



VIET NAM MICROFINANCE BULLETIN

MICROFINANCE WORKING GROUP – INGO RESOURCE CENTRE

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EDITOR'S OVERVIEW

This is an exciting time for microfinance in Viet Nam. This year the International Year of Microcredit highlighted the enormous potential of extending financial services to the poor. In Viet Nam, this year also saw significant progress from a legislative perspective: the passage of Decree 28 on the Organization and Operation of Microfinance Institutions created a legal framework for Microfinance Institutions (MFIs) to be licensed entities. This formalization has the potential to spur significant sector growth. The decree will be supplemented by a series of implementation circulars to be issued by the State Bank of Viet Nam (SBV) and the Ministry of Finance (MOF) during the next eighteen months.

Yet this is also a time of transition for Microfinance in Viet Nam. Programs already providing microfinance services have until March 2007 to “transform” into MFIs as described by Decree 28 and the forthcoming implementation circulars. Such transformation poses a range of challenges for practitioners.

In light of this situation, the theme of this edition of the Viet Nam Microfinance Bulletin is: “A Sector

in Transition”. Our approach to this theme includes three topic sections: (i) *Thoughts on Transformation*; (ii) *Microfinance Sector Highlights* and; (iii) *Sector Overview*. *Thoughts on Transformation* come from the State Bank of Viet Nam, the International Labour Organization, microfinance practitioners, and other key sector stakeholders. In addition to news and events, *Sector Highlights* includes a new feature: Questions for Ongoing Discussion. Finally, our *Sector Overview* includes statistical and narrative snapshots of semi-formal Microfinance in Viet Nam today as well as an introduction to a new institution focused on microfinance in-country.

We hope you find these articles useful during this important and challenging time for the sector. We encourage you to get involved in the Microfinance Bulletin by contributing any thoughts, articles, statistics, or event postings relevant to microfinance in Viet Nam. Finally, please forward this Bulletin to anyone interested in microfinance activities and development, both in Viet Nam and abroad.

We look forward to hearing from you. Thank you for your support and involvement.

-The Editors

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INTERVIEW WITH THE STATE BANK OF VIET NAM ON DECREE 28 AND TRANSFORMATION

In October 2005, Nguyen Hong Hanh and Mirra Levitt of Save the Children (US) spoke with Ms. Hop of the State Bank of Viet Nam regarding transformation, the upcoming implementation circulars and the microfinance sector in Viet Nam.

SC/US: The purpose of this interview is finding information about the implementation circulars that can help with the transformation of microfinance programs into licensed Microfinance Institutions (MFIs). The interview will be covered in the Microfinance Bulletin of the Microfinance Working Group. Most of the practitioners are looking for information from the State Bank regarding the circulars, so we have developed several questions on that topic.

To begin with a general question: From the State Bank's point of view, what do you consider the most important unresolved issues regarding Decree 28?

SBV: I looked at the questions and I think it's a little bit early to talk about some of them, but we will try to answer the best we can. I think most important issue regarding the Decree concerns the small-scale group; the tiny microfinance programs run by NGOs in Viet Nam and our mass organizations working in microfinance. There are the many difficulties for us with these programs. It is not decided right now whether they will be under Decree 28. We may use surveys and other systems to help decide whether they should be under the Decree.

SC/US: With the issuance of the Decree 28, what do you consider to be the three biggest challenges for microfinance organizations and the development of the sector?

SB: First, the capacity of MFIs in Viet Nam, especially management

capacity. The second one is that most of the MFIs here are very small and operate using a very limited amount of capital. When you only have a small amount of capital to work with, you are forced to depend on a variety of different funds and donor grants. The third thing: many of the microfinance programs in Viet Nam are not very organized right now. To a large extent, the programs depend on their leadership; if the manager is good, then they run well, if not, operations are more difficult. This is true of many of the small scale programs—they are not very organized at this point and they do not have good leadership. Also, there are many types of programs, they are all very different. So it is difficult to regulate them with one decree and even with many circulars.

SC/US: We would like to go farther into the process and timing for the release of the implementation circulars. Who will be involved in the circular development process? How many circulars do you expect will be issued? Will current microfinance practitioners have the opportunity to get involved in the development of the circulars? When do you expect the upcoming circular to be released? We understand that there is some information that may not be available at this time.

SBV: There is significant work to be done in order to implement Decree 28. Two government institutions will be involved: The State Bank of Viet Nam (SBV) and the Ministry of Finance (MOF). Most of the implementation circulars will be issued by the State Bank of Viet Nam. We will be receiving technical assistance from the Asian Development Bank (ADB), and this

INTERVIEW WITH THE STATE BANK OF VIET NAM ON DECREE 28 AND TRANSFORMATION - CONTINUED

work will be very important.

I don't know how many implementation circulars there will be, but I think there will be more than ten circulars issued. The two most important ones will be on transformation—specifically, one on registration and licensing and the other on the activities of licensed MFIs.

We cannot count how many MFIs will be licensed under the decree. It is very difficult to say now. Our idea is to divide organizations into groups—it's more reliable that way, to focus on them group by group. The biggest ones will be licensed first and then some of the medium sized one will be licensed soon after. The small ones will be either licensed later or may not be subject to the decree. If the small ones are excluded from the degree, they will be able to continue operating, but with some limitations. For example, they cannot mobilize more funds, they cannot mobilize voluntary savings. They cannot mobilize a big amount of compulsory savings. There will be a limitation here, they can do this up to a certain level, and we will set the level for them.

SC/US: How many organizations do you estimate are too small to transform? Can you provide some examples of each?

SBV: I do not have much information about that, but once again it comes back to Ha Tinh. There are many programs at the commune level—too many to count—and if they are operating at the commune level, they are a separate level from the province level. SCUk for example, Oxfam UK for example—they are too small, and they are too separate at

the commune level in some provinces, they cannot put it together. There are not enough funds for operating as a formal MFI. It is the same difficulty we mentioned before when we were talking about the small microfinance programs.

SC/US: Do you know when the governor will decide whether the small programs will be excluded from the decree?

SBV: The deputy governor has noticed this issue. Right now it is just our department at the State Bank talking about it. He asked our department to look very carefully at this group and develop suggestions for his decision.

SC/US: So at the moment, this issue is still being considered within the State Bank?

SBV: It will be decided by the issuing of the circular.

SC/US: When do you expect to issue the two circulars that you have already mentioned?

SBV: We are trying to issue our circulars—the SBV's circulars, the first two major ones—as soon as possible. The process is this: we will draft it and then submit it to ADB, receive comments and then submit it to the governor as soon as possible—we understand that the time-frame for MFIs that would like to transform is a very limited one. We understand that issuing the circulars as soon as possible is very important.

SC/US: Do you anticipate any concrete time?

