

Responding to COVID-19: Recommendations for Microfinance Stakeholders in Asia

Viet Nam

April 2020



VIETNAM MICROFINANCE
WORKING GROUP

*A Foundation for Development Cooperation and
Banking with the Poor initiative*

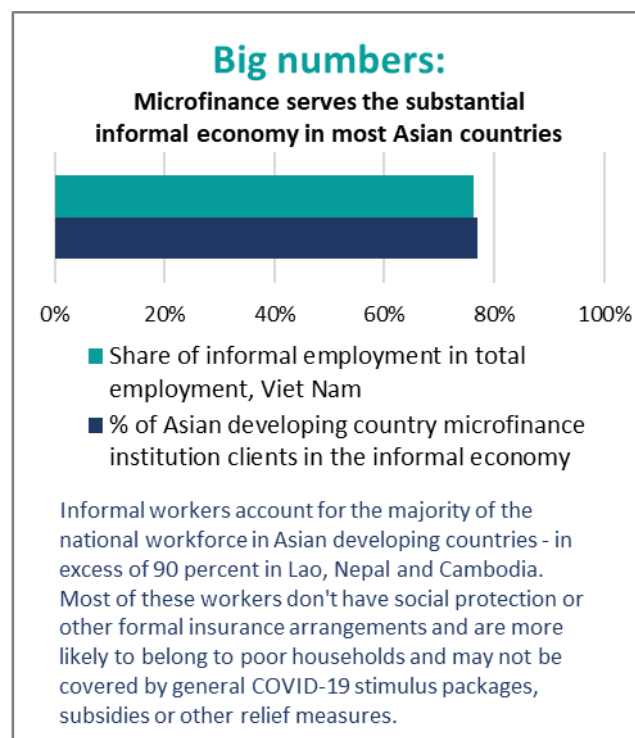
*Prepared in partnership with
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Working Group*

Introduction

Governments, industry and communities are endeavouring to combat the spread and impact of COVID-19 with daily announcements on policies and budgetary packages to stem the impact on human life and lessen COVID-19's economic consequences. However, microfinance providers directly supporting the poor and those in the informal economy in Viet Nam, are not always recognised in these measures, even though people at the base of the economy represent a substantial proportion of the population in most countries and are highly vulnerable to the impacts of COVID-19.

In response, the Foundation for Development Cooperation (FDC) and the Banking with the Poor network (BWTP) have collaborated with microfinance stakeholders across Asia, including national-level microfinance associations and their members, to identify opportunities for immediate and short-term mitigation of COVID-19 impacts on microfinance clients and providers.

This report identifies priority policy and budgetary recommendations for stakeholders to support poor and vulnerable communities and sustain the essential role of microfinance intermediaries in responding to COVID-19.



Sources: Women and Men in the Informal Economy: A statistical Picture, ILO, 2018. BWTP member COVID-19 sample survey, 2020.

This report is based on best available information as at 30 April 2020.

Recommendations

Priority Recommendations for Government

- All microfinance institutions (MFIs) should continue to be deemed essential businesses and allowed to operate with appropriate social distancing measures in place.
- To enable MFI clients and broader economies to re-start after the lock down, government and development partners should implement a low-cost risk-sharing loan facility that incentivises MFIs (and banks) to begin lending again to clients and businesses in the informal sector.
- Government should consider fiscal support to MFIs to ensure their outreach to vulnerable communities.
- Ensure women's representation and client protection in all COVID-19 response planning and decision-making.

Priority Recommendations for Central Bank

- Extend all the central bank's liquidity facilities to licensed MFIs, microfinance organisations (MFOs) and microfinance providers (MFPs) that can pledge suitable collateral.
- Central bank should review the existing microfinance regulations and identify areas of further regulatory flexibility related to capital and liquidity requirements.

Priority Recommendations for Microfinance Investor Community

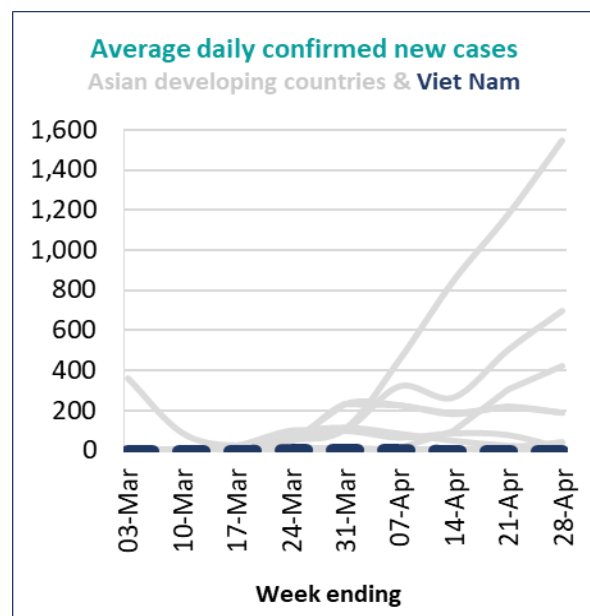
- Extend loan terms and restructuring of loans to MFIs, as needed, in-line with the [global debt refinancing principles](#).
- Continue to provide liquidity support to the microfinance sector.

