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Vietnam Microfinance Working Group

Decree 28 & 165 Workshop:

HIGHLIGHTS & SELECTED ISSUES

By **Steven Pennings,** Save the Children/US

On 29th April 2008, the MFWG (in coordination with the State Bank) hosted a workshop on the Decree 28 & 165, and the newly-released implementing circular. This article summarizes some of the highlights from the presentation of the State Bank, and answers some of the questions raised by microfinance participants.

1. Overview of the Development of the Regulations

Over the past three years, there have been two Decrees (28 and 165) and one circular released by the State Bank of Vietnam (SBV) relating to microfinance. Chart 1 presents a **timeline** of the release of the Decrees and Circulars, with Table 1 summarizing the **key changes** in Decree 165.

Chart 1: The Process for Decree 28 & 165 and Circulars

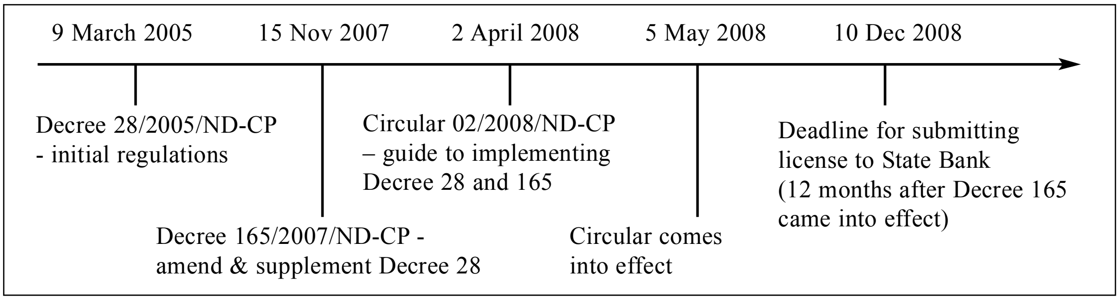

Table 1: Key revisions in Decree 165:

Previously (Decree 28 only)	Today (Decree 165 & circulars)
Two levels of legal capital: (a) can accept voluntary savings and has legal capital ≥5bn VND (b) cannot accept voluntary savings and has capital ≥500m VND	One level of legal capital: (a) Can accept voluntary savings and legal capital ≥5bn VND (about $313,000)
If cannot be licensed, have to shut down	**If choose not to be licensed, MFPs can still operate** so long as (i) do not accept voluntary savings; and (ii) savings are less than 50% of equity.

2. Legal capital and ownership issues

Table 2 presents the two types of **ownership structures** of MFIs allowable under decree 28 & 165: a one member limited liability company, and a multiple member limited liability company.

Table 2: Legal structure of Institutions licensed under Decree 28 &165

One Owner Company	Multiple Owner Limited Company
• Wholly owned by a Vietnamese socio-political organizations (eg Women's Union, Confederation of Labor)	• Between 2-5 owners (Except if authorized by the Governor of the SBV) • Eligible owners: (A) socio-political organizations, (B) social organizations, (C) charity & social funds,[1] (D) vocational organizations (E) Vietnamese NGO (Decree 88, 30/7/2003), local individuals, foreign individuals & organizations • Owners A-E (as defined above) must own at least 25% (together), and must be the largest owner. • Foreign owners must have less than a 50% share

It is important to note that the legal owners of the equity MUST be the same as the owners/operators of the microfinance program for the one-owner company. In some cases, International NGOs have handed over the ownership of the program's capital to the local People's Committee, but it is the Women's Union that runs and owns the program. In these cases (if the Women's Union continues to be the sole owner of the program), the local people's committee will have to transfer legal ownership of the capital to the Women's Union. Generally speaking, the transfer of this capital before licensing is a matter between the People's Committee and the Women's Union and does not require State Bank approval. The most important thing is clear legal ownership of the program's capital.

The minimum legal capital for all types of MFIs is **5 billion VND**. The minimum legal capital can be contributed in the form of cash, fixed assets or equity. For most microfinance programs, equity from donations and retained earnings will be the main source of contributed capital. **The maximum share that can be contributed as fixed assets (such as buildings) is 5%.** According to the SBV, this is in order to ensure that MFIs have sufficient liquid capital to lend out to serve the poor.

3. Operational issues of MFIs and licensing requirements

If a MF program wishes to be licensed as an MFI, it must complete ALL requirements of the Decrees and Circular, including having professional staff, a business plan, audited financial statements[2], an organizational charter, and having consulted the local authorities. Some MF programs expressed a difficulty in providing a finished charter[3] or

[1] Social funds under Decree 177 and 148 are not counted as Vietnamese NGOs.

[2] The Ministry of Finance issues a list of authorized auditors – MFIs should choose an auditor from this list. The MFI must have audited financial statements for the last three financial years before licensing.

[3] That is, and organization cannot draft its charter "as it goes".

a professional workforce,[4] and various quantitative measures (see the next section) by the due date of the Decree. The State Bank emphasized that MFIs essentially have to be **properly functioning professional organizations**, otherwise the money of the poor would be put at risk of mismanagement. **No delays** will be granted to any of the licensing criteria in the Decree, even for organizations working in remote areas where professional staff are difficult to find. It is possible to change the organizational charter, name, equity or other things after licensing, but these require explicit approval from the State Bank. Some changes, such as the creation of new branches, also require the approval of the local People's Committee (in addition to having the required amount of capital).

Even for programs operated by the Women's Union at the provincial, district and commune level, it must be the **Central Women's Union** that submits all of the dossiers for licensing. This is because it is only the Central Women's Union that has legal status. The State Bank recognizes that currently many microfinance programs are owned/operated by the local, district or provincial Women's Union; however it does not want to get involved with the internal issues of the Women's Union.

Microfinance programs regulated under the Decree are not allowed to provide microinsurance themselves, though they are allowed to act as insurance agents for insurance companies (Circular, Article 55.4)

4. Quantitative definitions of an MFI:

In order to be licensed as an MFI under

Decree 28 & 165 a microfinance organization must meet several quantitative requirements:

A. The charter capital must be at least 5bn VND.

B. The portfolio of microfinance loans must be at least 65% of the Gross Loan Portfolio, where a microfinance loan is defined as a loan less than 30m VND (Circular Chapter IV, Article 53.2)

C. The portfolio at risk must be less than 5% of the Gross Loan Portfolio

D. The MFI must be able to cover its costs in a sustainable manner in the period before licensing, and this must include loan loss provisions (i.e. Operational Self - Sustainability> 100%)

Microfinance organizations meeting these criteria are identified in the data analysis article on page 21 in this bulletin.

[4] For example, the CEO must have a university decree and at least three years of working experience as a manager in the finance sector. Members of the control board must have 2 years experience as an accountant/auditor/financial expert and a university degree in accounting, auditing and finance (if don't have university degree need 5 years of experience). (Circular , 22.1-2)

5. Borrowing from local and overseas institutions

All MFIs regulated by the decree will have the right to borrow from **local banks** (eg VBARD) in Vietnamese Dong. However, the MFI will have to negotiate the terms of the loan with the commercial bank themselves, and not rely on the State Bank for support or political influence. They will also have to abide by the quantitative regulations and prudential regulations.

MFIs licensed under Decree 28 & 165 are able to **borrow from overseas in local/foreign currency** like any other private enterprise, though they will have to get the permission from the State Bank to do so. Normally this is not too strenuous: the MFI and its foreign partner will have to register the loans with the SBV after they are agreed. They will also have to abide by Decree 134/2005/NĐ-CP dated 1/11/2005 on foreign currency transactions, and Circular 09/2004/TT-NHNN dated 21/12/2004. *However, unregulated microfinance providers **will not** be able to borrow from overseas, making access to foreign capital a substantial advantage to licensing under the decree.*[5]

Feel free to contact the MFWG (taichinhvimo@gmail.com) or the author for a copy of the slides of the presentation or the text of the Decrees and Circulars (in Vietnamese or English).

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[5] In the current environment (pre-Decree 28 & 165 implementation), there is substantial uncertainty in the sector regarding the legality of MF borrowing from abroad. Currently three MFIs (TYM Binh Minh/SEDA and Mekong Plus) borrow from KIVA in USD with interim verbal approval from the State Bank, though in part this may be based on the zero interest on KIVA loans.

Using the Partner-agent Model to Provide Microinsurance to Low Income Market:

THE EXPERIENCE OF M7 NINH PHUOC DWAF (NINH THUAN PROVINCE), VIET NAM

By Nguyen Thi Bich Van, ILO[1]

The partner-agent model involves a commercial insurance company and an MFI working together to provide microinsurance. This article introduces microinsurance and the partner-agent model, and shares the experiences of a MF program using this model: M7 Ninh Phuoc DWAF.