SBV: I cannot promise any time. It depends on our department, on the people who are drafting it. Also, we are waiting for the government acceptance of the technical

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BUILDING A SUSTAINABLE MICROFINANCE SECTOR: OPPORTUNITIES AND CHALLENGES

Valerie Breda, ILO

On March 9, 2005, the Government of Viet Nam (GOVN) enacted Decree 28 on the Organization and Operation of Microfinance Institutions. The decree creates a legal framework for microfinance activities and presents a window of opportunity for the microfinance sector to formalize and expand its activities. Yet time for this is limited: the decree challenges microfinance organizations (MFOs) to comply with the legislation within 24 months of March 2005. Most MFOs lack the necessary technical skills and access to sufficient funding for the transformation into legal financial institutions and the professionalization of the sector. In addition, the decree challenges regulatory and supervisory entities (including the State Bank of Viet Nam) whose limited familiarity with microfinance may affect the smooth implementation of the decree.

The challenges facing the Vietnamese microfinance sector in its efforts to transform and maximize its full outreach potential can be sorted into two main categories: challenges that constrain an enabling environment for microfinance and challenges that hinder institution building.

Enabling Environment For microfinance. Important elements of a supportive policy environment for microfinance include a stable macroeconomic policy environment, the absence of interest rate ceilings, and the elimination of subsidized loan programs. In Viet Nam, there exist several legal and regulatory issues. First, the Viet Nam Bank for Social Policies (VBSP) remains the government's vehicle for subsidized policy lending, and Decree 28 contains no provisions to correct the market-distorting effects of this practice. Second, the implementation of Decree 28 poses many challenges for provincial authorities, the State Bank of Viet Nam (SBV), as well as MFOs. The related implementing circulars

have not yet been published, and concerns raised regarding restrictions on financial products offered by microfinance institutions (MFIs), taxation, and ownership of licensed MFIs remain unresolved. Third, there is no comprehensive strategy or policy that sets out a vision or strategic direction for the microfinance sector over the next ten years.

The main recommendations to achieve an enabling environment for microfinance include the following:

- Conduct a comprehensive inventory of the different microfinance schemes in Viet Nam to improve publicly available information about the sector, and help the State Bank of Viet Nam and Ministry of Finance in the drafting of the implementing circulars
- Provide of technical assistance to the State Bank of Viet Nam and Ministry of Finance on implementation of Decree 28
- Develop national strategy for microfinance. Issues to be considered include: integration of the microfinance sector into the overall financial system; promoting a competitive and transparent market for microfinance; and enabling the participation of a wide range of institutional players in the microfinance market.

Institution Building. Among the building blocks of a sustainable MFI are: (a) clear governance and management structure; (b) qualified and motivated staff; (c) efficient systems and procedures; and (d) sound and transparent financial management. The first challenge for Vietnamese MFOs in the next five years relates to human resources. Only a few MFOs have a standardized training program for incoming staff and there is a great need for regular, continued formal technical training of staff and management.

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MICROFINANCE AND DECREE 28: CONCERNS AND RECOMMENDATIONS

Nguyen Thi Hoang Van, CEP

The following is an extract from the CEP paper delivered by Mrs. Nguyen Thi Hoang Van, Managing Director of CEP-HCMC at the State Bank of Viet Nam Conference held in August 2005.

Semi-official microfinance operations have been developing in Viet Nam since the early 1990s. During this time microfinance has demonstrated that it is an effective tool in poverty reduction thanks to its capacity to directly assist the poor in improving their well-being.

In March 2005 the Government of Viet Nam (GOVN) issued Decree 28 on the Organization and Operation of Microfinance Institutions in Viet Nam. Under the decree, microfinance programs have two years to comply with its regulations in order to attain operating licences. The overall impact of the decree on the microfinance sector in Viet Nam will undoubtedly be positive. Possibly the most significant aspect of the decree is the recognition by the Vietnamese Government of the importance of microfinance and the role that it can play in facilitating poverty reduction.

The Vietnamese microfinance industry is very young, but it is growing quickly. While there is a high demand for credit among the poor in Viet Nam, and microfinance organizations are by and large very small, there is an opportunity for industry participants to relatively easily build institutional capacity and institute appropriate governance and management structures to develop professionally. This will be a significant challenge for existing microfinance organizations.

Challenges for the Microfinance Industry in the Transition Period.

The introduction of a decree at this stage in the industry's development permits all participants to take advantage of this time of transition. However, given the current

operational state of the industry, microfinance organizations will face many obstacles, with the main challenges centered on attaining the three basic principles underpinning the microfinance industry: autonomy, sustainability and poverty targeting.

Basic Necessary Adjustments for Microfinance Organizations to Comply with Decree 28.

In order to comply with the new regulatory framework there are several necessary changes and adjustments that current microfinance organizations will need to make. These are outlined below:

- First, in order to become autonomous institutions, many microfinance organizations will have to revise their charters and establish new structures for their boards of management and boards of control. The poverty focus and not-for-profit mission will need to be reaffirmed within the new microfinance institution's charter so that these values do not erode over time. This will be a significant step for most microfinance providers in Viet Nam, which currently operate as NGO project components or are contained within one of the Vietnamese mass organizations such as the Women's Union or Labour Confederation.
- Institutional sustainability: With the appropriate scale, product pricing and sound credit management, the poor are creditworthy and can exclusively provide the clientele for financially sustainable institutions. However, very few microfinance organizations have been able to attain financial self-sufficiency. Within this two-year transition period, organizations must focus their resources on strengthening institutional capacity, mobilizing additional funding and scaling up their operations to ensure the financial sustainability that will allow

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IMPROVING EFFICIENCY THROUGH PERSONNEL MANAGEMENT: BINH MINH'S PREPARATION FOR TRANSFORMATION

Ngo Hong Nam, Binh Minh CDC

Binh Minh Community Development Center (Binh Minh CDC) works in the area of microfinance in Viet Nam. The mandate of Binh Minh CDC is to improve living standards of households, especially of women and low-income people, by providing microfinance products and services. After two years of operations, Binh Minh CDC employs 20 staff members and serves 1,800 customers in Dong Anh district, Ha Noi City.

In preparation for transforming Binh Minh CDC into a small-scale financial institution under Decree 28, Binh Minh CDC has focused on investing in human resources. This investment aims to improve staff performance as well as to increase the quality and effectiveness of customer service. As part of this effort, this past fall Binh Minh CDC conducted an internal study, "Work Effectiveness of the Staff", that examined the company's daily workflow and analyzed obstacles and bottlenecks affecting staff efficiency.

The study showed that a main issue facing Binh Minh CDC relates to customer management. For the majority of the staff, customer interactions are quite concentrated—80% of staff members schedule all work with clients into just two days each week. This uneven work distribution creates inefficiencies both in busy times and on days with relatively few client visits. On the days when customer interactions are very concentrated, the staff workload doubles and sometimes triples. This increase leads to reduced time spent with each customer and inadequate attention to customer care and development. During intervals when very few clients are present, the staff becomes restless and uninspired—which reduces service quality as well.

Based on the findings of the study and subsequent discussions with the staff, Binh

Minh CDC has made several changes designed improve customer service. Most importantly, Binh Minh has rearranged the workflow to minimize interval time between clients and streamline activities in center/group management. Specific results from this effort include increasing the number of customer interactions with credit officers from 120 to 150 and increasing the ratio of customers per credit officer by 14%. Such time management efforts have resulted in significant staff performance gains. Specifically, monitoring of loan collection has improved and repayment issues are now addressed immediately upon the discovery that there is a portion of the portfolio at risk. The overall results of this program have been very encouraging: Binh Minh's bad debt rate has been held at 0%. Finally, the findings of the study have also helped Binh Minh CDC in planning for the future—the company's development plan for the coming year targets increasing staff productivity from its November 2005 level of 200 customers per credit officer to 300 by the end of 2006. Undertaking the workflow study, carefully considering its findings, and then implementing solutions has increased Binh Minh CDC's efficiency and improved customer service in the present and helped the company to develop a strategic direction for staff management in the future.