Priority Recommendations for Development Partners

- Work with the microfinance investor community to participate in risk-sharing facilities to re-start the economy.
- Advocate for MFIs for their regulations to be reviewed by the central bank.
- Provide financial and technical support to the government and regulators to ensure the MFI sector survives the crisis and can transition to digital payments.
- Consider including the microfinance sector when supporting government social assistance programs.

Country Context

As of April 29, 2020, there were 0.3 cumulative confirmed cases of COVID-19 per 100,000 inhabitants (11 country survey average: 4.1). The average daily number of confirmed new cases – ‘the curve’ - has been flat in recent weeks.



MFI Sector Context

Vietnam's financial sector response to COVID-19 has primarily focused on the banking sector with little differentiation for MFIs and their clients. Members of the predominant national network of MFIs in Vietnam provide both deposit and credit services to approximately 1.3 million clients. MFIs are major contributors towards financial inclusion, poverty reduction and employment. This note highlights areas where more could be done by government, the central bank and to ease the financial impact of COVID-19 for MFIs and their clients.

Government Policy Response on Service Delivery

From April 23-30, 2020 the BWTP network conducted an extensive survey on the financial impact of COVID-19 on 11 MFI networks in Bangladesh, Cambodia, China, India, Laos, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka and Viet Nam. The respondent to the survey from Viet Nam was the Vietnam Microfinance Working Group (VMFWG). The attached MFI Response Tracker in Annex 1 summarizes the key findings from the survey.

MFIs in Viet Nam have been deemed essential businesses and allowed to keep their branches open during the crisis. This has been the case for MFIs in most countries in the survey and more countries are moving in this direction. As there are more than two times the number of savers as there are borrowers in Vietnamese MFIs, it is critical that they be allowed to remain open to facilitate payments and access to savings. Most MFI clients are heavily dependent on

cash and government is strongly encouraging the swift move to digital payments by waving fees on payments. MFIs are trying to adapt but support is needed in this transition.

Liquidity Impact on MFIs

For most MFIs in the survey the need for liquidity support is the most acute near-term need. Viet Nam is the only country in the survey where MFIs are not actively working with lenders to ensure that their own loan terms are extended. This is in part due to the reliance in Vietnamese MFIs on savings and equity as the primary source of funds whereas MFIs in many other countries borrow heavily. This reliance on savings makes the careful management of liquidity to maintain depositor confidence all the more important in Viet Nam. While MFIs in Viet Nam have indicated above average withdrawals of deposits the situation is still manageable. The majority of institutions providing microfinance are not formally licensed MFIs but rather MFOs and MFPs. As such, these later organisations would not have the same ability to access central bank liquidity and the central bank will need to look at how to ensure liquidity is available to all providers of microfinance.

Client Loan Restructuring

Its estimated that 70 per cent of clients in Viet Nam (similar to the average for surveyed countries) are unable to meet loan repayments. Government has announced a moratorium on loan collections for MFIs. The central bank has encouraged banks and MFIs to restructure debts and provide new loans. Unlike most (55%) of the countries surveyed, MFIs have not yet seen a significant impact on non-performing loans.

Financial Impact on MFIs

On March 17 the central bank reduced interest rates and increased their own rate on deposits. The State Bank of Viet Nam has also encouraged banks and MFIs to lower operating costs and pass along the savings to clients in the form of reduced interest rates. Viet Nam is the only country in the survey which has indicated that COVID-19 has had no or little impact on operating margins in MFIs. This is tied to the fact that loans are still performing and there is still a stable base of deposits funding the loan portfolios. If any of these factors change, MFIs in Viet Nam are likely to join their regional counterparts in feeling a squeeze on margins and profitability.

Social Impact of MFIs

Like most MFIs in the region, MFIs in Viet Nam are helping to ease the social impact of the current lockdown by using their extensive networks to distribute food to frontline medical workers and health information to clients in remote, poor and other vulnerable communities. This voluntary contribution to the community and concern for consumer protection has long been a part of the ethos of MFIs generally and is again at the forefront of their activities.