An introduction to Microinsurance

Today microfinance is renowned globally as key poverty reduction tool; its founder, Mohammad Yunus received the Nobel Peace prize in 2005 in recognition of his efforts. However, unlike microfinance, "microinsurance" is still a rather new concept. It is not uncommon to hear such comments such as "the poor don't need insurance", or "they are too poor to pay the premiums". In the 1980s and 1990s, microfinance used to be judged in the same way.

However, to get out of poverty in a sustainable manner, the poor need not only tools that allow for employment creation and income generation, but also tools that help reducing their vulnerability to falling back into poverty. Like all people, the poor have to face a variety of risk in their daily life, such as sickness, accidents, and crop or business failure. A minor setback for a wealthier person, such as a period of hospitalization, can often ruin all the financial gains of low-income households and drive them back into poverty. *Microinsurance is a financial product appropriate for the poor (in terms of cost, terms, coverage, and delivery mechanisms) that protects the poor by reducing the financial impact of negative events, such as sickness or death.* An example is credit-life insurance provided by Bao Viet and M7 Ninh Phuoc (discussed further below), which cancels debts in event of death or permanent disability.

According to the Microinsurance Centre, the potential market for microinsurance is very large: more than **2 billion people**. At present, only 3% of these people have even basic coverage, suggesting a huge need for new and expanded microinsurance services.

The Partner-Agent model

Under the "partner-agent model" of microinsurance, a commercial insurance company (such as Bao Viet or AIG) partners with a local "delivery channel" (such as a microfinance program, the Women's Union,

[1] This article uses information from internal reports of the ILO's Microfinance Project and information provided by Ms. Nguyen Thi Minh Nguyet, Ninh Phuoc DWAF Director.

the Labor Confederation or PetroVietnam) to distribute microinsurance products. Typically the insurance company manages the premiums and funds the payout of claims, with the distribution network receiving a commission for collecting premiums and product servicing. The advantage of the system is that the strengths of one partner (see Table 1) complements the weaknesses of the other - i.e. insurance companies often don't understand the needs of low-income people, whereas microfinance programs specialize in this. By delegating responsibilities according to expertise, the Microinsurance product can be created and distributed more quickly, with lower costs for each party. An alternative to the partner-agent model is the creation of a new specialist Microinsurance agency - the arrangement favored by TYM and discussed in the next article.

Table 1: Strengths of each partner

Commercial Insurance Company (eg Bao Viet)	Distribution Channel (eg microfinance program)
Experience with insurance: • Ability to price products and assess risks properly based on actuarial research • Solid financial institution with substantial reserves, government regulation and access to reinsurance market.	*Experience dealing with poor people in location:* • Understanding of the needs to low-income people, including local knowledge • Have a network that goes down to the local level • Trusted by the local people • Can integrate microinsurance with existing products to reduce costs of delivery

Challenges in the partner-agent model include choosing an appropriate partner, the negotiation of fair terms between parties, relationship management and regulatory issues.

M7 Ninh Phuoc DWAF – a successful Vietnamese partner-agent microinsurance scheme

In January 2005, the M7 Ninh Phuoc[2] Development Assistance Women's Fund (DWAF) launched a pilot credit life microinsurance product, in a partnership with the Bao Viet insurance company. The annual premium is 0.9% of the loan, with payouts equal to 100% or 50% of initial loan size with the death or permanent disability of the woman borrower or her husband, respectively (in the most recent policy). The DWAF microfinance program has 2800 clients in Ninh Phuoc district in Ninh Thuan province, and was founded in 2001 in partnership with ActionAID.

The initiative was motivated by the deaths of a number of DWAF's members in previous years. Not only did these deaths result in income loss, funeral costs and substantial debts for the families of the deceased, they also lead to increased loan write-offs for DWAF (affecting sustainability). After consultation with the ILO and clients, the DWAF chose the "partner-agent" model of microinsruance (with Bao Viet being the insurance company) due to the small size of the Fund and its staff's relative inexperience with insurance.

Under the partner-agent contract between Ninh Phuoc DWAF and Bao Viet, the DWAF is in charge of promoting the product to clients, collecting premiums (which are transferred then to Bao Viet), and facilitating claims. Bao Viet is responsible for providing insurance product to borrowers,

[2] Also known as the Ninh Phuoc Development Women Assistance Fund (DWAF). The project was started by ActionAID in 2001 and was officially handed over to the district People's Committee in May 2007.

training the DWAF staff on insurance concepts and selling techniques, and paying commission to the DWAF. Bao Viet pays claims to clients or their families through Ninh Phuoc DWAF. The Fund keeps the outstanding loan amount to pay off the debt, and pays the remaining amount to the client's family. The DWAF also invests heavily in information dissemination as it realizes that clients' good understanding of the product is a key condition for success.

In consultation with the DWAF, Bao Viet modified existing life and health insurance products to match the demand of this specific group of poor clients. Initially, the policy paid out the initial loan amount only in the event of death or total permanent disability of the borrower (not her spouse). In response to the hardship of clients whose husbands died, DWAF renegotiated the product with Bao Viet in September 2006 to include the death/permanent disability of the husband with the same premium. However, the payout was reduced to the outstanding loan only.

Three years since it first introduced the insurance product, the DWAF re-negotiated the policy with Bao Viet, based on premium and claim records. The low claim payment ratio and excellent management of the DWAF were the main factors that convinced Bao Viet to increase the insurance benefits (to 100% of the initial loan amount for the borrower and 50% of the initial loan amount for the husband) without increasing the premium from 0.9% of the loan amount. The commission rate paid to the DWAF was also increased by over 60% in the first quarter of 2008.

All three parties seem to gain from the product:

- **Microfinance** clients are satisfied by the quick payment of claims when they are in need.

- **M7 Ninh Phuoc DWAF** have been able to add an additional product with very little extra workload for staff, they receive a commissions as a new funding source, and their staff have benefited from Bao Viet's training and experience.
- **Bao Viet** has succeeded in reaching a new customer group: women in poor areas. Despite the small scale of the current project, Bao Viet recognizes the vast untapped market of microinsurance in poor rural areas in Vietnam and now has valuable experience in designing and marketing products for this market.

Conclusions

Given the success of the M7 Ninh Phuoc credit-life insurance project, a number of other Vietnamese microfinance providers are now interested in offering similar products. The partner-agent model means that potential agents need little prior understanding of insurance products, and can roll out products quickly to their clients. But the low-income market doesn't just demand credit-life insurance - health insurance, crop/livestock insurance and property insurance are also needed. According to Dr. Nguyen Hai Huu, Director of Social Protection Bureau at MOLISA, most of Vietnam's 32 million poor or near-poor people don't have access to commercial insurance. This suggests a vast unmet demand for microinsurance in Vietnam, with the potential for microinsurance to reduce the vulnerability for millions of low-income households.

Bao Viet's Deputy General Manager of the Personal Accident Department, Mr. Do Hoang Phuong, has expressed a willingness to work with other microfinance organizations in providing microinsurance products.

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TYM and Microinsurance:

ON THE WAY TO SETTING UP A NEW MUTUAL ASSISTANCE FUND

By ***Duong Thi Ngoc Linh,*** *TYM Deputy Director*
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Despite already having a successful microinsurance program (described in Section 1 of this article), microfinance provider TYM has decided to set up a new microinsurance fund (see Section 2 for their reasons). Unlike M7 Ninh Phuoc, discussed in the previous article, TYM has decided to set up a new independent Mutual Assistance Microinsurance Fund rather than undertaking the partner-agent model (see section 3 for their reasons). At the time of writing, the new MAF is being pilot-tested, and is expected to be rolled out to all branches from late summer 2008. Sections 4 and 5 include a discussion of the way the new Fund is being developed and document the better services that the new fund will provide to clients.

1. Current model of TYM's Mutual Assistance Fund

The Mutual Assistance Fund (MAF) has been a distinctive feature of TYM since 1992 and is proof of the strong solidarity between TYM and poor women. Recent surveys suggest it is one the most popular products with clients. With a contribution of as little as 200 VND (1 cent) per week, TYM members and their families facing difficulties can receive, in a prompt and un-bureaucratic manner, some monetary support for hospitalization (200,000 VND), burial costs (500,000 VND) and most important, all outstanding debt is written off immediately.

2. So why change a successful model?

The main reason TYM wants to upgrade the MAF is that it always strives to meet the demands and expectations of its clients. During the same survey where members expressed their satisfaction with the "old" MAF, they also voiced their desire to receive higher and more diverse benefits. Priority was given to the idea of a life insurance product for all family members and a pension fund for retirement. Members were also asked if and how much they would be willing to pay for the expanded benefits, and the results were surprisingly positive.

