO QUALITY

33. **Loans make up most of VBSP assets.** Data since 2011 show a relatively high level of loans (averaging 93 percent of total assets) and a low but stable level of cash on hand and cash equivalents, averaging 0.06 percent of total assets. Customer deposits are a small but growing part of the VBSP's business, with VBSP lending 746 percent of deposits in 2018. Although this represents a reduction from lending 3519 percent of deposits 2011, VBSP is clearly utilizing sources such as debt from SBV and other credit institutions to fund its portfolio.

Table 5. VBSP Balance Sheet 2018

Bn VND			**Liabilities**	
			Borrowings from Govt & SBV	13,251
Assets		% of total assets	Debt-other credit institutions	64,372
Cash	113	0.1%	Client Deposits	24,980
Deposits at SBV	94	0.0%	Issued valuable papers	39,291
Deposits at other credit insitutions	6,702	3.4%	Trust funds and Other Liabilities	19,723
Loans to domestic entities and individuals	186,224	93.7%	**Total liabilities**	161,619
Fixed assets	5,233	2.6%	Equity	
Other assets	424	0.2%	Contributed capital	13,893
Total Assets	198,791	100.0%	Other capital	21,973
			Total capital	35,865
			Reserves	969
			Retained earnings	338
Source: VBSP			**Liabilities and Equity**	198,791

34. **VBSP formally reports low levels of non-performing loans (1.17 percent at the end of 2018), but internal reports indicate 8.58 percent of loans are being rescheduled, suggesting a higher portfolio at risk if reporting requirements of prudentially supervised institutions were applied.** VBSP allows loans to be extended up to 12 months for short-term loans and for a maximum of half the duration of a medium or long-term loan where customers face difficulties repaying principal and only interest and savings are paid for this period (see details in Box 2). As of end-2018, VBSP reported "frozen" debts of 0.78 percent of the total outstanding loan balance and overdue loans of 0.39 percent, as shown in Table 5. Loan write-offs were 0.39 percent in 2017 and 0.41 in 2018. VBSP states that it tracks the rate of loan extensions internally in its system (in July 2019, the rate was 8.58 percent), although a report on these loan extensions was not available. The two branches visited by the World Bank team reported relatively large share of rescheduled (extended) loans (15-18 percent). Since non-performing loans are typically defined as having a zero payment of principal and/or interest, this suggests that the value of non-performing loans could much higher.

35. **As of 2016, the most common lending product with the highest rate of non-performing loans was the loans to poor household product.** Loans to the poor represents 24.6 percent of the portfolio and 1.4 percent frozen and overdue. Some minor lending products have higher rates of delinquency, such as loans in the disadvantaged ethnic households in the Cuu Long River Delta at 5.46 percent and loans to overseas worker at 4.99 percent and, but each of these products represents less than 1 percent of the portfolio.

Box 2: VBSP's Non-Performing Loan (NPL) Management Methodology

VBSP addresses non-performing loans through:

i) Loan extension: Under specified conditions, VBSP allows eligible borrowers to extend the loan term stated in the credit contract. During extension period, the borrower continues to pay interest and deposit their monthly saving. Extensions can last up to 12 months for short-term loans and up to half of a loan term for medium and long-term loans. VBSP currently applies 2 forms of loan extension:

a) Normal extension: Applicable in particular cases when the borrowers are not able to pay the principal debt on time due to objective reasons and submit a request for loan extension to VBSP. VBSP will verify and consider the loan extension.

b) Extension under Decision 15/QD-HDQT: Applicable for damages in large scope, when the borrowers are not able to pay the debt on time due to natural disasters, epidemics and other objective reasons. VBSP coordinates with relevant organizations and individuals to verify level of damage to customers' loan and assets, if the damage level is below 40 percent, the borrowers can be considered for loan extension.

ii) Frozen loan: Under specified conditions, VBSP can freeze a loan where they do not collect the due debt and the borrower is free of interest during period of loan freeze. Extensions can last up to 3 years for loss of the capital greater than or equal to 40 percent but less than 80 percent and up to 5 years for loss of capital and asset from 80 to 100 percent. If the borrower has difficulties and cannot afford to pay back the debt after the frozen time, the bank will consider a second frozen term, which is equal to the approved first frozen term at maximum.

iii) Write-off: Under specified conditions VBSP ceases to collect a part or the whole of principle and interest from the borrower where they are still unable to pay back the debt after the frozen term and all possible collection solutions carried out by the bank.

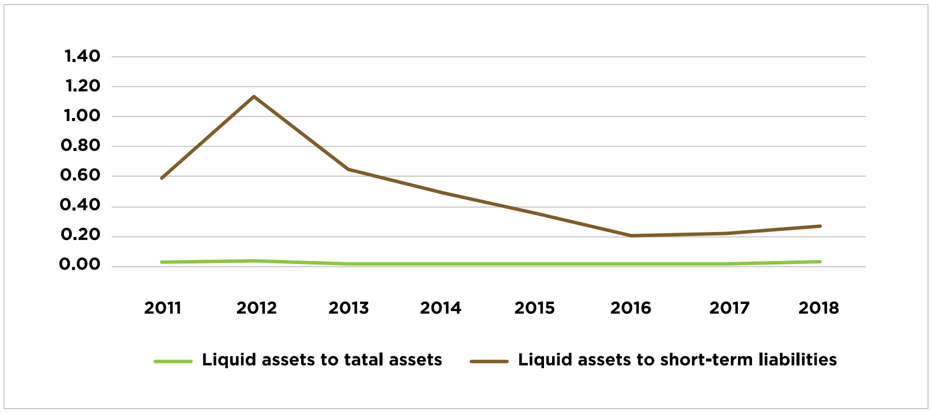
When a borrower's loss has been objectively verified, VBSP works with relevant individuals and mass organizations to appraise the scale and the remaining assets of the borrower. Losses are considered under specified conditions such as: natural disasters, epidemics affecting livestock or crops, changes in state policy or laws negatively affecting production and business activities of clients, political or socioeconomic change in the world, country or region where Vietnamese laborers are working, unemployment due to unilateral ending of a labor contract from a firm suffering economic crisis and legal bankruptcy with no capacity to repay the debt. For loans to students or migrant workers losses, other types of conditions are considered, such as physical/mental illness, and the borrower being declared missing or dead. The source of capital for write-offs is the reserves fund for credit risks of VBSP. Loan extensions and loan freezes are covered by the annual operational capital of VBSP.

Source: *Decision No. 50 of Prime Minister (2010) and Decision 15 of the Chairman (2011) regulating non-performing loans at VBSP.*

C. LIQUIDITY

36. Liquidity levels at VBSP are low to optimize the use of available funding. Just 3.5 percent of VBSP assets are liquid relative to total assets in 2018, far lower than the systemwide average for depository institutions of 12.7 percent (IMF, 2017). As shown in Figure 6, liquid assets are 27.7 percent of short-term liabilities, suggesting that liquidity may require greater monitoring in the future as VBSP's deposit taking grows. No explicit contingent credit lines exist for VBSP for emergency situations, but the solvency of VBSP is guaranteed by the Government.

Figure 8. Evolution of Liquidity



D. FINANCIAL SUSTAINABILITY

37. VBSP has an extensive network nationwide with branches in almost all communes and acts as the government's credit provision facility and offers credit directed by policy. VBSP is fully sponsored by the government, duty free, ringfenced from the state budget, free from insured deposits and does not have to maintain reserve requirement ratio. Apart from its capital provided by the state budget, VBSP mobilizes a large amount of fund from domestic and foreign organizations and individuals, issues government-guaranteed bonds, and receives 2 percent deposits from the state-owned credit institutions with interest payment paid by VBSP.

38. Between 2011 and 2018, VBSP has primarily been a loss-making operation reflecting its non-profit objectives, utilizing government subsidies and capital injections to continue operations and sustain credit growth[9]. Table 6 shows that net income has primarily been negative from 2011 to 2018, with the exceptions of 2015 and 2016. This reflects the fact that VBSP provides credit at subsidized rates. Annual subsidies from the state budget compensate for the negative interest rate spread and for operational expenses. Lack of profitability means that VBSP does not have internal capital generation capacity. To fund its activities VBSP can issue bonds guaranteed by the Government (currently for a fee). VBSP has also a loan from SBV at below market rates and its deposit base has been growing. VBSP receive a credit subsidy in the amount of the difference between the lending rate and the market rate that pays on its liabilities and in covering operating costs. MOF submits to the PM the plan for capital (to sustain credit growth) and subsidy allocation to VBSP for 5 years as well as financial management regulations.