Annex 1. Viet Nam MFI Policy Response Compared to Regional Peers (MFI COVID-19 Impact Tracker), as at 30 April 2020

Indicator / Country	Bangladesh*	Cambodia	China	India	Lao PDR	Myanmar	Nepal	Pakistan	Philippines	Sri Lanka*	Viet Nam	Network Percentage
Cumulative confirmed COVID-19 cases per 100,000	3.7	0.8	6.1	2.2	0.3	0.3	0.2	6.6	7.3	2.4	0.3	4.1
MFI Liquidity												
Most MFIs are not approaching creditors, investors or government for liquidity	x	x	x	x	x	x	x	x	x	x	✓	9%
Most MFIs do not need extended loan terms from their creditors**	x	✓	x	✓	x	x	x	x	✓	x	x	36%
Service Delivery												
MFIs are designated as essential businesses**	x	✓	x	✓	✓	x	✓	x	x	x	✓	45%
Ability of MFI clients to make repayments does not differ substantially by rural or urban locations.	✓	✓	x	x	x	x	x	x	x	✓	x	27%
Most MFI clients use and have access to digital payments and don't rely on cash for loans repayments**	x	x	✓	x	x	x	x	x	x	x	x	9%
Client Loan Restructuring												
MFI clients aren't asking to restructure or extend loans**	✓	x	x	x	x	x	x	x	x	x	x	9%
Lockdowns/restrictions aren't severely affecting MFI client incomes & their ability to repay loans**	x	✓	✓	x	x	x	x	x	x	x	x	18%
A moratorium on collections from clients was mandated (Man.) by government or done voluntarily (Vol.) by institutions**	Man.	Vol.	Vol.	Vol.	Man.	Man.	Man.	Vol.	Man.	None	Man.	45%
Financial Impact												
Regulators have eased prudential requirements for MFIs**	x	x	✓	x	✓	✓	✓	✓	✓	✓	x	64%
Portfolio at Risk isn't being significantly impacted**	x	✓	x	✓	x	✓	x	x	✓	x	✓	45%
Operating margins in MFIs aren't being significantly impacted**	x	x	x	x	x	x	x	x	x	x	✓	9%
Social Impact												
MFIs are providing food or health supplies to clients/ community**	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	91%
COVID-19 government policy response rating	2	5	5	5	3	3	3	3	4	3	4	

* In Bangladesh only 10% and in Sri Lanka 50% of clients require cash in / cash out services because they don't have access to digital payments or ATMs.

** This is the status in late April, the situation in each case may have changed since. These items contribute to a rating of the overall government and regulatory policy response to the microfinance sector in each country, with a score of 8 or higher considered as sufficient.

The Foundation for Development Cooperation

FDC is an independent Australian foundation established in 1990. FDC is committed to building prosperity and inclusion across developing countries in the Asia-Pacific region by pursuing initiatives that reduce poverty and promote inclusive growth. It achieves this by researching, piloting and promoting development initiatives that are market-based and innovative. A key feature of FDC's work is its focus on enhancing levels of stakeholder collaboration. Drawing upon its extensive networks from across the public, private, NGO and academic sectors, FDC assembles the collective skills, knowledge and resources of relevant organisations to strengthen the sustainability and impact of development initiatives. www.fdc.org.au

Banking with the Poor

The BWTP network is a unique platform comprising microfinance and inclusive growth stakeholders across 17 Asian economies including some of the region's most prominent financial inclusion practitioners and thought leaders. Working in partnership with its members, BWTP explores, demonstrates and publicises the potential for financial services provided on a commercial basis to provide opportunity for the poor. This includes conducting research and facilitating peer learning to improve policy and practice in the region. www.bwtp.org

Support for the *Responding to COVID-19: Recommendations for Microfinance Stakeholders in Asia* initiative was provided by several national-level microfinance networks across Asia. These associations play an important role in supporting the development of their members and building microfinance sectors which are inclusive, sustainable and deliver positive impact towards the poorest and most vulnerable segments of society. Their ability to assist financial services providers in addressing the challenges associated with serving the poor or creating a more enabling environment through policy advocacy can make a significant contribution towards improving the financial health and well-being of a substantial part of the disadvantaged population.



Cambodia Microfinance Association
 Centre for Microfinance, Nepal
 China Association of Microfinance
 Credit and Development Forum, Bangladesh
 Lanka Microfinance Practitioners' Association, Sri Lanka
 Lao Microfinance Association
 Microfinance Council of the Philippines
 Myanmar Microfinance Association
 Pakistan Microfinance Network
 Sa-Dhan, India
 Vietnamese Microfinance Working Group

This report was prepared jointly by the Foundation for Development Cooperation and Dave Grace & Associates.

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