Our experience at Binh Minh shows the importance of being proactive so that innovative ideas can produce real-life, practical improvements. This lesson is important to remember in the midst of the challenges posed by the transformation requirements. In this critical time, we must take concrete steps to prepare ourselves and our organizations for the future.

RECRUITING QUALIFIED LEADERSHIP FOR MFIS: ADDRESSING A CHALLENGE OF TRANSFORMATION

Tran Hoai Thu, Save the Children (US)

Since the Vietnamese government enacted Decree 28 in March 2005, much discussion has focused on the decree's implementation as well as on the opportunities and challenges microfinance organizations (MFOs) face in undergoing transformation. This article focuses on one key issue for MFOs as they prepare for the challenge ahead: recruiting appropriate leadership for microfinance institutions (MFIs).

Decree 28 mandates that microfinance institutions be managed by qualified personnel, and these new recruitment standards represent an opportunity to improve the leadership and management of MFOs. According to the draft implementation circular, directors and deputy directors of registered MFIs should have a good knowledge of finance, including at least three years of experience in financial banking. Internal Control Board members and directors of MFIs permitted to mobilize voluntary savings must hold a bachelor-level degree in financial banking, at a minimum.

These regulations are designed to ensure the technical expertise of MFI leadership. This competence is important for several reasons. First, it is fairly certain that the time needed to prepare for transformation can be shortened when strong leadership is driving the process. In addition, after microfinance programs are successfully transformed into formal MFIs, the technical capacity and business orientation of the steering committee are crucial to maintaining the sustainable growth of an MFI. In this way, the requirements of the transformation process give MFOs a good chance to recruit capable personnel to fill in gaps in leadership and management.

However, both the objective and qualitative requirements outlined in Decree 28 also represent a challenge for microfinance organizations. From the perspective of the

supply side of the labor market, it is clear that there is not an abundance of qualified and experienced candidates working within the geographical areas of microfinance project sites. Because of microfinance's poverty-focused objectives, current microfinance project sites are located in areas where neither education nor the economy is well developed, and so have a low density of qualified employees.

The experience of the Microfinance Program of Thanh Hoa provincial Women's Union's recruitment process for the position of Program Deputy Director, based in Thanh Hoa city, provides an excellent illustration of this issue. After the first advertisement for the position garnered no response, the program posted a second advertisement in both a national newspaper and at a local broadcasting station. The second post brought more positive results; the program received several incoming applications from candidates living in Thanh Hoa. Unfortunately, none of the applicants had the required banking qualifications and only a few of them had the relevant qualifications and experience in accounting. Applicants with experience working closely with poor communities or with good English communication skills were not qualified or mature enough to run a credit-services institution with thousands of clients.

There are challenges from the perspective of microfinance organizations as well. Many programs have reservations about accepting strongly qualified candidates—especially from the finance and banking fields that are not currently the strength or area of expertise of these organizations. Another issue is the possibility that current microfinance programs may tend to choose social mission-oriented people rather than those with a more business orientation. The reality is that microfinance institutions

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TOWARDS COMMERCIAL MICROFINANCE IN VIET NAM

Dr. Quach Manh Hao, Univeristy of Birmingham

Dr. Quach Manh Hao is a research fellow at the University of Birmingham and the University of Salford.

Decree 28, has created a new opportunity for microfinance institutions in Vietnam in that it allows MFIs to be recognized as financial institutions for the poor. This recognition, however, does not necessarily guarantee a stronger microfinance sector nor does it guarantee that MFIs will attain sustainability. It is therefore appropriate for MFIs reconsider how they approach microfinance. In this discussion paper, I propose three ideas for building stronger microfinance institutions in Vietnam.

Firstly, sustainability should be considered the key aim for any MFI. Although the term has been applied differently in a range of contexts, the key point should be to maximize outreach conditional on financial self-sufficiency. This proposition is based on the following observations:

- Currently the government follows a program of subsidized lending which provides credit to the poor for poverty alleviation. This policy, however, has not been entirely successful: (i) research shows that poor people are less likely to receive subsidized credit and (ii) access to credit has been shown to reduce household poverty but the magnitude of this effect is under debate.
- Given the recorded impact, it is argued that access to credit should be a key tool for poverty reduction. While this approach does hold some validity, it fails to consider cost-effectiveness. A very simple question should be kept in mind: we target the poor with cheap credit, but if they can't consistently access it or if the impact is small when they do, why should we commit to a subsidized credit policy?
- With this in mind, the key focus for MFIs and policy makers should be to develop a sustainable microfinance sector that can

successfully reach the poor while maintaining the financial self-sufficiency of the MFIs that constitute that sector.

Secondly, in order to attain sustainability, MFIs should move towards commercialization, which emphasizes the role of MFIs as financial intermediaries among poor and low-income households. In terms of methodology, commercialization implies the application of market-based principles to microfinance.

Finally, throughout the process of commercialization, MFIs should remain aware of the importance of community development activities. Working through partnership with local committees and other social organizations not only helps MFIs reduce transaction and screening costs, but also helps them to build social capital among poor borrowers. Research indicates that social capital may play a role in a borrower's capacity to be economically active and hence affects microfinance.

In short, I suggest that we aim at creating a "market" for microfinance in which MFIs function as "sellers" who actively consider business decisions rather than simply distributing funds without thinking carefully about profitability. Clearly, Degree 28 is a key step, but transformation within each MFI is perhaps more important. Throughout the transformation process, the group lending, village banking and mobile banking models that have achieved sustainability in countries throughout the world should represent a benchmark for MFI performance and show that microfinance can be sustainable. While we lack a Vietnamese-made benchmark for sustainability—and hence might want to consider undertaking a comprehensive study on how to build a sustainable MFI in Vietnam—these examples, together with the key ideas outlined in this paper, provide a starting point for creating sustainable MFIs in Vietnam.

LESSONS FROM THE SEEP NETWORK GLOBAL SUMMIT - OCTOBER 2005

Che Phong Lan, World Vision and Nguyen Tuyet Mai, Save the Children (US)

The SEEP Network is an organization of more than 50 North American private and non-profit organizations that support small business, microenterprise and microfinance institutions in the developing world. Its mission is to advance the practice of micro and small enterprise development among its members, their international partners and other practitioners. The network operates primarily through three programs: Institutional Development Services (IDS), Network Development Services (NDS), and the Practitioner Learning Program (PLP). These programs are designed to develop the capacity of country-level and regional networks, promote lateral learning among practitioners and advance best practices in microenterprise throughout the world. More generally, the SEEP Network provides a place for practitioners to come together to share institutional knowledge and establish best practices for the industry.