The second reason is the belief that in the long run all products and services offered by an organization should be sustainable. The MAF during 12 years of operations has accumulated a small surplus of just under one billion Dong ($70 000). But the level of premiums and benefits were set arbitrarily, costs were subsidized by TYM, and there were no real reserves for the evolving risk profile of the portfolio (for example related to a growing average age of members).

The third reason is that under the final version of Decree 28 & 165, TYM would not be allowed to provide insurance activities directly any more, but only to act as an insurance agent.

3. An insurance agent or an insurance provider?

After careful consideration TYM decided to go for the option to set up its own, separate insurance operation (as against an alternative of the partner-agent model). It will still serve TYM members and their families, but it will be separated legally, have a separate management and its own accounting and financial system. The main reasons for this decision are:

- The insurance products can be tailored exactly to the needs of TYM's members. Changes and adjustments can be made in a responsive and flexible manner.
- A Mutual Insurance Fund will eventually be owned and controlled by the policy holders, i.e. the TYM members. Members themselves will have the final word on the products, on management and on financial matters. Any surplus earned by the Fund will directly benefit the members, as it will be used to lower premiums, increase benefits or improve the capital reserves.
- TYM staff will handle collections, claims and payouts on a weekly basis alongside their regular work. They are very familiar with their clients and will not just sell an insurance policy of a commercial insurer, but the services on which the members and the Fund have mutually agreed.
- Government Decree 18 provides an excellent legal framework for creating a Mutual Insurance Fund. Since no such Insurance Fund has been licensed yet, TYM's MAF would be (once again) a pioneer. The Ministry of Finance is supportive of TYM's endeavors, and has encouraged us to go ahead with a pilot test. They promised to consider implementing guidelines for Decree 18 which would be suitable to the needs and capacity of poor women.
- TYM has been able to secure the support of strong partners, namely CORDAID as the main sponsor, and RIMANSI (Risk Management Solutions for Asia) and CARD (who has built a strong Mutual Benefit Association with more than 2 million members) as technical advisers.

TYM has been looking into the possibility of cooperating with existing commercial insurers, and we will keep this option open for the future. But we found that the products and premiums offered were not really suitable for poor rural people.

4. Current status

In 2007 TYM created a task force, which went to the Philippines for training and then, together with foreign consultants, started to develop the concepts and ideas for the new MAF. The basis for the decisions was a client satisfaction survey and needs assessment among 300 randomly selected members. In the next step, TYM collected a complete set of information on members, their families and the history of claims. On this basis, an international actuarial expert calculated the risks, the necessary reserves for payouts and several scenarios for the possible level of premiums and benefits for each insurance product. As the final decision will be taken only in summer 2008 after testing, we do not want to go into the product details yet (see Table 1 for an overview of products). But for an affordable level of premiums, the TYM members will get significantly improved benefits. The payouts in case of death and hospitalization will increase sharply and include also the client’s spouse and children. A new pension fund for members will, for the first time in Vietnam, provide poor rural women with additional income when they become old.

Table 1: A comparison between the products of the new and old Mutual Insurance Funds

	"Old" MAF	New TYM Mutual Insurance Fund
Start Date	1996	Summer 2008
Provider	TYM	Mutual Insurance Fund
Distributor	TYM	TYM
Regulated	No	Likely under Decree 18
Beneficiaries (2008)	30,000	120,000 (incl. family members), up to 250,000 people by 2012
Sustainability	Doubtful	Operationally break-even after 1 year
Premium	200VND/week	Higher
Death benefit	500,000 VND for member 200,000 VND for spouse	3,000,000 VND for member 1,000,000 VND for spouse and children
Hospitalization benefit	200,000 VND once only	1,000,000 VND in 5 years
Credit life protection	Write-off outstanding balance	Write off outstanding balance and reimburse previous loan payments
Pension Fund	None	Payout of all contributions plus accumulated interest

At the moment, TYM is testing the products in one branch and so far has received overwhelmingly positive feedback. In summer 2008, TYM will finalize all products and procedures and then start to roll-out the program to all 26 branches.

5. The future

TYM's new MAF still faces many challenges. The most serious ones are the qualifications and level of understanding of TYM's staff, who will not just have to handle (as agents of the TYM Insurance Fund) new products and procedures, but who will also have to be convinced of the new model themselves, so they can convince our clients. We also still need to improve and upgrade the accounting system and modify our software. Finally, we want to make the Fund truly "Mutual", and so will have to find ways to ensure members' participation in supervision and management.

According to our very conservative projections, the Mutual Assistance Insurance Fund will cover its costs, including all necessary reserves, right from the first year. Over a period of 4 years, the Fund is projected to have a membership of 250,000 poor people (all the projected 60,000 TYM clients and their families).[1] It will also have accumulated the legal capital of VND 10 billion ($700,000) as required by Decree 18. At the latest after 5 years (earlier if the capital requirements were lower), TYM's Insurance Fund will have sufficient funds to consider increasing the benefits or lowering the premiums for its members.

Once all operations run smoothly, the Fund wants to consider additional insurance products, such as crop, cattle or property insurance. TYM is very much open to sharing its experiences and cooperating with other microfinance projects and organizations (in particular those of the Vietnam Women's Union) to give these organizations access to client-focused, innovative risk prevention models.

[1] That is, membership is compulsory.

Institutional Transformation in Thanh Hoa:

ORGANIZATIONAL RESTRUCTURING AND HUMAN RESOURCES

Tim Gorman, Save the Children /US

Before they can register under Decrees 28 & 165, microfinance programs must transform into professional institutions with clear, efficient organizational structures and capable staff. The Thanh Hoa Microfinance Program has already undergone such a restructuring process, which has resulted in greater efficiency, improved customer service, stronger internal controls, and increased fundraising.

Introduction

In the context of Vietnam, many discussions on microfinance "transformation" tend to focus on the legal registration of microfinance providers, as outlined in Decree 28 & 165. Transformation, however, involves more than just a change in legal status; for a microfinance provider to become a professional, sustainable, and effective institution, it must also upgrade the capacity of its **human resources** and adopt a clear and efficient **organizational structure.**

From 2005 to 2007, the Thanh Hoa Microfinance Program implemented a wide-ranging restructuring plan designed to meet these two objectives. Founded in 1998 as a project of the Thanh Hoa Women's Union (with technical support and funding from Save the Children US), the program is now preparing to register as an independent MFI under Decree 28 & 165. Before doing so, however, the program and is backers decided to first focus on institutional development, hiring a professional team to run its management and operations, and creating a new, more streamlined organizational structure. As a result of these changes, the program has become **more efficient,** strengthened its **internal controls,** and has improved the quality of its **customer service.** The program has also become **functionally independent** of the Women's Union in its day-to-day operations.

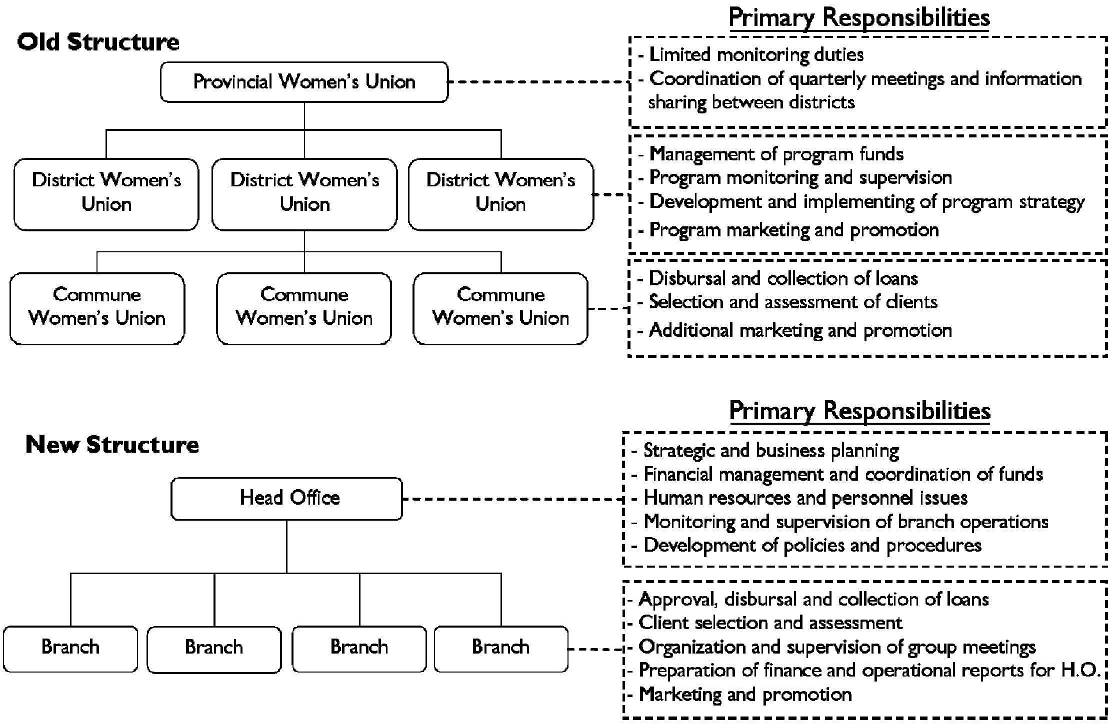
Why Restructure?