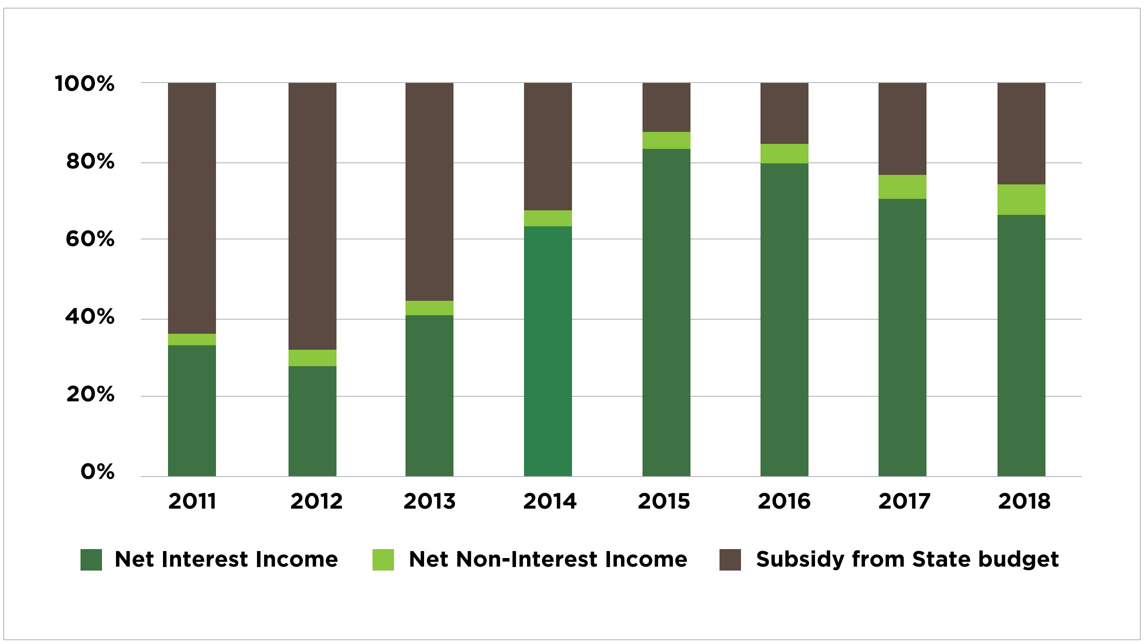
9 Definitions of financial sustainability typically consider the capability of institutions to manage their operating costs through operating revenue generated from their own operations without depending on external support, donor support or subsidy.

Table 6. Summary of Profit and Loss Statement: 2011 to 2018

VND bn	2011	2012	2013	2014	2015	2016	2017	2018
Net Interest Income (A)	1,556	1,374	2,267	3,756	5,080	5,672	5,699	5,322
Net Non-Interest Income (B)	141	188	197	248	260	349	464	659
Gross income (A+B=C)	1,697	1,562	2,464	4,004	5,340	6,021	6,163	5,981
Operating expenses (D)	3,546	4,179	4,717	5,137	5,298	5,916	6,501	7,138
Net income (C-D=E)	-1,849	-2,617	-2,253	-1,133	43	105	-338	-1158
Provisions (F)	784	54	651	439	401	943	1,258	552
Profit before tax (E-F=G)	-2633	-2,671	-2,903	-1,572	-358	-838	-1,596	-1,710
Subsidy from State budget (H)	3,034	3,341	3,079	1,937	749	1,083	1,872	2,043
Profit after subsidy (G+H)	401	670	176	365	390	246	275	333
Subsidy/Gross Income (%)	179%	214%	125%	48%	14%	18%	30%	34%

Note: Net interest income=interest income-interest expenses, Net non-interest income=Income from deposits, treasury, payment, other activities, Operating expenses =staff+asset expenses+managerial expenses+fees+other expenses

Figure 9. Evolution of State Subsidy as a Share of Income: 2011 to 2018



39. **VBSP has shown a sharp improvement between 2011 and 2018 in financial sustainability as it increasingly serves non-poor segments at near-market rates.** Table 6 shows that the subsidy provided by the government has dropped from VND bn 3,034 to VND bn 2,043, that is 179 percent of gross income in 2011 to 34 percent of gross income in 2018. These reflect Substantial efforts in recent years to improve financial sustainability by moving away from heavily subsidized provision of loans to "last mile segments" (e.g poor) into lending to segments at more market-oriented rates in the context of the 2011-20 strategy. However, subsidized programs remain, such as the social housing program introduced in 2017 for buying and leasing social houses or building or repairing houses per regulations at Government Decree No. 100/2015/ND-CP.

Table 7. Profitability and Efficiency: 2011 to 2018

	2011	2012	2013	2014	2015	2016	2017	2018
Return on assets (%)	-2.5	-2.2	-2.2	-1.2	-0.2	-0.5	-0.9	-0.9
Return on equity (%)	-13.2	-11.7	-10.4	-5.6	-1.2	-2.6	-5.0	-4.6
Cost to Income (%)	1.5	1.5	1.3	1.2	1.1	1.1	1.1	1.2
Net Interest margin to gross income(%)	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9
Operating Expenses to Assets (%)	0.6	1.1	0.7	0.5	0.4	0.2	0.2	0.3
Loans per staff member				954	937	901	888	

40. **Return on Assets (ROA) and Return on Equity (ROE) have generally improved between 2011 and 2018.** Although ROA and ROE are negative, reflecting the negative net income of the institution before subsidy, they have become less negative over time as shown in Table 7. ROA improved from -2.5 percent in 2011 to -0.9 percent in 2018, while ROE improved from -13.2 to -4.6 percent. It should be noted, that SBV reports the ROA and ROE of VBSP as positive, as they consider the state subsidy in their calculation of income.

41. **VBSP is relatively efficient in deploying credit and saving groups, mass organizations and, and local authorities to support their credit delivery process.** Its cost to income ratio has improved between 2011 and 2018 (from 1.47 to 1.15 percent), with lower cost-income ratios representing higher profitability. In addition, there were close to 900 loans per VBSP staff member in 2017, a marker of high efficiency in staffing due to VBSP's efficient use of third parties to assess the borrower capacity, monitor the use of loan, collect loan interest, and use the people's communes' facilities to expand its network. In contrast, Vietnamese microfinance institutions (excluding VBSP) report an average of 248 loans per staff member (analysis of Mix Market data, 2018).

42. **The structure of fee payable to mass organizations is agreed between VBSP and the mass organizations.** Some of the mass organizations interviewed noted that the fee structure provided by VBSP does not represent full cost-recovery, but rather an incentive to continue providing services as part of their mandate as mass organizations. Fees are paid to mass organizations according to their performance results, effectiveness and scope of activities, and are generally lower than full cost-recovery for the mass organization.

E. PRODUCT PRICING

CREDIT

43. **The lending rates of the credit programs are determined by the Prime Minister at the recommendation of VBSP's Board.** Rates are generally lower for poorer segments and can also be low for the higher income segments such as social housing lending program or job creation program depending on policy preference. Table 8 below shows the lending rates for the eight largest loan products which have a share of at least 1 percent of the portfolio. The weighted average of the lending rate for these VBSP products was approximately 6.4 percent in 2018, or 87 percent of the market interest rate as represented by the IMF's lending interest rate for Vietnam (the bank rate that usually meets the short and medium-term financing needs of the private sector) which was 7.4 percent in 2017. This is consistent with VBSP's perception that rates are approximately 85 percent of market levels in products for higher income segments.