This fall, with the financial support of Ford Foundation, representatives from the Viet Nam Microfinance Working Group (MFWG) had the opportunity to attend SEEP's Global Network Summit in Washington DC. The summit focused on characteristics and strategies for building and maintaining strong networks. Highlighting the summit was USAID, which drew on international experience to outline strategies for building successful networks. USAID emphasized the importance of clarity of structure, objectives, process and outputs, and argued that focusing on the relevance and feasibility of network goals is paramount. In addition, USAID offered the following list of conditions for successful networks:

- Every member agrees on network goals
- Network performance adds value to the

operations of its members

- Network coordinators have clear roles and responsibilities
- Simple, well-designed operational plan
- Availability of a comprehensive database on network members
- Easy and flexible communication among members

The summit also included lessons on network strategies for policy advocacy. Given Decree 28 and the ongoing implementation circular development process, these discussions were particularly relevant to the concerns of the MFWG. The MFWG will be able to draw on this knowledge to enhance advocacy during this critical moment in the development of the Vietnamese microfinance regulatory environment.

In addition to the general conference program, MFWG representatives also had the opportunity to speak with the SEEP program director regarding the MFWG's history and challenges for further development. In response, SEEP outlined potential future support to the MFWG, which would be funded by a small Ford Foundation grant aimed at strengthening networks. Beginning in 2006, the support would include a network capacity assessment and assistance in the development of a practical and effective network business plan. Overall, SEEP is excited about the MFWG and is ready to assist the network in building relationships and strengthening its operations both within the region and internationally.

CLUSTER 21 CELEBRATES 10 YEARS OF MICROFINANCE

Le Lan, TYM

October 2005 marked the ten-year anniversary of the establishment of Cluster 21. In celebration of this occasion Ms. Nguyen Thi Phuong, Manager of Cluster 21 under branch 3 of TYM fund, invited both Women's Union delegates from all levels and local authorities to participate.

Cluster 21, of Xuan Hoa precinct, Phúc Yên district, Vinh Phúc province, is a unit of TYM's branch number 3 with 40 members. Cluster 21 was established on October 14, 1995 and celebrated its tenth anniversary in October 2005. Approximately half of Cluster 21's members have been with the cluster since it began its operations ten years ago.

The cluster's promotion policy includes: Giving gifts to rural youth when they volunteer for military tasks; awarding scholarships to disadvantaged children who perform well at school; sharing both happy and difficult moments with members; and offering funeral allowances. In addition, the cluster has organized sightseeing tours and summer vacations for members.

Drawing on conversations at the event, I would like to take this opportunity to begin a discussion among microfinance practitioners on the organizational structure of microfinance institutions and how this impacts their relationships with clients.

QUESTIONS FOR ONGOING DISCUSSION: TERMINOLOGY AND ITS IMPACT

These questions will be put forward in the bulletin and interested people are invited to discuss them over email subsequent to its publication. If there is great interest in the topic, the Microfinance Working Group will consider calling a meeting to formalize discussions.

Question 1:

One possible definition of the modern microfinance organizational structure: *The group is the smallest unit of a microfinance organization, the cluster is the basis/foundation of the organization and the members are the owners of the organization.*

Alternate definition of a commercial microfinance organization: *Groups and clusters are methods of approach of microfinance and members are service buyers and/or clients.*

Will microfinance organizations with different definitions vary both in terms of institutional strategy and products and services? How will they vary?

Question 2:

What do you call people who participate in your microfinance program: beneficiaries, members, or clients? What philosophy is behind the word you chose?

Does the choice of terminology matter to the operations of a microfinance organization? For example, if you switch from calling participants "beneficiaries" to calling them "clients", does it affect the way you interact with your target demand demographic?

Which one do you think is the best in our current context in Viet Nam?

MICROFINANCE NEWS AND UPCOMING EVENTS

Workshops

The Global Microcredit Summit 2006 will be held from 12-15 November 2006 in Halifax, Nova Scotia, Canada. More than 2,000 delegates from over 100 countries are expected to participate at the event, assessing progress made toward the Campaign's goal of reaching 100 million of the world's poorest people by the end of 2005, and launching the second phase of the Campaign.

The CEP Microfinance International Conference was held in Ho Chi Minh City, Viet Nam from 6-8 June 2005, assessing "The Achievements and Potential of the Microfinance industry in Viet Nam in Attaining its Primary Goal of Reducing Poverty". www.cep.org.vn

National Conference on Microfinance and Government Decree #28 was held by State Bank of Viet Nam in Ha Noi in 3-4 August 2005, with participation of donors, microfinance practitioners and delegates from State Bank of Viet Nam at central and provincial levels.

Knowledge Sharing Workshop on Pilot Test of Risk Managing Financial Services (RMFS) in Microfinance – organized by International Labor Organization, Ha Noi, 13 December 2005. The workshop report and related documents will be available on the ILO project's website www.microfinance.org.vn

New Resources

The 2005 State of the Microcredit Summit Campaign Report was released on December 7th at the UN in New York. The Report presents end of 2004 data on the progress made towards the Campaign's goal of reaching 100 million of the world's poorest families with microcredit. www.microcreditsummit.org/

Training

"Making Microfinance Work: Managing for Improved Performance" 21 - 31 March 2006. In the framework of its project "Extension of Microfinance and Microinsurance to Informal Women Workers", the ILO Office in Viet Nam will collaborate with the ILO International Training Center (Turin, Italy) to organize a second run of the above mentioned training course. The first run of the course in 2005 was very successful; it was considered by participants as "the most useful and practical course in microfinance", and revealed an important unmet need for management training among microfinance practitioners. For more information, please contact Ms. Nguyen Ngoc Duyen, Project Admin Secretary: ILO Office in Viet Nam, Tel: (04) 734 0902, ext. 227 or Email: duyen@ilohn.org.vn

Program on Strategic Leadership for Microfinance, 17-22 April 2006. SEEP member ACCION and the Harvard Business School present a one-week program for senior executives of MFIs in Boston, Massachusetts, USA. For more information, please visit: <http://www.accion.org/hbs.asp>

Donation News

Ford Foundation USA granted funds for the organization of the National Conference on Microfinance and Decree 28 held by State Bank of Viet Nam.

Ford Foundation USA granted a donation to CEP in Ho Chi Minh City for operation expansion and institutional capacity building.

AN INTRODUCTION TO THE MICROFINANCE AND DEVELOPMENT CENTER

Nguyen Bich Vuong, M&D Center

Since the beginning of the 1990's, the Government of Viet Nam (GOVN) has focused investment spending towards its national program for poverty alleviation. Microfinance has proved to be an effective component of this program. In March 2005, in recognition of the significant contributions of microfinance programs to poverty alleviation, GOVN passed Decree No. 28/ND-CP on the organization and operation of small-scale financial institutions in Viet Nam. The issuance of Decree 28 represents an opportunity for microfinance programs to become formally recognized institutions regulated by the legal framework of the State—a status that grants them access to commercial capital. The ability to tap into the commercial loan market will be central in ensuring institutional sustainability, increasing the scale and accessibility of microfinance services, and shoring up the stability and viability of long-term poverty reduction efforts in Viet Nam.