The restructuring plan was aimed at overcoming some of the key challenges facing the program. Chief among these challenges was the **limited capacity** of the program's staff members; under the old system, most of the staff were Women's Union employees who worked for the program on a part-time, joint responsibility basis. While experienced in the provision of social services, the Women's Union staff had limited ability in delivering financial services. This lack of expertise led to problems in client selection and internal control, resulting in a large number of "ghost" clients (those who used the names of friends or relatives to take out multiple loans). Though there was (from 2003 onward) a small provincial management office, the program also lacked a professional team to guide its operations and plan for the future.

The program was also constrained by an **inefficient and overly complicated organizational structure.** The old organizational structure was three-tiered (see Figure 1), but roles and responsibilities between the different tiers were not clearly delineated, and some functions were needlessly duplicated at multiple levels. These multiple layers of authority also limited the contact between the program's management and the clients and credit officers in the communes. As a result, the management's responsiveness to clients and its monitoring capacity were both severely limited.

Another reason to restructure was the program's intention to become a **registered MFI under Decree 28 & 165.** In order to register under these laws, a program will need to have a professional organizational structure, with a head office and skilled management staff, as well strong governance, internal controls, and risk management practices. The objective of the restructuring plan, then, was to move closer to compliance with these Decrees, while at the same time building a strong, independent institution that will function well in Vietnam's changing microfinance environment. Specifically, the restructuring process aimed to create an autonomous institution in which the Women's Union will no longer play the direct operational role that it played in the past, but "step back" to a governance and ownership role.

Figure 1: Organizational Structure Before and After Restructuring



Key Changes

To resolve these issues, Save the Children and the Thanh Hoa Women's Union worked together to develop a new organizational plan and to implement major human resources changes to complement the new structure.

First, a new **two layer organizational structure** replaced the old three layer structure. At the top level is a **head office** in Thanh Hoa City, which is responsible for business and strategic planning, financial management, and for the monitoring of the **district-level branches,** which are in turn responsible for the day-to-day lending operations of the program. The program maintains no branches at the commune level, but works closely with the commune Women's Unions, which provide meeting space and operational support (such as client monitoring).

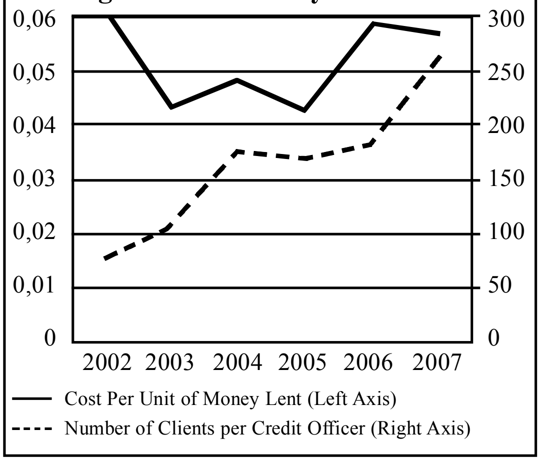
On the human resources side, new positions with clear job descriptions were created. The program then **hired professional staff** to fill these positions. In the head office, Mr. Nguyen Hai Duong, an experienced administrator, was hired to fill the new position of Operations Manager. His responsibility in the new structure is to work with the Provincial Women's Union Chairwoman to guide the program's strategic direction and to supervise the operations of the district branches. An accountant, Mr. Le Quang Ly, was also hired to oversee the program's book-keeping and financial management. At the branch level, the full-time branch managers and assistant managers were hired to oversee the lending process. Beneath the branch management are professional, **full-time credit officers,** who are based in the district offices but visit clients in their communities. During the restructuring process, a new **incentive scheme** was also implemented to improve customer service and portfolio quality.

Impact of Restructuring

These changes have had a dramatic and positive impact on the operations of the program, most notably in the following areas:

Institutional Autonomy: The program is now functionally independent of the Women's Union in its day-to-day lending operations, and relies entirely on its own staff members to deliver its loan products. However, the local Women's Union leaders (at the district and provincial levels) still play an overly direct role in the program's operations. This issue should be resolved when a Board of Management is created, allowing them the chance to play a governance role.

Figure 2: Efficiency Indicators



Efficiency: Though restructuring entailed some short-term costs, the program has maintained high efficiency (currently about $0.06 in operating costs per dollar lent). Moreover, the elimination of the commune level branches and the clear delineation of tasks and responsibilities will help the program achieve even greater long-term efficiency. Already, the number of clients per credit officer (a key indicator of efficiency) has increased to over 250.

Better Customer Service: The new structure and professional staff allow the program to be more responsive and better manage its loan portfolio. As a result, new longer-term, higher-value loans have been introduced to meet clients' demands. Professional credit officers working in local communities are also more able to support and instruct clients, allowing the program to better position itself in an increasingly competitive environment.

Internal Controls: To combat fraud, credit officers now use new client assessment tools, and all new loans must be approved by the branch manager and disbursed by the branch cashier. These new policies, combined with the increased capacity of the professional credit officers, have vastly reduced the number of fraudulent loans, freeing up capital for legitimate clients. The more rigorous client selection process has also improved the quality of the program's loan portfolio.

Fundraising Ability: With its professional management and clear organizational structure, the program has been able to distinguish itself from other microfinance providers in Vietnam and attract support from a variety of funding sources. For example, the program recently secured a line of credit from VietinBank (with a guarantee from SCUS), and is in the process of obtaining funding from Kiva, Unilever, and Terre des Hommes (Switzerland).

Challenges and the Road Ahead

Despite the successes of the restructuring plan, the transformation of the Thanh Hoa Microfinance Program is an ongoing process. Several changes remain to be made, including the establishment of a Board of Management and a Control Board, and the resolution of ownership issues concerning the relative stake of the District and Provincial Women's Unions. Resolving these governance and ownership issues is key to creating a positive but clearly differentiated relationship between the program and the Women's Union.

The program, however, has already made great strides in professionalizing its operations, and can now serve as model for other programs, especially those operating within the Women's Union, as they begin to upgrade their operations. So that others may learn from our experiences, Save the Children is now writing an expanded case study on the restructuring process in Thanh Hoa. Copies of this report should be available this summer. Please contact the author of this article at tgorman@savechildren.org.vn for more information.

NEWS:

UPCOMING EVENTS:

ASIA MICROFINANCE FORUM 2008

26-29 August 2008 - Hanoi, Vietnam

'Microfinance in the 21st Century: Future Trends & Opportunities."

Article by Mr Jamie Bedson, The BWTP Network

The Asia Microfinance Forum will take place in Hanoi, Vietnam on 26-29 August 2008, and will bring together around 300 leading microfinance practitioners, policymakers, financiers, academics and advocates from around the world to outline their visions and priorities, and explore new ideas and opportunities. The forum is hosted by the Banking with the Poor Network (BWTP) and the Foundation for Development Cooperation (FDC), with funding from the Citi Foundation and support from PlaNet Finance Group, the European Union, and the State Bank of Vietnam.

History

In March 2006, the BWTP Network and FDC held the first Asia Microfinance Forum in Beijing, China, with funding from the Citi Foundation. The three-day conference brought together over 280 microfinance experts and practitioners from over 20 countries, making it one of the most significant microfinance events in the region, and the largest international microfinance gathering ever held in China. The Asia Microfinance Forum 2008 will build on the success of the Beijing event and aims to help prepare the microfinance industry in Asia for a wide range of future challenges and opportunities.

2008 Theme

The world's microfinance industry is in the midst of unprecedented expansion and transformation. This creates many opportunities and challenges, but also means that there is a growing need for long-term strategic planning. Accordingly, the Asia Microfinance Forum 2008 in Hanoi will focus on the challenges and innovations that will have the greatest impact on microfinance in the coming decades and provide a window to the future of microfinance, especially in Asia. As such, the theme of the Forum will be: *Microfinance in the 21st Century: Future Trends & Opportunities*, with objectives of:

- identifying challenges and opportunities arising from areas such as financing and investment, new technologies, and environmental issues;
- encouraging development of innovative microfinance products and in the Asian region;
- encouraging partnerships and cooperation in Asia among microfinance serv-

ice providers, financiers and regulators.

Discussion will take place in plenary sessions and panel discussions led by industry experts is areas such as: (i) Financing and Investment; (ii) Savings and Asset Building; (iii) Microfinance Networks (including the Asia Network Summit); (iv)Technology and Microfinance and (v) Sustainable Development.

