Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division 1
Private Sector Partnership and Finance Department
Japan International Cooperation Agency

1. Name of the Project

(1) Country: Socialist Republic of Vietnam
(2) Project Site / Target Area: Vietnam
(3) Project Name: Promoting financial inclusion through digital banking
(4) Borrower：Tien Phong Commercial Joint Stock Bank
(5) Loan Agreement：December 6th, 2024

2. Background and Necessity of the Project

(1) Current state, challenges, and positioning of this project regarding financial access and digitalization for micro, small and medium-sized enterprises and individuals in the country concerned

Micro, Small and Medium Enterprises (MSMEs) in Vietnam account for approximately 98.7% of all businesses, contribute around 45% of GDP, and provide over 63% of employment, playing a significant role in the overall economy. However, the long-standing practice of handling management and financial information for MSMEs and similar entities on paper has fostered a strong preference for face-to-face interactions in lending transactions. This has created a bottleneck for efficient lending through digitalization. Consequently, access to finance for MSMEs and similar entities is heavily dependent on the availability of bank branches. Furthermore, regarding individual financial access, the account holding rate at formal financial institutions stands at approximately 30.0% of the adult population, falling to around 20.3% when limited to the poor. While the proportion of adults utilizing credit transactions with financial institutions in the past year stood at 21.7% in 2017, a level close to the average of neighboring countries, this remains low compared to the developed country average of approximately 60%. Consequently, over half of the population currently fulfils their funding needs through informal finance from family, friends, or similar sources. Thus, it is difficult to assert that sufficient financial access is secured for maintaining and improving living standards, including personal consumption, education, healthcare, and other business activities.

Furthermore, the global COVID-19 pandemic since 2020 has significantly impacted the country's financial environment. Bank lending to high-credit-risk customers stagnated, partly due to the poor performance of MSMEs. Concurrently, restrictions on economic activity, including social distancing, and enhanced infection prevention measures limited access to traditional face-to-face financial services. Conversely, since 2021, amid the pandemic, nextgeneration financial services leveraging digital technology have begun to emerge. Contactless payments, e-KYC (electronic customer verification), and AI-based credit assessments are gaining attention as new tools to achieve financial inclusion – a longstanding development challenge in Vietnam.

Against this backdrop, the Vietnamese government, in Prime Ministerial Decision No. 149 of February 2020, 'National Financial Inclusion Strategy towards 2025-2030', set targets including: over 80% of adults holding a bank account by 2025; over 250,000 MSMEs accessing loans; allocate 25% of total credit balances to agriculture and rural development, and register the credit transaction history of over 70% of adults in a credit database jointly maintained and managed by domestic financial institutions. It is promoting improvements to the legal.

(2) Japan and JICA's cooperation policies regarding financial access and digitalization for small and micro enterprises and individuals in the relevant country, and the positioning of this project (particularly its relationship with key foreign policy initiatives such as the Free and Open Indo-Pacific Strategy (FOIP))

On 20 May 2023, Prime Minister Kishida stated at a side event concerning the G7 Global Infrastructure Investment Partnership that Japan would contribute to the sustainable development of partner countries through public-private infrastructure investment. He also announced plans to establish a new JICA financing framework totaling US$4 billion to support countries vulnerable to climate change, food security, and small and medium-sized enterprises (SMEs) and women. Considering this, JICA established the Financial Inclusion Promotion Facility on 22 May 2023. This project aims to improve financial access for MSMEs in Vietnam, aligning with the objectives of the Financial Inclusion Promotion Facility. Furthermore, in relation to key foreign policy priorities, this project contributes to pursuing economic prosperity within the Free and Open Indo-Pacific Strategy, from the perspective of improving financial access, through co-financing with the US International Development Finance Corporation (US DFC).

Japan's Country Development Cooperation Policy for the Socialist Republic of Vietnam (December 2017) and JICA's Country Analysis Paper (June 2020) identify 'Growth and Competitiveness Enhancement' and 'Addressing Vulnerabilities' as pillars. They outline efforts to strengthen industrial competitiveness through SME and downstream industry promotion, and to improve social and living conditions through achieving financial inclusion. Furthermore, the Action Plan for Financial Inclusion (2020-2023), revised at the 2020 G20 Finance Ministers and Central Bank Governors Meeting, identifies digital financial inclusion and SME/microfinance as priority issues. JICA's Sectoral Strategy for Promoting Digitalization (July 2021) states that, in tackling challenges in developing countries, it will utilize new approaches and technologies enabled by digital transformation (DX) across various sectors, including finance, to achieve higher outcomes and added value than conventional methods. Furthermore, the Sectoral Strategy for Public Finance and Financial Systems (July 2021) also sets out the objective of improving access to finance for businesses and individuals and fostering financial markets as the foundation for economic activity. Furthermore, at the Japan-Vietnam Summit in November 2021, Prime Minister Kishida announced the ‘Japan-Vietnam DX Initiative’ to promote economic cooperation focused on DX for post-COVID economic recovery. This project contributes to achieving that policy. Furthermore, this project also contributes to the JICA Global Agenda (Thematic Project Strategy) under ‘Private Sector Development (improving the external environment for private enterprise growth, enhancing financial access, and improving market access)’ and ‘Promoting Digitalization (striving to increase development impact by solving challenges through the utilization of digital technology and data across all development areas and sectors)’.