Founded under the Decision of the Association of non-state University and Colleges, the Microfinance and Development Center (M&D Center) aims to facilitate the development and transformation of microfinance programs and contribute to the overall development of the microfinance industry in Viet Nam. Since its establishment in July 2005, M&D Center has developed a pool of staff and collaborators who are experts in the practice of microfinance and community development and have significant experience participating in sector development forums. Specific activities of M&D Center to date include:

- M&D Center is assisting the State Bank of Viet Nam (SBV) in the preparation and issuance of the implementation circulars for Decree 28. M&D Center has proactively given comments on draft circulars with a focus on ensuring that

the regulations are relevant to the actual practice of microfinance in Viet Nam and responsive to the concerns of existing in-country microfinance programs.

- In order to meet the staff capacity improvement needs of microfinance organizations—especially those organizations which are preparing for transformation under Decree 28—M&D Center has assisted several organizations in conducting training on internal controls and auditing. M&D will continue this support during the coming year through offering training courses on business planning, financial analysis, and management.
- In support of the transformation process, M&D Center provided audit support to several programs and savings-credit projects.
- M&D Center participates in an ongoing effort to share information and experiences with microfinance practice among national and international microfinance institutions. Through this process, M&D Center has become an important locus of microfinance information exchange for organizations operating both in-country and outside of Viet Nam.

In addition to the various training and information sharing projects underway, M&D Center has served as a capacity building consultant for several of local partners. The main customers for these consultancy services have been local and international NGOs. To date, the projects have focused on auditing and designing development project proposals using the participatory approach (PRA).

M&D Center believes that with the strong determination of microfinance projects and programs, direction from the State Bank of Vietnam, and contributions from

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SEMI-FORMAL MICROFINANCE IN VIET NAM: A NARRATIVE OVERVIEW

Bich Van Nguyen Thi, ILO

In this issue, the Viet Nam Microfinance Bulletin would like to introduce an updated inventory of microfinance operations. We would like to express our special thanks to the 40 organizations and programs that provided data, as well as to the Microfinance & Development Center for coordinating data collection.

This inventory certainly does not cover all microfinance programs in Viet Nam, but it does provide a useful picture of the country's microfinance sector. It is worth stressing that eight "new" organizations have provided their information this year (compared to 2004). We are delighted to see the increasing number of participants and hope that in the future more microfinance organizations operating in the country share their information with the Bulletin in order for us to better reflect the state of microfinance operations in Viet Nam.

We are also pleased to note the amplified scale of many microfinance organizations and programs this year. TYM fund opened a new branch in the Nghi Loc district of Nghe An province, bringing their number of branches to 16. The number of total active clients increased to 20,848, a gain of 1,157 over 2004. In addition, TYM fund's total assets increased by more than 10 billion VND to reach 58 billion VND. Its loan portfolio saw similar gains, increasing by 10 billion VND. CEP in Ho Chi Minh Cit also had a high performance year. It grew in terms of number of clients (10,000 more clients to reach 65,685), total assets (enlarged by 38 billion VND), and loan portfolio (rose by 29 billion VND). CEP is widely recognized as the leading microfinance organization in Viet Nam.

The year also witnessed efficiency gains in operations and continued growth in terms of number of active clients, total assets, and magnitude of loan portfolio for smaller

microfinance organizations/programs such as Fund for Women promotion in Uong Bi town and Dong Trieu Women's Union Trust Fund in Dong Trieu district (Quang Ninh), Rural Development Program in Quang Ngai (RUDEP), and Binh Minh Community Development Company (Binh Minh CDC) in Ha Noi. In particular, Binh Minh CDC—a new participant in the microfinance sector—set a remarkable example posting growth of 30% in total clients, 46% in total assets and 60% in loan portfolio after only nine months of operation. By September 30th, 2005 the company was serving 1,749 clients, with VND 2,644 million of total assets and VND 2,437 million of outstanding portfolio.

The inventory shows an additional piece of important information: 30 out of 40 organizations affirmed their willingness to transform either under Decree 28 or into People Credit Funds. This demonstrates the determination of semi-formal microfinance providers to become professional and sustainable organizations. However, many organizations are concerned by the delay in issuing the implementing circulars. These circulars are a critical guide to the transformation process. Writing just before the coming of the New Year, we all hope that the State Bank of Viet Nam will issue the circulars for the benefit of the overall microfinance sector in Viet Nam.

No.	Region / Province	Name of organization / program	Start Year	Project Sites			Number of Branches	Number of Credit Officers	Number of Active Clients	Number of Active Borrowers
				Number of Provinces	Number of Districts/ Precincts	Number of Communes				
1	Dien Bien	Entrustment Fund, Women's Union of Dien Bien district	1997	NA	1	5	NA	13	2,412	2,206
2		Entrustment Fund, Women's Union of Dien Bien city	1997	NA	1	7	NA	5	3,641	NA
3	Ba Ria-Vung Tau	CEP-BRVT	2002	NA	1	22	0	8	6,244	6,140
4	Ha Noi	CESVI	2004	1	1	25	1	50	3,676	3,676
5		SCUS-BNHHMNH CDC	2003	NA	1	6	1	10	1,749	1,749
6	Ha Tay	CARSWI	2002	NA	NA	1	NA	10	340	340
7	Ha Tinh	Supportive Fund of Poor Women in Thach Ha district	1995	NA	1	14	0	45	5,461	4,814
8		Credit and Saving Fund of Cam Xuyen district Women's Union	1993	NA	1	22	22	67	16,765	16,006
9		Credit and Saving Fund of Ky Anh district Women's Union	1998	NA	1	10	NA	33	3,447	3,280
10		Pro poor center, Can Loc district	1997	NA	1	7	NA	28	3,754	3,754
11	Ho Chi Minh city	CEP-HCM	1991	1	24	317	16	77	65,685	56,459
12		CIDSE-Ho Chi Minh city Women's Union	1993	1	2	12	0	12	5,976	5,976
13	Long An	CEP-LONG AN	2003	NA	2	12	0	3	2,394	2,302
14	Ninh Thuan	Supportive Fund for Poor Women of Ninh Phuoc district	2001	NA	1	3	3	11	2,169	2,169
15	Quang Binh	Counterpart international	2005	1	1	3	3	12	703	607
16		SNV	1997	1	4	26	26	182	8,558	4,986
17	Quang Ngai	RUDEP	2003	1	12	19	NA	1	2,293	1,505
18	Quang Ninh	Encouragement Fund for Development of Women in Uong Bi town	1995	NA	1	10	NA	36	7,238	3,982
19		Entrustment Fund of Dong Trieu district Women's Union	1997	NA	1	10	10	43	5,907	5,100