Table 8. Lending Rates

	Share of loan portfolio (%)	Current Lending Rate (%/yr)
Poor households program *Poor households in 64 poor districts under Resolution 30a/2008	22.4	6.6 *3.3
Near Poor households program	17.4	7.92
Safe water and rural sanitation program	16.4	9
Just escaped from poverty program	14.5	8.25
Business and production households living in extremely disadvantaged areas and communes	11.3	3.3
Disadvantaged student program	8.2	6.6
Job creation program	4.5	3.3 or 6.6
Housing for the poor program/Social Housing under Decree No.100/2015	3.0	4.8
Total	**97.7**	**6.4**
Vietnam Lending Interest Rate (IMF)		7.4

Source: VBSP and IMF

44. **Interest rates of loans for other programs can range from 1.2 percent to 9 percent per annum.** Loans disbursed by VBSP for ethnic minorities carry a 1.2 percent rate while the maximum lending rate is 9 percent per annum for small and medium sized enterprises (SMEs).[10]

45. **VBSP could consider a broader set of institutional benchmarks in analyzing its lending rates.** In determining market rates, VBSP does not consider lending rates of microfinance institutions, only rates applied by other banks albeit microfinance institutions operate in segments closer to VBSP than banks. The exclusion of MFIS from the benchmark Microcredit loans have higher interest rates, despite having much shorter maturities than bank loans and hence their exclusion underestimates VBSP estimation of them market rate. Microcredit is more expensive is because lending to the poor and low-income populations typically incurs a far higher cost than lending to the private sector in general, due to smaller loan volumes, more frequent repayment period, and more limited collateral and credit history. Box 3 discusses good practices around pricing strategies for loan products.

Box 3. Pricing Strategies for Loan Products

Over time, VBSP should aim to move from "one size fits all" pricing model to a model that includes the costs associated with the product including:

I. operational costs per product, including staff costs and marketing costs applicable to the product

II. funding costs

III. credit risk premium per product based on the loss experience

IV. overhead charge representing non-labor costs including depreciation, use of fixed assets (buildings and equipment) etc.

Calculating the true cost of lending per product following could further the goals of helping VBSP and Ministries understand the subsidy needed per type of product and increasing operational efficiency, and help facilitate the discussion of to what extent to which VBSP should adhere to market-based pricing.

For loans provided to higher income segments, VBSP could calculate the benchmarks using a larger set of players (weighted by the relative share of credit provided by each institution) and calculate the interest rate for the equivalent product considering maturity and repayment profile. While policy considerations may affect final decisions on credit pricing, good benchmarking is important to understand the credit market. In the end rates charged on these segments should consider lending costs and cross-subsidization needs (ex: income generation needs from these more commercial segments to cover the costs of providing credit to the poor) to bolster the VBSP's financial sustainability.

10 According to Decision 750/QĐ-TTg dated June 01, 2015 of the Prime Minister and Decision 34/QĐ-HĐQT dated April 26, 2014, Decision 71/QĐ-HĐQT dated August 03, 2015 of VBSP.

SAVINGS

46. **Savings interest rates are set by VBSP but lag those provided by many other financial institutions**. At the time of the World Bank diagnostic, they ranged from 0.2 percent for deposits of less than one month, 4.6 percent for deposits three to six months to 6.6 percent for deposits 12 months and over, with no further differentiation advertised for rates over 12 months. VBSP's rates are generally below those provided by other commercial players. In comparison savings rate in the banking industry were far higher, in December 2018, rates for deposits of less than six-month terms were mostly increased to the ceiling of 5.5 percent, and 5.7 to 7.6 percent for deposits of 6 to 12-month terms. Long term deposits of over one year were raised to 8.5 to 8.7 percent. While VBSP has tried to mobilize savings to reduce the reliance on government funding, they remain a relatively expensive cost of funding for VBSP relative to the concessional rate financing available to VBSP.

47. **VBSP should consider revising rates over time to align pricing to market levels to improve its value proposition for customers.** In terms of saving pricing policy, as the bank increases payments and transactional services, a pricing policy should be revised to at least ensure cost recovery on those operations, in a phased approach. Cross subsidization to support poor households could be contemplated by providing certain number of free transactions for poor households' accounts.

IV. RISK MANAGEMENT

SUMMARY:

- **Credit Risk:** VBSP's primary risk is that of credit risk, which has been contained, so far, by VBSP's People Banking model which enables VBSP to exert repayment pressure on borrowers with the support of mass organizations and local authorities. However, to reduce loan extensions, more frequent repayment periods should be introduced.
- **Liquidity risk:** While in the past liquidity was not a concern given funding structure, as deposits are becoming a larger share of bank liabilities, liquidity will have to increase going forward, in line with prudential requirements applicable to other deposit taking institutions.
- **Interest rate risk:** VBSP appears exposed to interest rate risk as maturity of assets is longer than maturity of liabilities. As long as the bank receives subsidy payments for the interest rate equalization, this risk is absorbed by MOF. However, as the bank moves up-market, this risk should be managed by the bank for these higher income segments.
- **Operational risk:** Many functions in the credit process are performed by third parties (mass organizations) which is a source of efficiency but also of operational risk as it requires additional monitoring. VBSP is exposed to operational and Know Your Client (KYC) risks related to records management as many documents are solely paper based.

A. CREDIT RISK

48. **The primary risk to VBSP is that of credit risk, managed through the uniquely Vietnamese "People Banking" model.** The People Banking model relies on the proximity of mass organizations to borrowers, and VBSP's ability to exert pressure on delinquent borrowers through local authorities. Given the low level of frozen and overdue loans reported, it appears effective in ensuring good assessment of credit quality and monitoring of loan use.

49. **Potential clients are identified at the local level after being proposed by SCG and are monitored and observed by the mass (grassroots) organizations.** The Commune People's Committee decides to establish credit and savings groups at the commune level after identifying potential borrowers. The commune verifies the status of poverty, certifying the borrower being in the list of the poor and near poor in the community. All loans in VBSP are required to have a business and production plan. For loans up to VND 100 million (US$4,300), VBSP applies a group guarantee and evaluates repayment ability via an assessment meeting of the SCG group to ensure repayment ability of the borrower One exception is the job creation loans which VBSP staff and mass organizations jointly appraise. For loans over VND 100 million, collateral is required. All loans are extended in domestic currency, limiting VBSP's exposure to foreign exchange risk. The management boards of SCG has the function of collecting savings and loan interest, not collecting the principal debt.

50. **VBSP, receives credit requests, and checks that credit files are complete as well as past borrower performance on VBSP loans.** VBSP reports to the Credit Information Center (CIC), but only checks their data if the borrower is a business. For individuals, local knowledge of the borrowers is the primary factor. Credit applications are rejected if the customer has overdue loans but not if it has restructured or frozen loans. VBSP approves the credit and the loan size is decided by VBSP's administration Board based on borrowers' needs, purpose of loan use, capital resources in each period and total outstanding loan does not exceed the maximum loan size of each credit program.

51. **VBSP can make increasing use of data analytics to make more informed credit decisions, particularly for larger loans, by consulting CIC data or data from other technology partners and setting limits on total borrower indebtedness in the credit origination process.** VBSP could also review the data from Credit Information Center to get a view of total debt by income segment and payment history to help VBSP reassess lending limits for the poor or near poor and explore potential loan size increases. This can also improve assessment of borrower's repayment capacity and prevent over-indebtedness in the context of rapid informal credit growth in Vietnam.

52. **Mass organizations monitor the loan and ensure that the borrower use loans for the appropriate purpose and encourage timely repayment.** VBSP reminds borrowers about the principal to be paid at least one month before the due date. The interest is collected monthly in the houses of the borrowers by the team leader of the Savings and Loans Group and is handed over to the VBSP at the commune transaction points with the witness of the entrusted socio-political organizations. Principal repayments are scheduled and agreed by the customers based on their cashflow patterns but mostly annual or bunched close to loan maturity. In case of objective risks affecting debt repayment plans, loans are restructured (extended) or frozen (see Box 2). On average, in the last 6 years, VBSP reports recovering 60 percent of frozen loans and nearly 100 percent of the overdue loans. To provide incentives for good credit origination and collection, the commission of the head of the savings group and mass organizations depends on the actual collected interest and the share of late payment in the group. VBSP has created

a classification system of the credit and savings groups, that includes variables on loan repayment, interest payment, savings deposits, overdue loans and written off debt, and the system is used also to exert pressure on the group through increased monitoring, but reportedly not used to determine the amount of credit allocated to the group.