Focus on Vietnam – special session on 29th August

Vietnam has an emerging microfinance industry which is gaining increased attention from around the world. Just as the Asia Microfinance Forum 2006 in Beijing brought a spotlight on the Chinese microfinance industry, 2008's Forum will ensure that the eyes of the microfinance industry in the region are on the burgeoning Vietnamese industry. Recent regulatory changes by the State Bank of Vietnam have ushered in a new era and a great regional interest in the development of microfinance in Vietnam.

In response to this, the State Bank of Vietnam, the Vietnam Bank for Social Policy and the Vietnam Microfinance Working Group will participate in a special session on the last day of the Forum that will provide an opportunity for all delegates to hear the perspectives of a range of stakeholders on the **future of microfinance in Vietnam.** It is hoped that exposing delegates to presentations from key organisations involved with microfinance in Vietnam will provide opportunities for interaction with the wider regional microfinance community and sharing of knowledge and experiences.

Asia Network Summit

As part of the 'Microfinance Networks' theme of the Asia Microfinance Forum 2008, the BWTP Network, in collaboration with the SEEP Network and ADA, will be hosting the 'Asia Network Summit'. The Summit will be attended by networks from across the region, including the Vietnam MFWG, and will focus on peer exchange and capacity building between networks. The BWTP Network is pleased to be working with the Vietnam MFWG on expanding network capacity to serve and promote microfinance in Vietnam.

The Banking with the Poor Network - Asia's Regional Microfinance Network

The BWTP Network is a distinctive, Asia-centred organisation that aims to achieve innovative, appropriate, commercially-viable and demand-driven financial services for the poor by building efficient, large-scale and sustainable microfinance organisations. The BWTP Network tries to achieve these goals through cooperation, training, research, advocacy, policy dialogue, information sharing and capacity building. BWTP's membership includes a wide range of significant regional microfinance providers and regulators including across the whole of Asia including ASA (Bangladesh), Bank Rakyat (Indonesia) among many others.[1] The BWTP Network arose out the Foundation for Development Cooperation (FDC) - an independent, non-profit organisation based in Brisbane, Australia, whose aim is to strengthen international cooperation and development, especially in the Asia-Pacific region.

[1] For example Shakti Foundation for Disadvantaged Women (Bangladesh), National Bank for Agriculture and Rural Development (India), KMBI, TSPI and the Central Bank of the Philippines (Philippines), Hatton National Bank, Sanasa Development Bank and SEEDS (Sri Lanka) and the Vietnam Bank for Social Policies.

For more information on the Asia Microfinance Forum 2008 contact:

Mr Jamie Bedson or Ms Katrina Crawford

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Website: www.bwtp.org

Semi-annual meeting 2008 of Vietnam MFWG

The Semi-annual meeting 2008 of Vietnam MFWG is tentatively scheduled for July 25th, 2008 in Hanoi. In addition to providing information on the activities of Vietnam MFWG in first half of 2008 and the action plan for final half of 2008, the meeting will provide relevant information for participants including:

- Report on the legal status of Vietnam MFWG;
- The Citi Microentrepreneurship Awards 2008;
- Funding opportunities for Vietnamese Microfinance Institutions.

Invitation letter and tentative agenda will be sent to participants through the mailing list.

Microinsurance Conference 2008

The Microinsurance Conference will take place in Colombia from 5 Nov 2008 - 7 Nov 2008 and is expected to host around 300 experts from around the world

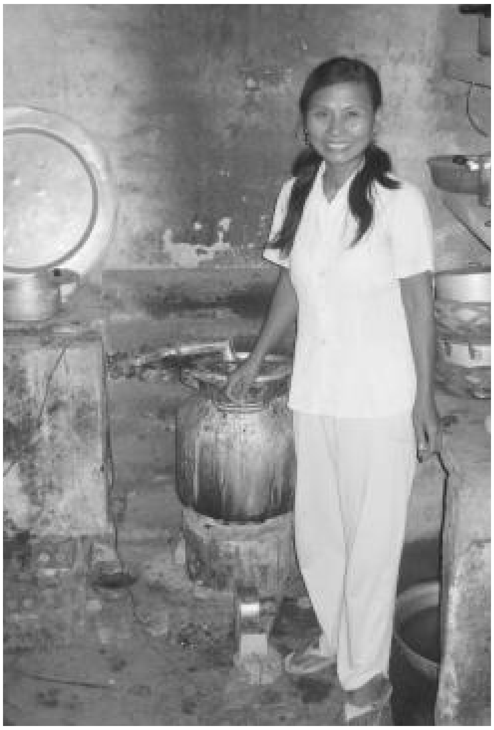
Registration will be open from 1 July 2008 to 1 November 2008 (paid by credit card) or 15 October 2008 (paid by bank draft). For more information, please visit the conference website: http://www.microinsuranceconference2008.org or contact Mr. Dirk Reinhard at info@munichre-foundation.org

PROJECT NEWS:

Grant signed with ADA

In March 2008, Vietnam MFWG has signed a contract with ADA – a NGO based in Luxembourg – to implement a project focusing on supporting the activities of the Group. The project's budget is USD 47,530 and runs until April 2009. The MFWG would like to thank ADA for their generous support of the following activities:

1. Workshop on dissemination of Decree 28&165/ND/CP and guiding circulars
2. Thematic workshop on transformation into regulated MFIs
3. Visits for 10 MFWG members to local MFIs
4. Attendance of 30 MFWG members to the Asia Microfinance Forum
5. Creation of an electronic and on-site microfinance library
6. Two one-week training courses
7. The set up and maintenance of the MFWG website
8. Regular updates of MFWG factsheet and annual printing of MFWG leaflet
9. Editing and printing of the semi-annual Vietnam Microfinance Bulletin



Citi Microentrepreneurship Awards 2008

Following the success of Citi Microentrepreneurship Awards 2007, the Citi Foundation will continue to support Vietnam Microfinance Working Group to organize the Awards this year. The Microfinance and Development Center (M&D) will sign the grant contract, receive the funding and implement activities of this project on behalf of the Group. This year, the Awards will only be for Vietnamese microfinance institutions. The prize structure will be:

- maximum 60 outstanding microentrepreneurs: USD 500 cash prize
- maximum 15 outstanding credit officers: USD 300 cash prize
- maximum 3 outstanding microfinance institutions will be highlighted.

Vietnam MFWG enters partnership with the Microfinance Information Exchange (MIX)

MICROFINANCE INFORMATION EXCHANGE, INC.

The MFWG is in the final stages of negotiating a data-sharing partnership with the Microfinance Information Exchange (MIX). The MIX is the world's largest directory of financial and business information about microfinance programs, and is widely used by donors and other funding agencies to find MFIs with which to partner. Currently five MFWG members post information about themselves on the MIX Market (www.mix-market.org), the online information platform: Binh Minh CDC, CEP, TYM, TCVM Thanh Hoa and VBSP. The MIX also publishes the MicroBanking Bulletin, containing sector benchmarks, articles and analysis (www.mixmbb.org). Under the agreement, it is expected that:

- The MIX will help the Vietnam MFWG store, clean and analyze financial and other data collected from Vietnamese microfinance programs. Unless specifically authorized, the MIX will keep this information confidential. Programs listed on the MIX Market website will be able submit data only once to both the MFWG and the MIX.
- The Vietnam MFWG will encourage its members to post information about themselves on the MIX market website, and will facilitate communication between MFWG members and the MIX.

For more information about the MIX or Vietnam MFWG's partnership with the MIX, please contact the coordinator: taichinhvimo@gmail.com

BULLETIN STATISTICS AND ANALYSIS

By Steven Pennings, Save the Children/US
spennings@savechildren.org.vn or pennings@yahoo.com

Bulletin 11 presents a wide range of statistics describing microfinance in Vietnam. This article analyzes these statistics, and explains how they are calculated (Section 1 and Section 6). According to our data, there are 10 MFWG members with enough capital (equity) at the end of 2007 to be licensed under Decree 28 & 165 , though only eight of these also meet other quantitative requirements (see Section 4). Around half of Vietnamese microfinance programs have accumulated savings balances greater than 50% of equity, and a third of programs collect voluntary savings – both of which will become illegal for unlicensed microfinance programs under the new Decree (see Section 5). In addition to analysis related to Decree 28 & 165, we also compare the "typical" Vietnamese microfinance programs to their international peers (Section 2) and compare different types of programs within Vietnam (Section 3).