Name of organization/ program	Total Assets (VND mm)	Total Loan Portfolio Outstanding (VND mm in Arrears (VND mm)	Saving Portfolio Outstanding (VND mm)				Inter-dependent Fund (VND mm)	Number of Active Clients/ Credit Officer	Operational Self- Sufficiency (OSS)
			Total Loan Portfolio	Compulsory Savings	Voluntary Savings	Total			
Entrustment Fund, Women's Union of Dien Bien district	3,174	3,174	NA	351	182	534	NA	185.5385	NA
Entrustment Fund, Women's Union of Dien Bien city	1,509	1,509	NA	957	271	1,227	NA	728.2000	NA
CEP-BRVT	11,174	10,186	122	1,516	0	1,516	0	780.5000	172.00%
CESVI	2,680	2,541	NA	NA	NA	NA	NA	73.5200	100.00%
SCUS-BINHMINH CDC	2,644	2,437	0	0	56	56	0	174.9000	49.03%
CARSWI	471	411	1	60	0	60	NA	34.0000	143.00%
Supportive Fund of Poor Women in Thach Ha district	3,342	3,341	0	1,324	409	1,733	67	121.3556	110.82%
Credit and Saving Fund of Ca Xuyen district Women's Union	22	21	0	2,242	0	2,242	NA	250.2239	204.33%
Credit and Saving Fund of Ky Anh district Women's Union	3,333	3,245	29	674	124	798	NA	104.4545	179.23%
Propoor center, Can Loc district	5,984	8,321	2	2,284	1,376	3,659	16	134.0714	199.40%
CEP-HCM	158,108	134,017	64	30,218	7,125	37,343	252	853.0519	168.76%
CIDSE- Ho Chi Minh city Women's Union	8,514	5,056	9	1,952	0	1,952	NA	498.0000	191.73%
CEP-LONG AN	3,615	2,824	37	538	0	538	0	798.0000	141.50%
Supportive Fund for Poor Women of Ninh Phuoc district	3,376	2,907	67	834	28	862	NA	197.1818	112.41%
Counterpart International	560	554	NA	9	0	9	0	58.5833	83.13%
SNV	9,450	10,807	9	2,086	0	2,086	154	47.0220	126.30%
RUDEP	8,249	5,049	128	585	0	585	NA	2,293.0000	312.67%
Encouragement Fund for Development of Women in Uong Bi town	7,368	6,873	139	3,557	0	3,557	NA	201.0556	177.00%
Entrustment Fund of Dong Trieu district Women's Union	8,321	8,019	19	997	175	1,171	14	137.3721	134.00%

No.	Region / Province	Name of organization / program	Start Year	Project Sites			Number of Branches	Number of Credit Officers	Number of Active Clients	Number of Active Borrowers
				Number of Provinces	Number of Districts/ Precincts	Number of Communes				
20	Son La	Credit and Saving Fund of Phu Yen district Women's Union	1995	NA	1	9	9	112	2,813	2,813
21		Credit and Saving Fund of Women's Union of Thuan Chau district - FVFA	2000	NA	1	4	1	15	796	796
22		Quỹ 100 triệu, Hội Phụ nữ huyện...n Mai Sơn, Sơn La	1993	NA	1	12	NA	33	4,224	3,346
23	Thái Nguyên	AFAP-ÔJT, Thị trấn Nguyễn	2003	NA	1	3	3	12	1,320	1,300
24		AFAP-Na Ri, Bắc Cạn	2003	NA	1	4	4	16	468	468
25		CDSE- Đình Hòa district	1999	NA	1	6	NA	4	380	380
26		CDSE-Pho Yen district	1999	NA	1	6	NA	4	384	384
27	Thanh Hoa	CECI	2001	1	2	17	17	6	6,272	5,278
28		Quaker Service	1996	1	2	32	NA	NA	6,570	5,795
29		Credit and Saving Fund of Women's Union of Thach Thanh district	1995	NA	1	19	19	59	7,200	4,800
30		SCJ-Viet Nam	2000	2	6	39	39	117	8,296	6,966
31		SCUS-Thanh Hoa	1998	1	4	31	4	59	9,984	9,984
32	Thua Thien-Hue	Rural Development Center in Thua Thien Hue		1	3	14	NA	44	3,347	2,771
33	Vinh Phuc	CSOD	2004	NA	2	4	2	10	800	720
34		GRET	1995	1	2	5	10	32	912	912
35		CCF Australia	2000	2	3	9	9	115	3,115	2,757
36		Plan Viet Nam	2003	2	4	7	NA	68	2,110	1,496
37		SUFA, DANIDA	2001	3	16	75	3	225	1,595	1,595
38		TYM	1992	7	11	80	16	75	20,848	20,380
39		VBCP- Viet Nam- Belgium Credit Project	1998	17	82	198	17	NA	52,505	51,633
40		WVI	1999	4	6	30	6	10	4,000	3,804
		Total				1,135	241	1,662	286,351	253,429

Name of organization/ program	Total Assets (VND mm)	Total Loan Portfolio Outstanding (VND mm)	Total Loan Portfolio in Arrears (VND mrr)	Saving Portfolio Outstanding (VND mm)			Inter-dependent Fund (VND mm)	Number of Active Clients/ Credit Officer	Operational Self- Sufficiency (OSS)
				Compulsory Savings	Voluntary Savings	Total			
Credit and Saving Fund of Ph Yen district Women's Union	1,201	1,201	5	257	0	257	NA	25.1	99.70%
Credit and Saving Fund of Women's Union of Thuan Che district - FVFA	457	409	15	70	0	70	NA	53.1	101.00%
Quỹ uũ thũc, HD ph™ nũ hũy Mai SẢn, SẢn La	4,716	4,042	40	716	832	1,548	NA	128.0	99.70%
AFAP-Đại Từ, Thũy NguyẢn	1,185	919	0	157	0	157	13	110.0	105.74%
AFAP-Na Rĩ, Bac Can	545	297	NA	46	0	46	5	29.3	103.70%
CIDSE- Dinh Hoa district	831	476	71	78	0	78	NA	95.0	NA
CIDSE-Pho Yen district	1,157	519	33	305	0	305	NA	96.0	NA
CECI	8,640	8,480	1,100	1,238	5	1,243	50	1045.3	121.40%
Quaker Service	5,013	5,013	18	1,232	0	1,232	NA	NA	NA
Credit and Saving Fund of Women's Union of Thach Thanh district	7,150	7,100	100	1,000	0	1,000	NA	122.0	NA
SCJ-Viet Nam	4,528	4,219	NA	NA	NA	845	NA	70.9	107.47%
SCUS-Thanh Hoa	6,291	5,199	19	455	0	455	NA	169.2	145.20%
Rural Development Center in Thua Thien Hue	3,777	2,958	32	0	0	0	0	76.1	NA
CSOD	500	400	0	0	0	0	5	80.0	NA
GRET	196	1,185	NA	57	0	57	NA	28.5	118.00%
CCF Australia	2,760	2,717	NA	NA	NA	NA	NA	27.1	172.50%
Plan Viet Nam	1,043	987	NA	166	0	166	NA	31.0	204.00%
SUFA, DANIDA	2,478	2,074	0	33	0	33	NA	7.1	NA
TYM	58,530	49,533	3	21,166	1,774	22,939	633	278.0	196.76%
VBCP- Viet Nam-Belgium Credit Project	46,612	46,612	NA	16,313	25	16,338	912	NA	NA
WVI	6,678	6,432	NA	NA	NA	NA	NA	400.0	88.00%
Total	406,184	362,067	2,064	93,472	12,380	106,696	2,121		

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assistance. We hope to have it by the end of this month.

SC/US: So the TA can start by the end of this month?

SBV: I hope.