53. **VBSP's has been lending to an increasingly diversified client base.** As noted in chapter II, VBSP is serving an increasingly diversified sets of clients: poor, near-poor and those borrowers who recently escaped poverty, as well as some loan products that are open to a range of income segments, such as the social housing loan. Loans cover a variety of purposes—although the bulk funds loans for productive enterprise, loans are also provided to migrant workers, social housing and clean water and sanitation, reducing levels of covariant risk.

54. **VBSP's portfolio is largely uncollateralized.** Collaterals accepted by VBSP include land use rights, ownership of houses and other assets attached to land, assets generated from borrowed capital, assets acquired or created from the loan and transport vehicles (the only moveable asset accepted). Most credit programs do not require collateral, including large programs such as: (i) loans for the poor, (ii) loans for the near poor, (iii) disadvantaged students' program and (iv) clean water and rural sanitation, which make up 56 percent of the lending portfolio. Just five of eighteen loan programs have regulations on collateral—primarily those with larger loan sizes which are targeted to less vulnerable households. VBSP policy states the loan amount cannot exceed 70 percent of the value of collateral, the valuation of which is determined in-house by VBSP staff. If after one year the loan is overdue, and it is determined that the client has clear means to repay the loan, court procedures could be initiated to recover collateral, but in practice this rarely occurs and follow-up is provided at the commune level. Property insurance and life insurance are not required by VBSP. However, borrowers with poor health would not be considered eligible for credit by the mass organizations.

55. **A considerable share of VBSP loans have bulky principal repayments which are often reprogramed to facilitate repayment.** VBSP does not always use a microcredit lending technology based on high frequency repayments as it considers that time is needed for income from investments financed by their loans to materialize and allow loan repayment. In contrast, microfinance institutions noted that low income borrowers in Vietnam engage in different activities that allow for small frequent repayments, which would be easier than confronting large installments. Large installments at the end of the original maturity are frequently rescheduled as borrowers miss payments, temporarily increasing credit risk for the institution albeit in the end collection rates are quite high (see paragraph 53).

56. **VBSP is not subject to ordinary commercial loan classification and provisioning regulation.** As mentioned in Section III, VBSP's reported non-performing loans (NPLs) are very low, i.e. overdue debts (0.39 percent) and frozen debts (0.45 percent). However, rescheduled loans appear high (8.58 percent in July 2019 according to VBSP internal reports), as in two visited branches, VBSP staff indicated that 15-18 percent of the loans have had their principal payments restructured. Although ratings for credit and saving groups performance-based commissions and entrusted fees for mass organizations provide good incentives for risk management, a loan classification and provisioning system defined according to prudential norms for microfinance institutions would improve risk management at VBSP and enhance transparency.

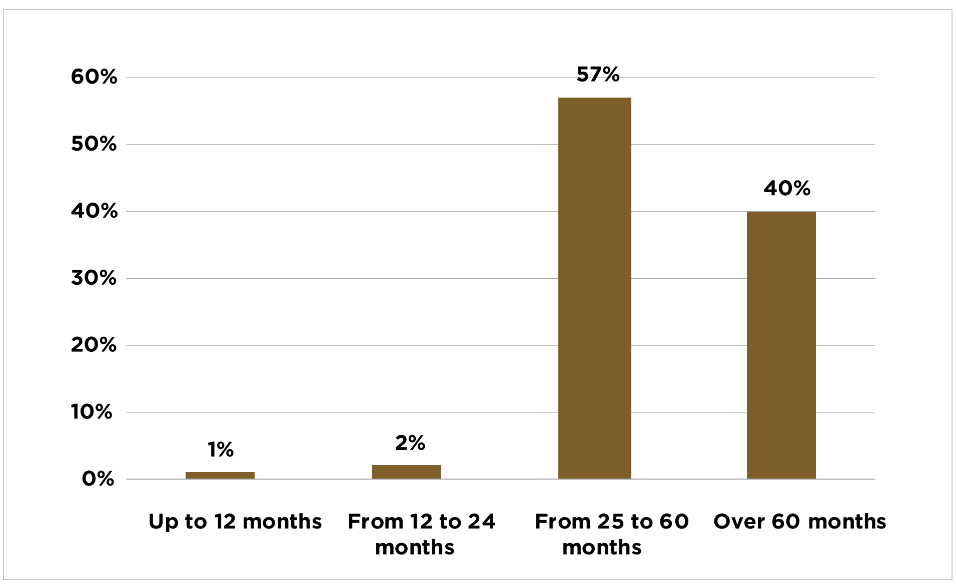
57. **Provision levels are low.** Although provision levels have increased from 0.02 percent of the portfolio in 2011 the credit risk provision requirement was increased from 0.02 percent of the portfolio to 0.75 percent of total loans in 2016 (excluding overdue and frozen loans), it is below the 2018 amount of frozen and overdue loans of 0.84 percent.

B. LIQUIDITY AND INTEREST RATE RISK

58. **Liquidity levels at VBSP are low and should be monitored, and liquidity buffers should increase going forward.** In 2018, 3.5 percent of VBSP assets were liquid relative to total assets, far lower than the systemwide average for depository institutions of 12.7 percent (IMF, 2017). The ratio of liquid assets to short-term liabilities dropped from 61 percent to 28 percent from 2011 to 2018. In the past liquidity was not a concern for VBSP given its funding structure, however deposits are becoming a larger share of the bank's liabilities which heightens the bank's liquidity risks. Liquidity should be monitored closely and will need to increase going forward, in line with prudential requirements applicable to other deposit taking institutions.

59. **VBSP is exposed to interest rate risk via its asset-liability duration mismatches as liabilities reprice[11] faster than loans given the longer maturity of loans.** In a context of increasing interest rates, as liabilities reprice faster than loans, VBSP will see its margin and profits decreasing[12]. Losses incurred from asset-liability repricing are currently absorbed by MOF via the interest rate subsidies it provides to VBSP.[13] As shown in Figure 8, 97 percent of VBSP loans are for greater than 2 years and 40 percent are over 5 years. In contrast, deposits and loans from other institutions have shorter remaining maturities. Although VBSP currently receives interest rate equalization to absorb this risk in the form of MOF subsidies, as VBSP moves up-market, this risk should be managed by the bank for these higher income segments and reflected in the loan rates. Otherwise, part of the MOF subsidies will de facto be subsidizing the bank for its operations for higher income segments.

Figure 10: Distribution of Assets by Loan Term: Lending Volume 2018



Source: VBSP data

11 Repricing risk is the risk of changes in interest rate charged or earned at the time a financial contract's rate is reset.

12 VBSP is gradually restructuring its liabilities by increasing the proportion of allocated capital and the proportion of capital from long term Government guaranteed bonds. However, this does not address the asset liability mismatch as these bonds appear in the balance sheet as both assets and equity and the assets, liabilities and equity all reprice long term. The repricing risk will only reduce if assets are repriced faster or if assets are increasingly funded with equity rather than debt.

13 Interest rate risk in the banking book refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. Standards. Interest Rate Risk for the Banking Book. Bank for International Settlements. April 2016. https://www.bis.org/bcbs/publ/d368.htm

C. OPERATIONAL RISK

60. **VBSP's paper based records and outsourcing of key credit processes to third party mass organizations represent operational risk.**[14] Paper based records can be prone to risks such as loss, fire, and moisture and in those case, could result in unexpected losses to VBSP. Another source of risk is that many functions in the credit process are performed by third parties (mass organizations and credit and savings groups). Although these third parties contribute to VBSP's lean staffing model and credit monitoring, their presence as a third party adds reputational, control, compliance and privacy risks.

61. **VBSP management characterize their core banking system as out of date. Use of electronic devices could explored to help credit as savings groups leaders prepare loan applications in digital format and transfer data electronically to/from VBSP.** Furthermore, VBSP has more than 11,000 transaction points at the commune level to which cash is delivered via vehicle on a regular, by accompanying staff and security, at a cost staff describe as "very high.". Providing financial services and products right at commune transaction points is aimed at cutting down on costs for the pro-poor and other disadvantaged groups. VBSP should develop restrict cash related services to minimize risks and reduce costs, with the aid of existing technology to reduce operational risk. VBSP has identified its strategic tasks in the IT field such as: Building information technology infrastructure to apply technology solutions in line with VBSP's development strategy; proactively deploying, new technology transfer taking, applying and research in accordance with the technology trend of the domestic and global banking industry.