1. Introduction

Bulletin 11 presents both individual program statistics (similar to those presented in Bulletin 9), as well as sector benchmarks, similar to those presented in the Microbanking Bulletin (www.mixmbb.org) and Bulletin 10. A benchmark attempts to present statistics describing the "typical" Microfinance Program (MFP) within particular peer group, such as the ROA (return on assets) for new microfinance programs aged 4 years or less. Each statistic presented (e.g. ROA), is the median (or middle) score of all the microfinance programs in that peer group when they are ranked from lowest to highest. A median is similar to an average, but is less sensitive to outliers (and is the international standard used in the MicroBanking Bulletin). All of the data presented for Vietnamese microfinance programs are **up to 31 December 2007**. Two sets of Benchmarks, and one set of individual program data, are presented:

- Table 1 present **individual statistics** on Vietnamese MF programs.
- Tables 2 and 3 **compare Vietnam MFIs to World MFIs.** They use the Microfinance Information Exchange (MIX) definitions of age, scale, outreach and target market as published in the MicroBanking Bulletin. The MIX data are taken from the Fall 2007 edition of the MicroBanking Bulletin and are for **calendar 2006** (MIX Benchmarks for age, scale etc are available from www.mbb.org).
- Tables 4 and 5 focus on **Vietnam-specific** peer groups, such as those MFPs that use Women's Union staff as credit officers, MFPs grouped by the geographic scale of their operations, MFPs large enough to be licensed under Decree 28 & 165 and MFPs meeting the savings requirements of Decree 28 & 165.
- Table 6 lists microfinance programs by **peer group.**

Readers will note that much greater detail is available in this Issue of the Bulletin than in previous Issues. This is due to a new expanded data collection sheet. The editors would like to thank all microfinance programs for filling in this sheet. When looking at the richness of the Tables in Bulletin 11, one can see that the extra effort has paid off. In addition, MFIs will only have to submit data once this year, halving the collection burden.

2. Vietnamese MFPs vs their Global Peers - Eight Fast Facts

The "typical" MFP in Vietnam is different in many ways from those in Asia or the world. Eight of the most salient points about Vietnamese MFPs are that they:

1. Have **fewer clients** than other MFIs internationally - half the number of clients of global MFIs, and one-third of those in Asia. This is even true within each peer group, such as age.
2. Have **smaller loan portfolios** than their international peers – around a tenth of international (world or Asian) standards.
3. Have **lower (recorded) expenses** than their international peers (in terms of expenses/assets). This figure mostly reflects their lower operational expenses (though financing costs are also lower). This may be because Vietnamese MFPs receive a number of implicit subsidies from the Women's Union ranging from free rent to heavily subsidized credit officers' salaries. As these are some of largest costs of MFIs internationally, it is not surprising that Vietnamese MF programs are better able to cover their (reported) expenses than international MFIs (as measured by OSS).
4. Are **more poor-focused** by having a smaller loan sizes than their international peers (relative to the per capita income of the country).
5. Lend almost entirely to **women** – unlike many MFIs outside Asia
6. Generally **do not borrow** like their foreign counterparts – they are funded almost entirely by equity and savings. This may reflect the absence of microfinance regulations until very recently.
7. **Charge lower interest rates,** as measured by their portfolio yield (nominal). As a result, they only have around half to a third of the revenue/assets of their international peers. This may be because of lower inflation in Vietnam in 2007, the competition from the subsidized lending from VBSP, or because lower (reported) expenses allow MFPs to charge lower interest rates while still covering costs.
8. Credit officers are **more productive,** with higher numbers of clients served by each credit officers. This might be partly explained by the relatively high population density in Vietnam (particularly in rural areas) or by the fact that client monitoring activities are often done by Women's Union staff.

3. Vietnam-specific Peer Groups

Bulletin 11 creates five peer groups based on Vietnam-specific criteria - though three of these are related to Decree 28 & 165 and are discussed in the following section. Those discussed in this section relate to whether the MFP uses Women's Union staff for day-to-day operations (e.g. as credit officers) or the number districts in which MF programs operate.[1]

Women's Union Staff used in day-to-day operations as credit officers

Of the 26 MFPs reporting data to the Bulletin, around half use Women's Union[2] staff as credit officers for day-to-day operations. Perhaps surprisingly, those microfinance programs using Women's Union staff for day-to-day operations **have a similar age, returns, size and outreach** as MF programs not relying on the Women's Union. Programs using Women's Unions staff as credit officers have total and operational expenses **about one-third lower** than their non-Women's Union counterparts. This might suggest that the **true costs** of using

[1] We also calculated the difference between Vietnamese Microfinance Programs located in the north and south of the country, but there are no systematic differences.

[2] The Women's Union is a socio-political organization, and part of the Fatherland Front. The Women's Union has a grass-roots network reaching into every village in Vietnam; hence they are often an extremely useful local partner for microfinance programs. Even those microfinance programs that do not use Women's Union staff at the commune level as credit officers, often still use Women's Union staff for "monitoring" of clients.

Women's Union staff are not being accounted for and these programs receive a substantial implicit subsidy from the Women's Union. The lower cost structure means programs using Women's Union staff can charge interest rates one-third lower than other programs - collecting one-third less revenue - and still cover their reported expenses. It is important to note that if many of these programs had to pay the full costs of the Women's Union staff and facilities used, their financial performance might not appear as sustainable.

Geography

This peer group considers the geographic size of a microfinance program as measured by the number of districts that it serves[3]. Unsurprisingly, the microfinance programs serving 10 or more districts are also the largest in terms of loan portfolio and number of clients. They are also more leveraged, leading to higher returns on equity.

However, there is an unexpected negative correlation between operational sustainability (or ROA for that matter) and geographical size. It seems that the one-district programs (dominated by those in the M7 network) have the highest OSS - with greater geographical dispersion increasing costs. Also surprising is the scale of the one district programs – they have (on average) a similar loan portfolio and number of borrowers as MFPs in the 2-9 district peer group.

4. Who is eligible for Decree 28 & 165 – what do the statistics say?

The article on *Decree 28 & 165 Workshop,* lists four quantitative criteria (A-D) that microfinance programs seeking to become licensed under the decree must meet:

A. The **charter capital** (equity) must be at least 5bn VND (about $310,000).

B. The **portfolio of microfinance loans** must be at least 65% of the Gross Loan Portfolio, where a microfinance loan is defined as a loan of less than 30m VND ($1,800).[4]

C. The **portfolio at risk** must be less than 5% of the Gross Loan Portfolio

D. The MFI must be able to cover its costs in a sustainable manner in the period of at least one full year before registration, and this must include loan loss provisions (i.e. **Operational Sustainability, OSS**> 100%)

Currently there are 10 microfinance programs out of the 25 submitting data to the Bulletin that meet the Decree 28 & 165's capital requirements of 5bn VND ($310,000) as of 31 Dec 2007.[5] These are listed in Table A below. One can see that for 2007, eight microfinance programs meet all of the three other quantitative requirements for Decree 28 & 165. In future years, one would expect microfinance programs such as Binh Minh CDC to meet OSS>100%, and programs such as M7 Dong Trieu and M7 Uong Bi to meet the threshold of equity>5bn VND. These last two microfinance programs are just below the capital requirement threshold at the moment, but have met other requirements, such as OSS>100%.

It is important to note that this analysis says nothing about the MFP's desire to be licensed under the Decree, or whether they meet the many other operational, legal, HR and governance requirements of the Decree. Nonetheless, it gives a rough picture of those MFPs that may be able to be licensed in the coming years.

3 A "District" is a Vietnamese geographical unit under a "Province" and composed of a number of "Communes".

4 We can't check this criterion completely, but since all MF programs listed in Table A have average loan balances of less than 3m VND ($180), it is operationally implausible that they could not meet this requirement.

5 Obviously VBSP also meets this requirement, but does not need to register under Decree 28 & 165 so we exclude it here.

Table A: Microfinance programs that meet quantitative requirements of Decree 28 & 165 as of 31/12/2007

A. MFPs meeting capital requirement (Equity>5bn VND or USD310,000)	**B. Small loans > 65% GLP**	**C. Portfolio at risk< 5% Gross Loan Portfolio (GLP)**	**D. OSS>100%**
Binh Minh CDC	Yes	Yes	Almost (95%)
CEP Ba Ria Vung Tau	Yes	Yes	Yes
CEP	Yes	Yes	Yes
WU Ha Tinh	Yes	Yes	Yes
NMA	Yes	Yes	Yes
SNV NAPA	Yes	Yes	Yes
TCVM Thanh Hoa	Yes	Yes	Yes
TYM	Yes	Yes	Yes
Vietnam Belgium Credit Project	Yes	Yes	Yes
World Vision Vietnam	Yes	Yes	Too Young

Are programs large enough for Decree 28 & 165 (equity>$310,000) any different?