SC/US: We have a few more questions about the circular development process. The first question is about the possible involvement of current microfinance organizations in the development of the circular. We have already observed that the State Bank has sent out draft implementation circulars—two, I think. Will we have the chance to continue to be involved in the process?

SBV: Of course. Your support, assistance and recommendations will continue. We have received many recommendations from the Microfinance Working Group. We have received many recommendations from important members. Thank you for your support and recommendations, we will continue to solicit your input.

SC/US: You mentioned the role of the Ministry of Finance in the development of the circulars. Can you be more specific about that?

SBV: Decree 28 contains some articles that concern the Ministry of Finance. They will issue the related circulars—regarding taxation, use of profits and return of profits.

SC/US: You already mentioned there will be different types of licensed microfinance organizations, maybe the first ones to be licensed will be the big ones. In your view who are the big ones that will be the first ones to be licensed?

SBV: I think you know this better than me. It will some very famous ones, maybe CEP, maybe TYM. The big programs under the INGO too,

maybe in some provinces. In Ha Tinh province, they have the International Fund for Agricultural Development (IFAD) program, which is a very big one, and maybe they will try to transform the program into an MFI. But the Viet Nam Pension Program—it would seem that it's a very big program, but it's not ready.

SC/US: Do you know where those programs are working?

SBV: They are in many provinces.

SC/US: Do you anticipate a situation in which too many MFIs receive licenses?

SBV: We discussed this when we were preparing our decree, the Ministry of Finance was worried about this. If many tiny MFIs are set up and the system is very large, across the country it will be very difficult for the government—for the SBV and for the Ministry of Finance also—to manage.

We were talking about this during the drafting of the decree because we had the same system ten years ago with People's Credit Funds (PCF). Some years ago we had a very big system—more than one-thousand PCFs set up in two years. This will not happen here once again; with MFIs it will be different. There will not be many small MFIs set up at first. Instead, the big ones, the more secure ones, will come first.

The first part is setting up our microfinance system; we will set it up step by step. This will be different from the PCF system before. The MFIs will work better and be more secure than the PCFs.

SC/US: We would like to move to more specific issues. How do you expect the ownership of the microfinance

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organizations to work?

SBV: They will be owned by Vietnamese organizations and Vietnamese NGOs. But I understand your question, the hope that international funds can come.

SC/US: Do you mean that when they are first set up they should be completely owned by Vietnamese organizations, like mass organizations and individuals...

SBV: Not individuals. Not even Vietnamese individuals.

SC/US: OK. But during the operating process if they need to access more capital they may call for...?

SBV: They may call on individuals or on international or Vietnamese organizations.

SC/US: So, at that point in time will those individuals or international organizations have the chance to also be owners, or partial owners, of MFIs?

SBV: No, we cannot do that now. Only Vietnamese organizations will be able to set up MFIs.

SC/US: But it is a possibility in the future?

SBV: Later, after the setting up of these first MFIs. TYM for example—if they would like to set up the fund for MFI they have to get approved. All their money comes from the Women's Union, and the Women's Union does not have money of its own—the money is from the Vietnamese government, it is from the national budget. So after setting up the program, if TYM needs more funds they can call for foreign funds.

We discussed ownership by individuals many times in our conferences and seminars, and I think it will be decided after the issuing of the law concerning

investment. This will happen soon, in this National Assembly meeting.

SC/US: Which laws will be discussed there?

SBV: Two laws—investment and enterprise laws—will be discussed at the National Assembly this year. These laws will govern all of the other laws. Our decree will be subject to these two laws.

SC/US: Do you think there are international examples of microfinance institutions that would also apply to MFIs in Viet Nam?

SBV: Decree 28 is very different from the laws in other countries. In other countries clients and members can be part of the ownership. But as I said before, right now we cannot do it because of our laws. Our clients and members cannot be part of the ownership, but we are thinking about this. We know that their participation in an MFI is important and we are looking for a way to make it possible.

SC/US: We would like to go into the process that the State Bank sees currently undertaking in order to decide the maximum and the ratios that will make the limitations on credit and savings mobilization. Specifically, we would like to ask the reference that will be used to set the maximums and the ratios. On what organizational characteristics will the standards be based? You mentioned about the limitations in some of the last questions. We are also concerned about whether the State Bank will also refer to regional and international experience regarding setting those standards and whether the limitations will be addressed clearly in the upcoming circular.

SBV: We will look at the current ratios of microfinance practitioners

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and then look at them together with international ratios and experience in order to determine prudential ratios. The ratios will be in the upcoming circular.

SC/US: Now a question about taxation. Can you provide any guidance about the tax rate for organizations or when organizations will have to begin paying these taxes? Will the Ministry of Finance collect observations from the State Bank?

SBV: The principle for taxes will come from the Ministry of Finance. If profits are reinvested in your institution, then you might not need to pay taxes. If profits are used for individuals, if profits get taken out of the organization, this is a situation in which your institution might be subject to taxation. For MFIs working in Viet Nam, where the funds come back into the institution and continue funding the poor, there might not be taxes.

SC/US: Will there be a situation where both for-profit and not-for-profit MFIs will exist?

SBV: It does not depend on for-profit or not-for-profit. It depends what the use of the profits is.

SC/US: Do you have any information on the tax rate for those organizations once they begin to pay taxes?

SBV: This will be governed by the Ministry of Finance's regulations, I don't have this information at this time.

SC/US: Moving on from taxes to another issue: finding qualified leadership and management personnel to run Microfinance institutions. At the moment, many organizations are facing this problem. They can't find people who are qualified to run their operations. What is

your advice to these organizations? How should they address this problem?

SBV: There's a choice. You may hire new people to meet the requirements or you may train people. We are trying to put in the minimum requirements necessary, but if the requirements are too low, then the standard means nothing. Working in financial services requires a certification of competency.

SC/US: We are moving to the last part of the interview. We have two questions about policy making. On the national level, how is the development of the formal microfinance sector progressing? Are there any government level changes or developments in resources, organization or policy?

SBV: There is no budget devoted to microfinance yet. But some international financial institutions, like the World Bank and the ADB, are involved now in Viet Nam—they are involved in microfinance institution development. Also, there is the establishment of the microfinance unit in our department. We are trying to develop it, to enlarge the unit not only in terms of the size of the division but, if possible, also in terms of the budget.

SC/US: Is the development of the formal microfinance sector part of the current strategy of the government?

SBV: We mentioned the decree—it was a very big step by our government. The decree showed the government's commitment to the microfinance sector and there is continuing support, interest and attention to the sector. The government never promises resources, but this year, because this is the international year for

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microfinance, there might be more of a chance for microfinance.

SC/US: You mentioned about the microfinance unit set up in the state bank. What is the size of the new microfinance unit at the State Bank and who makes up its key staff? What are its main functions?

SBV: The unit just began today. For the next few months, the size will be three or four people. There are three right now and we will try to get some more—which is very important because there is a lot to do, the unit has a lot of functions. The unit is the one that coordinates all the work on the implementation circulars. It is the link with ADB and is helping implement the technical assistance grant.

SC/US: What will be the long-term function of this unit?

SBV: Long term, the unit will focus on licensing and developing a legal framework for the sector.

SC/US: Will this unit be responsible for supervising MFIs in the future also?