62. **Technological advancements (such as deployment of electronic devices) could be explored to help and transfer the data electronically to or from VBSP.** VBSP could strengthen its governance structure around issues of technology, to improve accountability and increase the speed of decision-making around technology purchases, as the current lengthy process for approvals is reportedly impeding timely adoption of relevant technologies.

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14 Operational risk is the risk of losses related to failed people, processes, and systems in daily operations. This diagnostic did not include a review of human resources.

V. OVERSIGHT, CORPORATE GOVERNANCE AND DEVELOPMENT IMPACT

SUMMARY:

- Although several institutions provide oversight to VBSP, including MOF, MPI, MOLISA and SBV, VBSP is not subject to prudential requirements applicable to other Vietnamese credit institutions (bank or microfinance institution) specifying loan classification, loan loss provisions, or capital requirements.
- There is opportunity to improve the governance of VBSP and diversify the Board of Directors by adding highly qualified independent board members with experience in banking and finance and providing VBSP with increased autonomy over key managerial functions such as pricing and product parameters.
- Since its inception in 2003, VBSP has reported substantial contributions to development outcomes, including intensive monitoring of poverty level. VBSP could consider partnering with a research institution to increase its use of its client administrative data and consider a rigorous impact evaluation of its subsidized credit programs.

A. OVERSIGHT FRAMEWORK AND CORPORATE GOVERNANCE

63. **Several institutions provide oversight to VBSP, including MOF, MPI, MOLISA and SBV.** Decree 78 governs the operations of VBSP. MOF issues financial regulations and submits lending plans and loss offset provisions for approval by the Prime Minister. MPI provides and adds charter capital and works with the MOF to plan lending capital and offset losses in the state budget estimation. MOLISA governs several issues concerning human resources for VBSP staff, including salaries and allowances. SBV is mandated by the Government to advise and propose decisions on credit programs for the poor and circulars to support implementation of these programs.

64. **VBSP is not subject to prudential requirements applicable to other Vietnamese credit institutions (bank or microfinance institution) specifying loan classification, loan loss provisions, or capital requirements.** As a state financial institution that mobilizes deposits, VBSP should be subject to prudential regulation by SBV in accordance with international good practices (see details in Box 4.)

Box 4. Options for Prudential Oversight of VBSP by SBV

There is a broad international consensus that development banks and other financial institutions owned or controlled by the government or state, should be subject to regulation and supervisory standards. This makes institutions subject to solvency, liquidity, governance, accounting, and transparency standards, whenever applicable. A 2017 World Bank survey found that 76 percent of development banks are regulated and supervised by the same institution that supervises private commercial banks in their countries, such as the central bank or the bank supervisory agency.[15]

As a state financial institution that mobilizes deposits, VBSP should be subject to prudential regulation by SBV in accordance with international good practices. Its solvency is guaranteed by the Government of Vietnam, which means that in the event of financial problems in a development bank, the Government is expected to act and take the same preventive or remedial actions normally undertaken with private financial institutions, such as requiring capital injections and replacing management and board members. VBSP's current supervisory structures by multiple ministries providing strategic direction raises multiple challenges. First, the ministries exercising the supervisory function usually does not have the same expertise to monitor and assess the risks associated with the business of the development bank as a central bank or bank supervisory agency. Secondly, it is frequently the case that conflicts of interest arise, and in the event of financial problems the supervising institution becomes forbearing, delaying prompt corrective action or even the simple recognition and disclosure of problems.

15 De Luna-Martinez, Jose; Vicente, Carlos Leonardo; Arshad, Ashraf Bin; Tatucu, Radu; Song, Jiyoung. 2018. 2017 Survey of National Development Banks. Washington, D.C.: World Bank Group

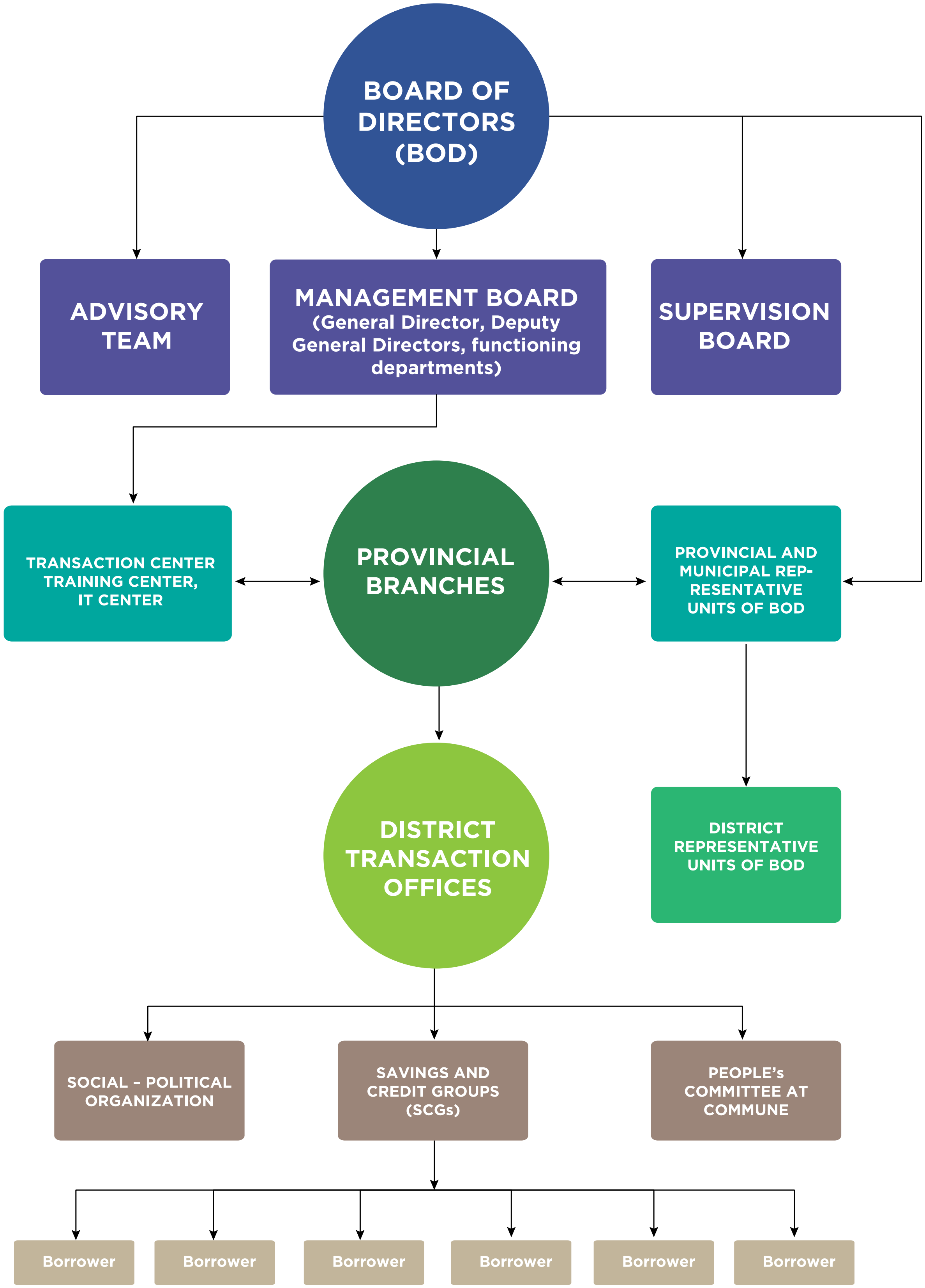
There are different options that could be considered for the oversight of VBSP by SBV.