One of the Vietnam-specific peer groups created is based around being "large enough" to be licensed under Decree 28-165 (equity>5bn VND). Microfinance programs large enough to register for Decree 28 & 165 have all of the expected characteristics of larger microfinance programs – larger loan portfolio, more clients, larger loan sizes and greater leverage (increasing ROE) etc. However, they are also more likely to have higher operating expenses (with higher interest rates to compensate), and lower OSS, perhaps because of less reliance of the Women's Union for day-to-day operations.[6]

5. Savings and Decree 28 & 165 – what do the statistics say?

Decree 28 & 165 regulates the type and amount of savings that microfinance programs not licensed under the Decree are able to collect (licensed MFIs have much fewer restrictions because they are regulated by the State Bank). The main restrictions on un-registered MFIs are the following:

- Are not allowed to accept **voluntary savings**
- **Total savings** must be less than 50% of equity. As voluntary savings are not allowed, this means that compulsory savings < 50% equity.

Below we briefly summarize which of these conditions are met by MF programs in Vietnam.

a. Voluntary Savings

Eight of the 25 microfinance programs (excluding VBSP) surveyed in the Bulletin reported that they accepted voluntary savings in 2007. Two of these are TYM and CEP, which are likely to be the first two MFIs licensed under the Decree. Another two of these MFIs are listed in Table A (Binh Minh CDC and Vietnam Belgium Credit Project), but may be slower to become licensed under the Decree. The other programs may have to freeze their voluntary savings accounts, or hand back their voluntary savings to client (many are probably doing this already). *For most microfinance programs, this will have little impact on operations as voluntary savings are quite small as a proportion of loans.*

In general, programs offering voluntary savings are slightly larger in terms of loan portfolio, but have a similar number of clients. They have twice the operating expenses (as a share of assets) as programs without such

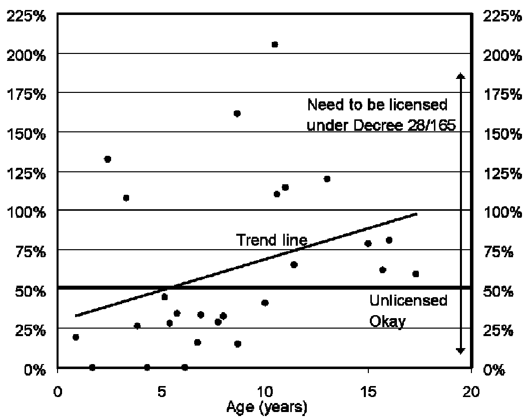
[6] The negative correlation between using Women's Union staff as credit officers and being large enough to register for Decree 28 & 165 is quite weak. However, if one looks (slightly subjectively) at those programs most able to comply with the other human resource, governance and operational requirements of the Decree, they are all those not using WU staff as credit officers.

products, and (perhaps as a result) have lower levels of profitability.

b. Total Savings

As of 31 December 2007, around half of the microfinance programs in Vietnam had total savings balances greater than 50% of equity. As Figure 1 shows, higher savings/equity balances are strongly related to the age of the program - almost all MFPs over 10 years old have collected more than 50% of equity in (mostly compulsory) savings. Given that few of the 25 microfinance programs listed here are going to be able to be licensed under Decree 28 & 165 by the end of 2008, many programs may have to either reduce their savings balances or increase their equity. One program with a very high savings/equity ratio said that they would deal with this problem by turning soft loans into equity, which conveniently reduces the savings/equity balance to exactly 50%.

Figure 1: Total Savings as Percentage of Equity



From the comparison of peer groups, it appears that high levels of saving are correlated **with strong financial performance** in terms of ROA, ROE and OSS. While these programs are both older and larger than the median MFP in Vietnam, it may be the relatively cheap form of financing (rather than other factors) that makes MFPs with large savings balances so profitable. Alternatively, a large savings balance could also be reflective of a program with strong management or other unobserved features that also increase profitability.[7]

6. How to interpret these data - a disclaimer

The statistics reported here are based ONLY on data submitted voluntarily to the Bulletin by Vietnam Microfinance Working Group members. They are reasonably representative of NGO-funded microfinance in Vietnam, but do not attempt to represent all organizations that provide financial services to poor in Vietnam.[8]

While some spot checks of the data have been conducted, the vast majority of entries have not been independently verified and we rely on the accuracy of the data submitted to us. Based on our experience, there are bound to be errors in the data submitted, though we hope that we have found the largest and most influential ones. The author and the MFWG take no responsibility for the quality of the data submitted to the Bulletin.

Not all MF programs submitted data on the full set of variables, and as a result some of the individual data entries will have a smaller sample size than the rest of the entries in their peer group (for example, risk data, income statement information and data on savings activities).

The benchmarks calculated using medians are sensitive to small samples - for some (small) peer groups, the addition of one MFP can substantially modify the results. Particularly small peer groups are indicated in italics and underlined. The median methodology is based on the number of microfinance programs and not the size the programs - for example, the addition of a 1000-client MF Program can potentially influence the median as much as the addition of VBSP.

Finally, we would like to thank the Microfinance Information Exchange (MIX) for allowing us to reproduce some of their data in Bulletin 11. Please note that the data and analysis in the Bulletin reflects the views of the author and in no way is meant to represent the views of the MIX.

[7] The spread between the yield on the gross loan portfolio and the yield on savings for these MFPs is about 10 percentage points – or $30,000 a year on the median savings balance of $300,000.

[8] Most notably we DO NOT analyze or include data on: (i) most microfinance programs founded by NGOs which were subsequently handed over operations to the local Women's Union, (ii) People's Credit Funds (PCFs) or (iii) loans to poor people from the Vietnam Bank for Agricultural and Rural Development (VBARD).

Bulletin Table 1: Individual Microfinance Program Statistics

Data for 31/12/2007*	Borrowers	Loan Portfolio ($)	Equity ($)	Personnel	Provinces working	Contact (add +84)
Binh Minh	3,874	462,043	374,486	19	1. Hà Nội	04.868.8900
CEP Ba Ria Vung Tau	7,283	979,259	409,577	14	1. Bà Rịa Vũng Tàu	064 511500
CEP Long An	3,224	284,358	271,470	8	1. Long An	0906.077.434
CEP	74,360	12,870,805	7,155,314	226	1. TPHCM, 2. Dong Nai, 3. Binh Duong	www.cep.org.vn
CF Bac Kan	880	54,304	66,727	16	1.Tinh Bắc kạn,2. Tinh Hoà bình	049446449
CF Hoa Bin	4,536	247,676	191,554	1	1. Hoà Bình 2. Bắc Kạn	0218.856.607
Counterpart	1,026	149,948	8,328	10	1. Quảng Bình	052 - 840 745
CSOD	861	58,205	-	8	1. Vinh phuc	047730135
Dairu	2,118	160,473	192,260	4	1.Đồng Nai	08.2974633
WU Ha Tinh	32,399	3,180,122	382,307	184	1.Hà Tĩnh	039.891.262
M7 Mai Son	4,505	422,414	245,969	28	1.Sơn La	www.m7group.org/
M7 Uong Bi	7,443	586,765	278,777	39	1. Quảng Ninh	www.m7group.org/
M7 DBP town	4,141	291,119	133,218	18	1. Điện Biên Phủ	www.m7group.org/
M7 DBP province	2,408	149,839	131,667	12	1. Điện Biên Phủ	www.m7group.org/
M7 Dong Trieu	4,415	636,505	294,220	34	1. Quảng Ninh	www.m7group.org/
M7 Ninh Phuoc	2,720	229,286	194,059	14	1. Ninh Thuan	www.m7group.org/
M7 Can Loc	4,038	531,692	247,209	24	1. Ha Tinh	www.m7group.org/
NMA	5,724	496,506	401,329	54	1. Tiền Giang	073 886 636
Plan Int	3,898	162,928	141,582	48	1. Quảng Trị, 2.Quảng Ngãi	054-823564
SC/J	5,842	298,740	251,463	-	1.Thanh Hoa, 2. Yên Bái	04 7260 138
SNV NAPA	6,476	1,008,883	631,012	35	1. Quảng Bình	052.827.511
TCVM Thanh Hoa	4,691	417,027	410,096	30	1.Thanh Hoá	0373.721.300
TYM	25,282	4,343,761	2,490,692	180	1.Hà nội, 2. Vĩnh Phúc, 3. Hưng Yên, 4. Hải Dương, 5. Nam Định, 6. Thanh Hoá, 7. Nghệ An,	04.7281003
VBSP	5,648,140	2,166,943,066	619,829,780	7501	All 64 Provinces in Vietnam	www.vbsp.org.vn
VBCP	54,054	3,375,726	650,087	81	1. Hưng Yên, 2. Hải Phòng, 3. Hà Nam, 4. Nam Định, 5. Vĩnh Phúc, 6. Tuyên Quang, 7. Huế, 8. Quảng Bình, 9. Quảng Trị, 10. Quảng Nam, 11. Đà Nẵng, 12. Đòng Tháp, 13. Đồng Nai, 14. Kon Tum, 15. Phú Thọ, 16. Tiền Giang, 17. Bình Thuận	4.9713838
World Vision	3,519	370,425	1,014,071	31	1.Hưng Yên, 2.Thanh Hoá, 3.Quảng Trị, 4.Quảng Nam, 5.Đà Nẵng	04.9439920

