

Vietnam Bank for Social Policies (VBSP)

In this document:

- Brief History
- Methodology
- Area of Operations
- Clients
- Poverty Focus
- Distinctive Features
- Innovations
- Financial Results
- Challenges & Development Plans
- Inclusion in Financial Sector

Brief History

The Vietnam Bank for the Poor (VBP), established in 1995, was set up to serve the poor that couldn't be reached by VBARD. It virtually operated as a fund, using VBARD staff and network of branches. VBP was renamed Vietnam Bank for Social Policies (VBSP) in March 2003, and started to develop its own network of branches, while serving a much broader population including students, disable people, and micro and small entrepreneurs. VBSP was established to take over the poverty targeting program run by VBARD and consolidate all governmental programs lending to the poor and other vulnerable social groups.

VBSP provides subsidised credit without requiring formal loan collateral. VBSP is supervised by the State Bank of Vietnam. At the end of 2003, VBSP was reaching 3.3 million clients, among them 1,000,000 were considered poor. At that time, VBSP had 9.75 trillion VND in loans outstanding and was expecting to reach 16 trillion by the end of 2004, which represents more than three quarters of the current loan portfolio of VBARD.

Methodology

To poor households, VBSP offers non-collateralised loans of differing maturities and rates based on loan purpose, size, and capacity to repay of borrowers. Loan sizes are limited to US\$1,000 for household business purposes, US\$450 for housing, and US\$650 for individual households. However, loan size for businesses creating employment are only limited to US\$12,700. Loan terms do not exceed 5 years.

Lending to poor households is conducted via group lending. By the end of 2003, 220,000 credit and savings groups were active.

VBSP seeks to increase savings mobilization from the general public to grow its capital resources.

Area of Operations

VBSP is based in Hanoi and has 61 branches and 600 offices throughout all 64 provinces of the country.

Clients

VBSP provides preferential credit to policy beneficiaries: poor households, poor students, job-creating initiatives, migrant workers, households and businesses in specific areas. At the end of 2003, VBSP was reaching 3.3 million clients, among them 1,000,000 were considered poor.

Active clients	Active savers	Active borrowers	Gender
1 million*	n/a	n/a	N/a

As of end 2003

**Poor households only, out of 3.3 million total clients*

Poverty Focus

In theory, VBSP borrowers have to be listed as “low income household” to obtain a loan, in practice, local committees nominate borrowers, which include a number of well-off people attracted by the subsidized interest rate. In 2001, less than half of VBSP clients were listed as poor.

Loan Outstanding	Average outstanding loan size / GNP per capita	Average deposit size
n/a	n/a	n/a

Distinctive Features

VBSP receives annual transfers of subsidies from the government and operates as a non-profit entity. Losses (US\$2.8 million in 2003) are covered from the national budget. VBSP has a negative spread between the subsidized interest rate applied on credit and the interest paid to its depositors.

Innovations

n/a

Financial results

VBSP has received US\$100 million from the state budget for its establishment, and was scheduled to receive another US\$230 million. Injections of capital will be complemented by mandatory contributions of 2% of total deposits held by public banks, which will amount to approximately US\$200 million, with rate negotiable. VBSP also received funds from other governmental programs, and borrowed from SBV. Its total capital is estimated to be US\$726 million as of March 2004.

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits (US\$)	OSS / FSS	RoE / RoA
n/a	n/a	n/a	n/a	n/a

Challenges and development plans

VBSP is expected to continue to apply the government policy of subsidized lending, restricting the development of sustainable microfinance providers using market-based approach. The major challenges facing VBSP are related to the development of its branch network, to enhance the capability of its personnel and MIS, and to set appropriate interest rate policy. Recently, VBSP was developing a new credit manual with input from international experts. The World Bank is providing funding to VBSP to support technical expertise assistance. VBSP is expected to have a capital of US\$892 million by 2005. It aimed to reach US\$500 million in loans to poor households at the end of 2004.

Inclusion in financial Sector

VBSP operates under the Law on Credit Institutions and is supervised by the State Bank of Vietnam. It is fully guaranteed by the government for its solvency, funding, and deposit insurance.

Sources

- Financial Sector Policy issues Note: Vietnam Bank for Social Policies. August 2004. The World Bank.