- **Specialized bank license:** A more conservative approach would be to provide VBSP with a special bank license that restricts the activities the bank can provide to the provision of payment and savings products, provision of microcredit, and simple treasury functions and apply prudential requirements proportional to the risk of the institution. This is the example applied by the Mexican authorities, whom in 2011 introduced the "niche bank" category, with the aim to facilitate entrance of operators catering to underserved segments. Credit and savings niche banks licensed in Mexico cater mostly to SMEs and agricultural producers Niche banks have lower minimum capital requirements than commercial banks which varies according to its business model. For niche banks providing credit (payment) services, capital requirements were 60 (40) percent of the capital requirement for commercial banks. However, they are subject to the same prudential requirements of banks in terms of capital adequacy ratios, loan classification and provision and liquidity requirements. Reporting and risk management requirements are proportional to business model complexity.
- **Criteria applicable to Vietnamese deposit-taking microfinance institutions:** Another option would be to apply similar criteria in terms of capital and provisions that are currently applied to licensed deposit taking Vietnamese microfinance institutions, given that VBSP primarily serves the low-income Vietnamese population. However, as VBSP ventures into digital finance and payment services, operational risk and IT requirements may become more complex and require customization. Regardless of the approach adopted, regulatory requirements should ensure credit, liquidity and operational risks and properly managed, reported and that enough buffers (in terms of capital and provisions) are allocated to cover both expected and unexpected losses. For credit risk, there should be loan classification and provisioning like that requested for private banking or microfinance institutions, and capital charges for loans. To capture short-term liquidity risk, the liquidity coverage ratio should be calculated.

65. **VBSP is governed by a Board of Directors that consists of two full-time Board members from VBSP management and 12 part-time representatives from Government and mass organizations.** The Board of Directors (BOD) part-time members includes: the Governor of SBV (Chairperson) and 11 part-time members who are Vice Ministers or equivalent-ranking officials of relevant ministries, agencies and mass organizations such as: MOF, MPI, MOLISA, SBV, MARD, Committee of Ethnic Minorities, Vietnam Women's Union and Vietnam Farmer's Union, Veterans Union and Youth Union and representative of the Government Office. Two are full-time members, the General Director and the Chief of Supervision Board of VBSP.[16] VBSP also has provincial and district Boards, chaired by the Commune People's Committee (CPC), as indicated in Figure 9.

16 VBSP. Introduction to VBSP. 2018.

Figure 11: VBSP Organization Chart



Source: VBSP 2018

66. **VBSP Board of Management reports to the Board of Directors.** At the central level, the Head Office is the highest level in the operational mechanism of VBSP under leadership of the General Director and deputy general directors.

67. **There is opportunity to improve the governance of VBSP and diversify the Board of Directors by adding highly qualified independent board members with experience in banking and finance.** Besides the two full-time Board members from VBSP management, the remaining 12 Board members are part-time representatives from Government and mass organizations representing the interest of a ministry of organization. Adding Board members independent from VBSP and other Government entities with substantial expertise in banking and finance or another relevant aspect of market development would likely make strategic planning for financial sustainability and risk management more efficient. In the 2018 World Bank Development Bank survey, 49 percent of development banks who responded indicated that most of their board members were "independent," 43 percent reported that independent board members were a minority, and the remaining 8 percent of development banks did not have any independent board members.[17]

68. **VBSP management does not have autonomy over key managerial functions.** Currently, interest rates of VBSP products are defined by Prime Minister and credit programs are identified by various ministries. Providing VBSP autonomy in defining interest rates and the parameters of credit programs could improve financial sustainability if clear parameters for subsidies and cost recovery were provided. In addition, the regular publication of audited publishing of audited financial statements would be good contribution to the financial transparency of DFIs, as VBSP's publication of financial statements has been lagging that of its private sector peers.

17 De Luna-Martinez, Jose; Vicente, Carlos Leonardo; Arshad, Ashraf Bin; Tatucu, Radu; Song, Jiyoung. 2018. 2017 Survey of National development banks (English). Washington, D.C.: World Bank Group

B. ECONOMIC AND DEVELOPMENT IMPACT

69. **Since its inception in 2003, VBSP has reported substantial contributions to development outcomes.** These contributions as reported by VBSP in 2017 include: (i) Number of households receiving loans: 34.1 million, (ii) Number of households escaping poverty: 5.1 million, (iii) Number of jobs created: 3.6 million, (iv) Number of disadvantaged students supported 3.6 million, (v) Houses built in the Mekong Delta: 105,000[18].

70. **VBSP monitors the poverty status of customers intensively, providing useful measures of contribution to poverty reduction.** As an institution with a mandate to focus on the poor and other targeted policy beneficiaries, VBSP works closely with the "poverty reduction committee" and mass organizations to get data on households and has the capability of monitoring borrowers as they move through different products. For individuals, they collect data on income segment in addition to other borrower information on demographics. For businesses, they collect information on legal status and business activities.

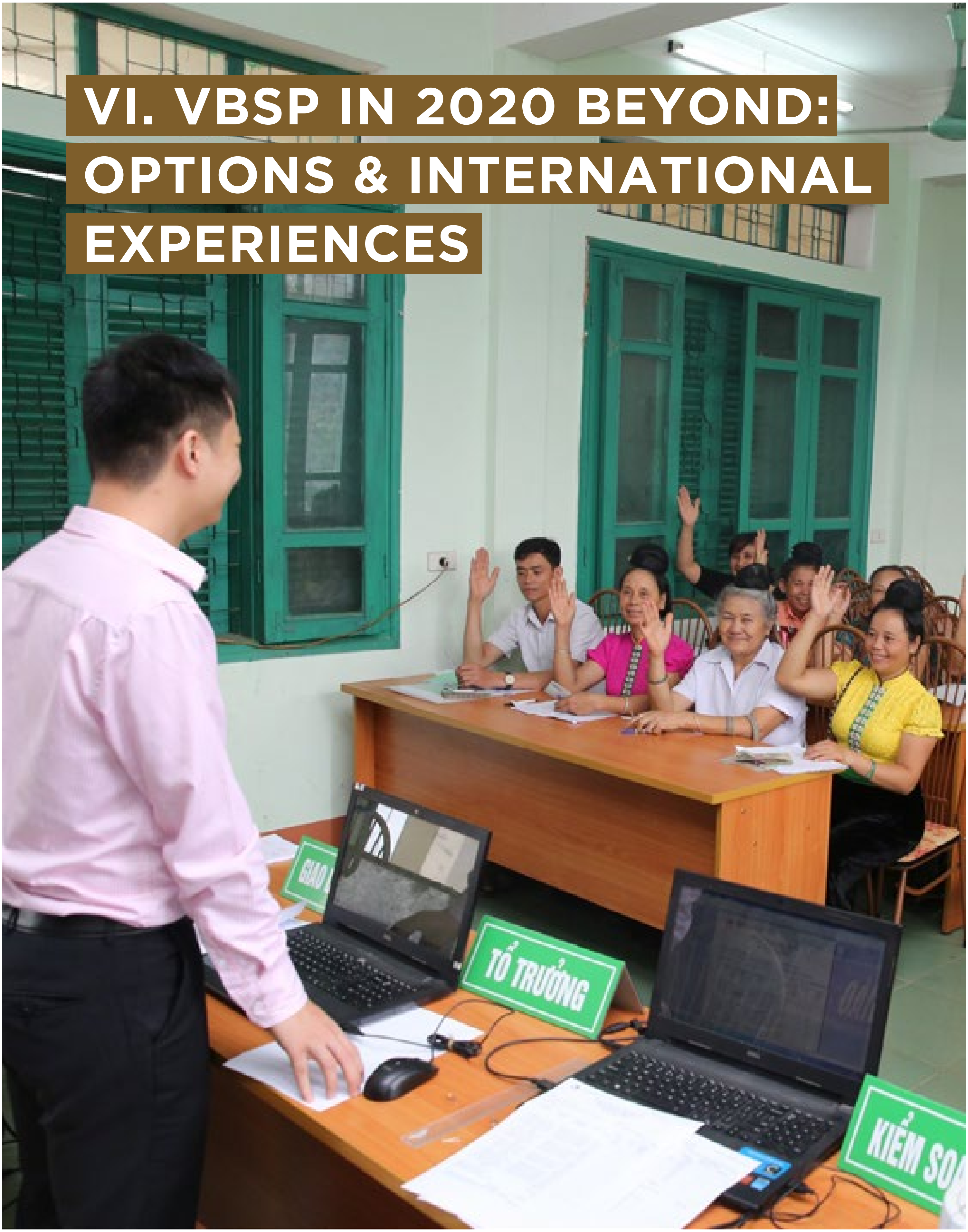
71. VBSP has systems in place to track outputs of funded activities. VBSP collects metrics of funded activities (ex: houses for the poor provided, jobs supported.) To strengthen its ability to track the effectiveness of funding, VBSP could increase the use of administrative data. For example, while VBSP tracks the number of jobs supported, it could make use of data from other ministries (ex: social security data) to verify formal employment created. VBSP also reports borrower data on repayment monthly to the CIC according to regulation, enabling VBSP borrower to build a credit history.