SBV: No, this will not be a supervisory unit. The supervisory function for MFIs will be performed by SBV either at the central level or at the province level—by SBV branches operating in the same provinces as the MFIs it supervises.

SC/US: Will SBV need any assistance?

SBV: Of course. After issuing the implementation circulars for the decree, we must train our staff, especially those at our branches in the provinces. We will need to have some workshops for SBV staff in the provinces to help them learn more about microfinance, maybe one in the north and one in the south.

SC/US: We heard suggestions that the State Bank would provide support for early transformation applicants. What kind of support will the State Bank provide? Is the State Bank already helping some organizations?

SBV: Not yet, but some organizations have come forward to ask for procedures and I think several organizations are looking at this as an option. And if organizations do want to transform as early as possible, they should please come to the State Bank of Viet Nam. They shouldn't hesitate; we will work with them and help support them during the transformation process. We can't say specifically what kind of support we can offer, but we will be as helpful as possible. We will have the implementation circular out as soon as possible and we are planning on issuing a transformation handbook as well which would aid in the transformation process.

SC/US: Thank you for spending so much time with us.

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them to be viable institutions operating in the new regulated environment.

- Ensuring a poverty-focus: transformed MFIs will need to establish benchmarks that go beyond the decree, such as maintaining a poverty targeting system for client identification, implementing policies guiding the level of poor clients as a percentage of total clients, and allocating a proportion of the loan portfolio to products that focus on the poor and poorest.
- Reporting systems: at present, most microfinance organizations cannot comply with national banking accounting standards or international disclosure guidelines for financial reporting. This is a serious issue for compliance with the decree as each institution will be required to have in place accounting and credit management systems that meet with State Bank financial reporting requirements.

Principal Areas of Concern to the Industry in Relation to Decree 28 and Where Further Guidance is Needed. The principal concern of most practitioners and stakeholders is *how* to transformation into an autonomous microfinance institution that has the internal capacity to comply with the financial reporting requirements and has appropriate structures in place to reach financial sustainability. What is perhaps more important, however, is the presence of an appropriate regulatory framework that reflects the reality of the industry, facilitates the transition of all types of existing microfinance providers to compliance with the decree, and leads to future growth in the industry. The following issues of concern will need to be addressed and clarified in the decree and associated circulars in order to provide guidance in the implementation of the decree:

- The scope of regulation and objects of application needs greater formal explanation. For example, how would a microfinance component of poverty reduction project that is financed by an international governmental organisation and implemented by a partner obtain a license?
- How will each institution ensure compliance with the regulations of the decree, particularly small MFIs located in regional areas that are unable to cope with the requirements of changes in management structure and build the requisite internal capacity? After two years, what will happen to the MFIs who have yet to comply to the requirements of the decree? Will they be forced to close their operations?
- With regard to the mobilisation of savings of the MFIs under article 22: the circulars under the decree should specifically distinguish between the terms “savings” and “deposits”. The price for mobilisation of savings among the poor is especially very costly. MFIs therefore should be given permission to actively self-manage this source of compulsory savings, through their internal savings policy. It is noted that the facilitation of savings products within the scope of services of MFIs is indeed needed and also should be considered the responsibility of MFIs, because it meets the demand of the poor in resolving emergency issues due to the shortage of cash within the family. The coming circulars of the SBV only need to set out certain benchmarks on some of the key financial ratios to ensure sound and voluntary.
- How will the issue of tax be covered in the decree and related circulars? What are the appropriate rates of tax to impose on microfinance operations, given the

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nature of microfinance that is obviously risky and costly. Retained profits are a necessary source of funds that are required by MFIs to maintain the value of their loan portfolio, to offset inflation, and to permit growth of their portfolios and hence expand outreach to the poor.

- How will the decree ensure that there is a level playing field? MFIs are a very small provider of what is broadly defined as microfinance - the provision of financial services to those without access to the formal financial sector. The issue is that there is potential for the two large Government providers, Viet Nam Bank for Agricultural and Rural Development and Viet Nam Bank for Social Policy, to distort the market and have an impact on the credit behaviour among borrowers.
- Does the SBV have the capacity to implement the decree?

Conclusion. There are several outstanding issues not answered by the decree that will be addressed in detail by the implementation circulars. What we must be concerned about now is finding a way to implement the decree that encourages the growth of the industry rather than limiting it. We, the practitioners, eagerly anticipate the introduction of circulars which will reflect the reality of microfinance and address the challenges facing the industry. This will ensure that the regulatory framework facilitates a future in which the microfinance industry extends its outreach to millions of poor people in Viet Nam.

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Microfinance Working Group, the implementation of Decree 28 can overcome obstacles and achieve expected results. M&D Center is committed to assisting the development process through cooperating with a range of organizations concerned with the microfinance sector in Viet Nam. In particular, M&D Center is focused on working with organizations during the transformation process as a method of contributing to the conceptualization and development of the microfinance industry in Viet Nam. Through these efforts, M&D Center hopes to help build a society that is concerned with the welfare of disadvantaged groups and provides interventions to assist them in increasing the quality of their lives.

BUILDING A SUSTAINABLE MICROFINANCE SECTOR - CONTINUED FROM PAGE 4

Also many MFOs have difficulty hiring and retaining staff; at the managerial level, the pool of qualified candidates is quite small and often MFOs lose their qualified personnel to international organizations and commercial banks that pay more attractive salaries. The second challenge is that most MFOs lack good information systems as well as policies and procedures for sound financial management. Specifically, policies for managing arrears are not in place in many MFOs and have yet to be applied uniformly throughout the sector. Also, the majority of MFOs do not report their financial situation. Additional weaknesses in financial management include: calculation and analysis of performance and financial ratios; strategic planning process and preparation of financial projections; and budgeting. The last area of difficulty relates to available donor funding. In order to transform and comply with the decree's requirements, MFOs will need a substantial amount of money to invest in hiring specialized staff, upgrading their existing systems, and renting office space.

The main recommendations to enhance institution building are as follows:

- Establish a formal training curriculum for microfinance targeted to MFOs' staff and boards of directors. The sector could take advantage of existing courses on microfinance best practices developed by CGAP, MicroSave Africa, ILO, and other organizations.
- Transform the MFWG into a formal member-based professional association, which provides services to MFOs and acts as the representative voice for the sector.

These short and mid-term recommendations are addressed to microfinance practitioners, policymakers, the State Bank of Viet Nam and donors. Some of them are already being

implemented. We hope, however, that all stakeholders give special attention to them in order to aid the development of a strong and sustainable microfinance sector that actively contributes to poverty reduction in Viet Nam.

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need a combination of these focuses.

Despite these difficulties, the microfinance program in Thanh Hoa did eventually succeed in recruiting a suitable person to fill in the position of deputy director in this critical moment of transformation. Yet with this success comes another important question for microfinance programs: once suitable personnel that meet the requirement of Decree 28 and also fulfill the subjective criteria and needs of microfinance programs have been recruited, how will the programs retain such qualified staff in a competitive labor market? This question, of course, must be left for individual microfinance programs to answer. The broader issue of finding and then retaining qualified personnel should, however, be considered by all sectoral stakeholders and participants.

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