(3) Significance of Implementing this Project

This project aligns with Vietnam's development challenges, development policies, and the cooperation policies and analyses of Japan and JICA. It contributes to improving financial access for MSMEs and individuals, thereby supporting SDG Goal 8 (improving access to financial services, etc.), Goal 9 (promoting industrialization through expanded financial access for small enterprises), and Goal 17 (partnerships). Therefore, the significance and necessity of support through overseas investment and financing are high.

(4) Necessity of Support through Overseas Investment and Financing

Financial access for MSMEs and individuals in Vietnam (particularly low-income groups facing significant credit constraints) remains limited, with a substantial funding gap persisting. However, in present-day Vietnam, it is currently difficult to secure the long-term capital required to expand lending to MSMEs and low-income groups (especially medium-to-long-term financing that contributes to industrial development and sustained improvements in living standards) from existing private institutions. Consequently, the need for long-term financing through overseas investment and lending is high. Furthermore, promoting convenient digital finance is expected to enhance financial access for Vietnamese MSMEs and individuals, particularly customers in areas with limited bank branches where access to finance through traditional face-to-face transactions has been constrained. This is achieved through the smooth and efficient supply of funds, making support highly necessary.

3. Project Description

(1) Project Description

① Project objective

This project will promote financial access for MSMEs and low-income groups in

Vietnam, particularly digital financial access for MSMEs, by providing long-term financing to TP Bank, thereby contributing to sustainable economic growth within the country.

② Project component

Through long-term financing to TP Bank, lending to MSMEs and low-income individuals will be promoted. At least 30% of JICA funds will be utilized for digital finance targeting MSMEs, with the remaining 70% or less allocated to non-digital lending for MSMEs and low-income individuals. Furthermore, at least 30% of the total facility, including the USDFC loan amount, is scheduled to be utilized for lending to women-owned enterprises and low-income women.

③ Project beneficiaries

Vietnam's MSMEs and low-income individuals.

(2) Estimated Project Cost

US$350 million (Japanese ODA loan: 100 million USD)

(3) Schedule

December 2024 to December 2031

(4) Project Implementation Structure

Borrower：TP Bank

(5) Collaboration and Sharing of Roles with Other Donors

This project is a co-financing arrangement with the USDFC.

(6) Environmental and Social Consideration

① Category：C

② Reason for the categorization： This project is deemed to have minimal undesirable environmental impacts under the “JICA Guidelines for Environmental and Social Considerations” (promulgated in January 2022).

(7) Cross-Sectoral Issues: N/A

(8) Gender Category: GI(S)：Gender Informed (Significant)

＜Details of Activities/Reason for Categorization＞This project promotes lending to MSMEs and low-income groups, thereby contributing to improving women's access to finance and promoting their empowerment. It has set a quantitative impact indicator of a minimum 30% ratio of loans to women entrepreneurs.

(9) Other Important Issues: N/A

4. Targeted Outcomes

(1) Quantitative Effects [1][2]

Indicator	Baseline（2023）	Target（2027）

[1] The definitions of MSMEs and low-income households used for quantitative impact measurement are the MSME definition and low-income household definition for this project.

		3 years after loan agreement
Loan Receivables of MSMEs customers	44,988,628,023,545 VND	73,352,770,742,496 VND
Loan Receivables of low-income individual customers	21,105,903,236,902 VND	37,790,059,763,388 VND
Amount of loans disbursed and originated by the Facility	0USD	120 millionUSD
Amount of loans disbursed to MSMEs through its digital financing and technology channels for online lending originated by the Facility	0USD	36 millionUSD
Amount of loans disbursed to women-owned MSMEs or Women Low Income Customers, originated by the facility	0USD	36 millionUSD
Number of borrowers who borrow from the Facility	0	1,235

(2) Qualitative Effects

Improving financial access for MSMEs, low-income groups, women and WMSMEs. Promoting digital finance.

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

The ex-post evaluation findings of the yen loan project ‘Support for Microenterprises’ for the Arab Republic of Egypt (evaluation year 2016) indicate that when formulating similar projects supporting micro and small enterprises through two-step loans, JICA must ascertain the lending implementation systems of the implementing agency and intermediary lending institutions. In this project, through the screening process, TPBank's lending experience and implementation structure were verified, confirming that it possesses sufficient implementation capacity.

7. Evaluation Results

As outlined above, this project aligns with the country's development challenges, development policies, and Japan's cooperation policy. Its necessity is recognized, the project plan is appropriate, and its prospects for achievement are sufficiently sound. Therefore, the significance of support through overseas investment and financing is considerable.

8. Plan for Future Evaluation

(1) Indicators to be used for future evaluation

As indicated in Section 4.

(2) Future (Provisional)

Ex-post evaluation: 4 years after the project completion.

END