72. **VBSP reportedly has systems in place to measure client satisfaction.** Policies are published policies at transaction points. Clients can send letters to a mailbox or send appeals through mass organizations or their local governments The Ethnic Affairs Committee measures the satisfaction of poor ethnic minority VBSP has identified its strategic tasks in the IT field including: Building information technology infrastructure to apply technology solutions in line with VBSP's development strategy; Proactively deploying, new technology transfer taking, applying and research in accordance with the technology trend of the domestic and global banking industry. peoples. Feedback from clients is also collected through field visits.

73. **In addition, VBSP in the future, it would be useful for VBSP to move from recording its contributions towards development outcomes to measuring attribution.** Currently, VBSP monitors income of clients but changes in income can reflect factors other than the positive effect of VBSP loans. VBSP could consider partnering with a research institution to see how it could make greater use of the administrative data it collects on clients. A more rigorous option would be to partner with a research institution to identify an appropriate design (experimental, quasi-experimental or non-experimental) to identify the development contribution of VBSP's subsidized programs. Such a study (Haughton, Khandker 2016) was conducted using 2004-2008 data and found that without VBSP, the rural poverty rate would have been 0.7 percentage points higher in 2008. A study with more updated data would be a useful contribution to the discussion on the use of public funds to support VBSP.

18 VBSP. Introduction to VBSP. 2018.

VI. VBSP IN 2020 BEYOND: OPTIONS & INTERNATIONAL EXPERIENCES



74. **The Government has indicated that VBSP should be focused on providing financial services in areas where the market cannot meet demand.** Decision No. 986/QD-TTg dated August 8, 2018 of the Prime Minister approving the Development Strategy of Vietnam Banking Sector to 2025 has stipulated that VBSP needs to "Focusing on unifying the policy credit function from commercial banks to VBSP and developing Vietnam Bank for Social Policies into an organization capable of autonomy and stable and long-term development, while maintaining its role as a public financial institution implementing the Government's social policies; focusing on areas where financial institutions operating on market principles cannot meet or only partially meet."

75. **This section presents two potential operating models for VBSP in the coming years that represent a change from its existing operations that are in line with the Government's vision and market principles.** Option A envisions a smaller, more focused VBSP, receiving government subsidies to serve poor and near poor customers. Option B visualizes a more financially sustainable VBSP, that continues to serve clients across the income spectrum but receives government support only for services for its poor or near poor clients and otherwise provides credit at market rates.

A. POLICY BANK FOCUSED ON POOR/NEAR POOR

Segments served: This option would involve a bank with a narrower policy mandate to serve the poor and near poor segments of the Vietnamese population, segments traditionally unserved or underserved by commercial providers.

Core functions: This bank would continue to provide credit with expanded payments and transactional savings accounts to more completely serve the needs of this client base.

Government support: This operational model would maintain subsidies for lending products for "the productive poor."

Oversight structure: This model would include being supervised and subject to prudential regulation by SBV, a necessity given VBSP's deposit taking activity.

Advantages: This model features a bank focused on "last mile" segments with the greatest need with strong targeting where cost structures are unlikely to be sustainable. A narrower customer segment would provide opportunities for product customization and efficiency. This model minimizes negative impacts to the Vietnamese credit culture as subsidized credit would be focus on the poor and near poor. This model would reduce the crowding out effect on other financial service providers by clearly delineating VBSP's customers and leaving higher income segments to other credit providers.

Disadvantages: With the steady reduction in poverty levels nationwide, this model would require strong discipline from VBSP to focus only on its target clientele, as its balance sheet would shrink with this model.

Preconditions: This model would require a mandate from the highest levels of the governance structure to focus exclusively on the market for the poor and near poor segments in Vietnam. MOF should commit to subsidizing its operations.

B. BANK FOR THE POOR AND LOW INCOME: MIXED POLICY AND MARKET ORIENTED FUNCTIONS

Segments served: Poor/Near Poor/Low Income, MSMEs

Core functions:

- Direct services to clients would include credit with expanded payments and transactional savings accounts
- Second tier (on-lending) to other microfinance institutions and other credit providers to promote industry development. Auction mechanism could choose lenders willing to provide lower interest rates

Government support: Subsidies via interest rate support to serve poor/near poor clients. Other non-poor, non-near poor clients served at market interest rates

Oversight and Corporate Governance: VBSP subject to prudential regulation by SBV. Gradual addition of additional independent Board members would be needed to manage risks.

Advantages: This model would be more attractive to those who want VBSP to keep its extensive outreach but to operate in a more financial sustainable manner, utilizing government support only where they are necessary to ensure access to financial services for poorer clients.

Disadvantages: This model requires commitment to providing market-rate credit where no market failures exist. Without discipline, VBSP could crowd out other market players. A more market-based orientation would require a reorientation in skills and staffing as this model mixes commercial with policy lending.

Preconditions: This model would require a mandate from the highest levels of the governance structure to clearly delineate the market segment to be served on subsidized basis and superior risk management to properly pricing commercial loans to provide cross subsidization for the poor.

C. LESSONS FROM INTERNATIONAL EXPERIENCES: MEXICO, SOUTH AFRICA AND INDONESIA

76. **The challenges faced by policymakers in Vietnam with respect to balancing the outreach gains of development banks with financial sustainability have been faced by many other countries at different times.** There is a valuable array of international experiences from countries in Asia, Central and Eastern Europe, Latin America and Africa who have strengthened their large state-owned banks with success. In fact, the World Bank has supported countries in various regions of the world to reform their state-owned financial institutions. This section presents three examples of development banks focusing on poor and low-income populations that illustrate some ways in which the reform options set out above were implemented.

77. The institutions are: (i) BANSEFI (recently renamed Banco del Bienstar, Mexico) which has some similarities to the first option, a Bank focused on the poor/near poor and (ii) Bank BRI: Indonesia and (iii) Land Bank: South Africa, which represent more closely the model of the bank for the poor and low-income, with mixed policy and market functions. These three middle-income countries all have some similarities to Vietnam. The reform patterns are not uniform, and these institutions could find areas for improvement and do better. Nevertheless, all three development finance institutions have had some substantial outcomes relevant for VBSP.

Case 1: Policy Bank Focused on Poor/Near Poor: BANSEFI, Mexico
(recently renamed Banco del Bienestar)

Development Challenge: The National Bank for Savings and Financial Services (BANSEFI) was established in 2002 to be the development bank for improving access to financial services, particularly savings, for Mexico's vulnerable households in rural areas. Financial inclusion has been a priority issue for the development agenda for Mexico. Approximately 65 percent of Mexicans are estimated to have no access to formal financial services. The Mexican financial sector is relatively small, and lack of access to financial services is a particularly serious issue in rural municipalities, only 28 percent of which have at least one point of service. Millions of rural clients were operating with unauthorized non-regulated and supervised entities (with no deposit insurance). Given the wide dispersion of non-bank financial institutions in rural areas, authorities wanted to provide a stimulus to financial inclusion in rural areas, to support economic growth and employment. In 2019, BANSEFI was renamed and Banco de Bienestar with the goal of benefitting 15 million clients in rural areas, vulnerable municipalities and semi-urban areas with no presence of commercial banking.

Core Functions: BANSEFI had two main functions: 1) providing technical assistance to support other savings and credit institutions in rural areas and 2) operating as a narrow bank providing financial services, primarily deposit services. BANSEFI received revenue from distributing social welfare payments for the Government (for a fee), in person or via debit cards and lending directly to social welfare payment recipients. BANSEFI has 500 branches and also created L@Red de la Gente, a distribution network of rural financial institutions that services most of the districts of the country with financial services, such as international and national remittances, third-party payments, and micro-insurance. The number of people served by the network grew from 9 million in 2011 to more than 19 million people in 2017, 14 million of which were BANSEFI's clients. BANSEFI also provided directly or contracted technical assistance to upgrade the capacity of non-bank financial institutions supporting rural areas.

Governance and Oversight: BANSEFI (and now Banco de Bienestar)is supervised by Mexico's Banking Commission (CNBV). BANSEFI was a stated owned Bank with three types of supervisory board members: (i) those who represent shares ***"Serie A"*** are federal government officers designated by Law; (ii) those who represent shares ***"Serie B"*** are local government officers, commercial and industrial chambers leaders or any other specific private institution leaders indicated by Law, sometimes nominated by the Bank and always designated by the Minister of Finance; and (iii) independent supervisory board members, who are sometimes nominated by the Bank and always designated by the Minister of Finance.

Case 2: Bank for the Poor and Low Income: Mixed Policy and Market Oriented Functions:
Land Bank, South Africa

Development Challenge: An example of a development finance institution with mixed market and policy function is South Africa's Land Bank, the leading development financial institution in the rural and agriculture sector. Land Bank's role in rural and agricultural development is strongly linked to the government's objectives of eliminating poverty, reducing inequality and improving job creation. Land Bank has a reported market share of 28 percent of the agricultural finance market. While it serves a range of business sizes, it targets farmers and farm workers who are considerably poorer than other income earners. In 2018, Land Bank had assets of US$4.4 billion, a ROA of 0.7 percent, ROE of 4.4 percent and NPLs of 6.7 percent.[19]

Core Functions: Land Bank is engaged in both wholesale lending through intermediaries as well as direct retail lending. Intermediaries are mainly credit providers, cooperatives, or agri-businesses. Land Bank has three main business lines: Retail Emerging Markets (REM), Retail Commercial Banking (RCB), and Business and Corporate Banking (B&CB). In 2013/14, B&CB accounted for 83 percent of the bank's loan book, RCB accounted for 16 percent, and the remaining 1 percent was composed of loans provided under REM. The REM business line for Land Bank has been loss-making by design. It is exclusively focused on lending to emerging farmers for development purposes – in 2010 to farmers with no access to commercial funding and little or no collateral. Land Bank has extended credit to both retail clients (3 percent of outstanding loan) and six wholesale clients (97 percent) at no cost. For doing so, Land Bank is compensated by a government subsidy amounting to 4 percent of its REM loan book. However, given that Land Bank's average cost of funds currently stands at 6.5 percent this means that Land Bank is only partially compensated for its services. Land Bank has been losing 2.5 percent on its REM loan book portfolio, before even considering overhead and any risk costs.

19 Moody's Investor Service. Land and Agriculture Development Bank. September 2018.

Governance and Oversight: With respect to Land Bank's governance structure, South Africa's National Treasury remains its executive authority, which also appoints an independent board of directors. It follows prudential guidelines as issued by its Board of Directors. It is consequently not prudentially supervised by the South African Reserve Bank (SARB). The Credit and Investment Committee consists of an independent non-executive chairman and four individual non-executive members, with credit decisions now requiring a two-thirds majority; a policy on lending to politically exposed persons has also been approved by the board.[20]

Case 3: Bank for the Poor and Low Income: Mixed Policy and Market Oriented Functions:
Bank BRI, Indonesia

Development Challenge: Bank BRI, the People's Bank of Indonesia, is the oldest and second largest Bank in Indonesia. It was founded in 1895, with the purpose of providing quality banking services to a large population spread across more than 16,000 islands. It is a key player in helping achieve financial inclusion, and since its inception has been focused on providing credit to micro, small and medium enterprises.

Core Functions: Bank BRI offers a whole range of banking products and services, which include saving products, loan products (particularly micro credit, small commercial loans and consumer credit), e-banking, international business services and Islamic (Sharia) banking. It specializes in small scale and microfinance style borrowing from and lending to its approximately 30 million retail clients through its over 4,000 branches, units and rural service posts. At the same time, Bank BRI provides subsidized microloans to stimulate economic activity at the grassroots level. It also has a comparatively small, but growing, corporate business loans which are unsubsidized, but largely exposed to global risk. In 2015 the Government expected to spend a total of Rp 1 trillion in interest rate subsidies (roughly US$74.7 million). BRI is carrying out innovative ways to reach its targets, and expand its network including digitization. In June 2016, BRI launched its own satellite, BRISat.

Governance and Oversight: As part of the reform process in Indonesia since 1998, the government has been steadily reducing its influence on the Bank's day-to-day operations. Following BRI's IPO in 2003, the Government now owns 70 percent of BRI and 30 percent is publicly traded. BRI was nearly unique in Indonesia in the East Asia financial crisis of 1997, as, its operations were largely unaffected. This was because it had very little, if any, lending in foreign currencies or to the large corporations that had been borrowing heavily overseas, as most of the other large Indonesian banks had. Since then BRI has been concentrating on increasing its core business and improving its risk management practices.

20 Moody's Investor Service. Land and Agriculture Development Bank. September 2018.

ANNEX 1: LIST OF MEETING PARTICIPANTS DURING THE MISSION

MOF

- Ms. Phan Thi Thu Hien, Director of Banking and Financial Institutions Department
- Mr. Nguyen Viet Hung, Division Head, Banking and Financial Institutions Department
- Ms. Nguyen Thi Hong Van, Banking and Financial Institutions Department
- Ms. Le Minh Trang, Banking and Financial Institutions Department

SBV

- Ms. Le Phuong Lan, Head of Banking Strategy Institution
- Mr. Dinh Xuan Ha, Banking strategy Institution.
- Mr. Tuan Anh, vice Head of Policy Credit Division, Credit Department

MARD

- Mr. Tuan, International Cooperation Department
- Mr. Pham Quoc Sinh, Head of Poverty Reduction Division, Department for Collective Economy and Rural Development

MPI

- Mr. Le Van Cuong, Deputy Director, Finance and Monetary Department
- Mr. Viet Anh, Official, Department for National Economy and General Affairs

CEMA

- Mr. Tan, Deputy Director, Department for Ethnic Minority Policies
- Ms. Loan, Vice Head of Social Policy Division, Department of Policy
- Mr. Giang, staff of Ethnic Policy Division, Department of Policy

MOLISA

- Mr. Ngo Truong Thi, Director, Chairman of National Poverty Reduction Office.

Women's Union

- Do Thi Thu Thao, Vice President

Farmer's Union

- Nguyen Xuan Thang, Member of Standing Committee and General Director of Farmers Supporting Fund

Viettel

- Tran Duy Dien, Director of Fintech Department
- Nguyen Viet Dung, Ebanking Business Unit Department

TYM MFI

- Ms. Duong Ngoc Linh, General Director

Microfinance Working Group

- Ms. Nguyen Tuyet Mai, Director

Lienviet Post Bank

- Nguyen Thi Thanh Son, Deputy CEO, Head of Strategy & International Cooperation Division

VBARD

- Ms. Nguyen Ngoc Hong, Deputy Director, Financial Institutions Department

VBSP

- Mr. Duong Quyet Thang, General Director
- Mr. Nguyen Van Ly, Deputy General Director
- Mr. Bui Quang Vinh, Deputy General Director
- Mr. Nguyen Duc Hai, Deputy General Director
- Mr. Phan Cu Nhan, Director, Communication and International Cooperation Department.
- Mr. Lê Thành Chung, Deputy Director, Communication and International Cooperation Department.
- MS. Nguyen Thanh Phuong Chi, Deputy Director, Communication and International Cooperation Department.
- Mr. Tran Huu Y, Director, Training Center
- Mr. Nguyen Manh Thien, Vice Director of Credit Department for the Poor.
- Ms. Hoang Thi Chuong, Vice Director of Credit Department for Student and other Policy Beneficiaries.
- Mr. Tran Ngoc Loi, Director of Department for Risk Debt Management.
- Mr. Le Van Dung, Vice Director of Department for Accounting and Financial Management.
- Mr. Do Minh Hung, Director of Department for Human Resource Management.
- Mr. Nguyen Van Dien, Vice Director of Information and Technology Center.
- Mr. Pham Van Thang, Vice Director of Training Center
- Ms. Nguyen Thi Xuan, Director of Hung Yen VBSP Branch;
- Mr. Phạm Trung Kien, Director of Tien Lu District VBSP Transaction Office.
- Mr. Vu Dinh Doai, Director of Hoa Binh VBSP Branch
- Mr. Le Huy Hung, Vice Head of Credit Division, Hoa Binh VBSP Branch

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