* 1 USD=16,124VND (SBV 6/6/2008)

Bulletin Table 2: International Benchmarks

Data for 31/12/2007 (Vietnam) in USD. 1 USD=16,124VND (SBV, 6/6/2008) Peer group medians	World - All MFI (MIX Data from 2006)	1. Vietnam- All MFI	Asia-All MFIs (MIX Data from 2006)	2. Vietnam - Age		
				New	Young	Mature
				0-4 Years	5-8 years	>8 years
Indicates small sample				*Small Sample*		
Institutional charateristics						
Number of MFIS	704	26	194	5	8	13
Age (Years)	9	8	10	2	6	11
Total Assets ($)	6,169,918	477,224	5,306,169	481,259	254,296	642,334
Equity ($)	-	278,777	-	374,486	194,059	294,220
Branches	11	5	15	3	2	10
Personnel (number of people)	94	28	140	19	16	32
Outreach Indicators						
Number of active borrowers	10,102	4,460	16,168	3,519	3,561	5,842
Gross Loan Portfolio (GLP, $)	4,438,677	419,721	3,392,720	370,425	238,481	586,765
Percent of women borrowers	66%	98%	98%	98%	100%	98%
Average loan balance per Borrower ($)	456	89	149	105	76	94
Average loan balance per Borrower/GNI Per capita (%)	40%	13%	22%	15%	11%	14%
No. Voluntary Depositors	0	0	691	0	0	0
Voluntary Deposits	0	0	47,451	0	0	0
Total Savings (Voluntary+Compulsory, $)	-	129,441	-	*68,230*	55,190	324,175
Macroeconomic						
GNI per capita ($)	1,280	690	730	690	690	690
Financing structure						
Capital/ Asset ratio	25%	61%	17%	78%	74%	47%
Debt (liabilities) to equity	260%	65%	420%	29%	34%	114%
Portfolio to Assets	78%	92%	74%	96%	93%	90%
Total Savings to Loan Portfolio	-	31%	-	19%	28%	41%
Financial Performance						
Return on Assets	0.9%	3.8%	0.1%	-0.9%	3.7%	5.1%
Return on Equity	4.0%	5.4%	2.5%	-1.1%	4.8%	6.7%
Operational Self Sufficiency	115%	153%	115%	95%	170%	172%
Revenues						
Financial Revenue/Assets	25%	14%	21%	10%	10%	15%
Profit Margin	5%	31%	2%	-5%	35%	33%
Yield on Loan Portfolio (Nominal)	30.2%	15.5%	26.5%	10.3%	10.9%	16.9%
Yield on Savings (Nominal)	-	4.5%	-	3.8%	4.5%	5.3%
Expenses						
Total Expense/Assets	24.6%	9.4%	22.3%	8.6%	7.1%	10.6%
Financial expenses/Assets	6.3%	1.8%	6.4%	3.1%	1.3%	2.7%
Operating Expenses/Assets	15.3%	7.1%	12.2%	8.1%	3.9%	7.9%
Efficiency						
Operating Expenses/Loan portfolio	20%	7%	17%	8%	4%	9%
(Operating) Cost/Borrower ($)	108	7.0	39	8.0	4.2	10.9
Productivity						
Borrowers per Staff member	112	176	125	176	139	188
Loan Portfolio/Staff Member ($)	-	17,283	-	17,283	11,762	19,585
Risk (may be unreliable)						
Porfolio at Risk>30d/GLP	2.8%	0.1%	2.1%	*0.0%*	0.0%	0.5%
Write-off ratio	1.1%	0.0%	0.7%	*0.0%*	0.0%	*0.0%*
Risk Coverage Ratio	90%	367%	90%	-	*299%*	416%

Bulletin Table 3: International Benchmarks

Data for 31/12/2007 (Vietnam) in USD. 1 USD=16,124VND (SBV, 6/6/2008) Peer group medians	3. Vietnam - Outreach		4. Vietnam - Scale (Gross Loan Portfolio)		
	Small <15000	Large >15000 clients	Small <$2m GLP	Medium $2m-$8m	Large >$8m GLP
Indicates small sample		*Small Sample*		*Small Sample*	*Small Sample*
Institutional charateristics					
Number of MFIS	21	5	21	*3*	*2*
Age (Years)	8	11	8	*11*	*12*
Total Assets ($)	399,190	5,508,799	399,190	*4,382,199*	*1,125,059,512*
Equity ($)	249,336	2,490,692	249,336	*650,087*	*313,492,547*
Branches	2	19	2	*17*	*42*
Personnel (number of people)	19	184	19	*180*	*3864*
Outreach Indicators					
Number of active borrowers	4,038	54,054	4,038	*32,399*	*2,861,250*
Gross Loan Portfolio (GLP, $)	298,740	4,343,761	298,740	*3,375,726*	*1,089,906,936*
Percent of women borrowers	98%	*96%*	98%	*98%*	-
Average loan balance per Borrower ($)	87	172	87	*98*	*278*
Average loan balance per Borrower/GNI Per capita (%)	13%	25%	13%	*14%*	*40%*
No. Voluntary Depositors	0	*1,143*	0	*0*	*21,157*
Voluntary Deposits	0	124,560	0	*2,203*	*19,668,475*
Total Savings (Voluntary+Compulsory, $)	90,471	-	90,471	*1,334,299*	*4,257,624*
Macroeconomic					
GNI per capita ($)	690	690	690	690	690
Financing structure					
Capital/ Asset ratio	71%	28%	71%	*15%*	*39%*
Debt (liabilities) to equity	41%	261%	41%	*574%*	*179%*
Portfolio to Assets	92%	91%	92%	*79%*	*94%*
Total Savings to Loan Portfolio	28%	*36%*	28%	*40%*	*33%*
Financial Performance					
Return on Assets	3.8%	2.2%	3.8%	*2.2%*	*2.8%*
Return on Equity	5.1%	13.5%	5.1%	*13.5%*	*3.7%*
Operational Self Sufficiency	172%	127%	172%	*127%*	*114%*
Revenues					
Financial Revenue/Assets	15%	10%	15%	*10%*	*13%*
Profit Margin	31%	21%	31%	*21%*	*-1%*
Yield on Loan Portfolio (Nominal)	15.7%	11.7%	15.7%	*11.7%*	*14.0%*
Yield on Savings (Nominal)	3.8%	-	3.8%	*5.3%*	*3.3%*
Expenses					
Total Expense/Assets	10.3%	8.1%	10.3%	*8.1%*	*10.6%*
Financial expenses/Assets	1.6%	*3.3%*	1.6%	*4.6%*	*3.0%*
Operating Expenses/Assets	7.0%	*8.1%*	7.0%	*8.1%*	*7.5%*
Efficiency					
Operating Expenses/Loan portfolio	7%	*9%*	7%	*9%*	*8%*
(Operating) Cost/Borrower ($)	5.1	*14.9*	5.1	*12.9*	*17.4*
Productivity					
Borrowers per Staff member	165	329	165	*176*	*541*
Loan Portfolio/Staff Member ($)	15,066	41,676	15,066	*24,132*	*172,919*
Risk (may be unreliable)					
Porfolio at Risk>30d/GLP	0.1%	-	0.1%	*0.1%*	*1.0%*
Write-off ratio	0.0%	*0.0%*	0.0%	*0.0%*	*0.0%*
Risk Coverage Ratio	367%	-	367%	*1554%*	*94%*

Bulletin Table 4: Vietnam-specific Benchmarks

Data for 31/12/2007 (Vietnam) in USD. 1 USD=16,124VND (SBV, 6/6/2008) Peer group medians	5. Use WU Credit Officers		6. Geographic Area		
	No	Yes	1 District	2-9 Districts	10 + Districts
Indicates small sample					*Small sample*
Institutional charateristics					
Number of MFIS	12	14	11	10	5
Age (Years)	7	9	9	7	11
Total Assets ($)	477,224	489,521	399,190	403,173	5,508,799
Equity ($)	374,486	262,373	245,969	401,329	2,490,692
Branches	2	7	5	2	19
Personnel (number of people)	19	35	18	30	184
Outreach Indicators					
Number of active borrowers	3,956	4,521	3,874	4,614	54,054
Gross Loan Portfolio (GLP, $)	393,726	459,460	291,119	334,582	4,343,761
Percent of women borrowers	97%	98%	98%	99%	*96%*
Average loan balance per Borrower ($)	97	83	88	81	172
Average loan balance per Borrower/GNI Per capita (%)	14%	12%	13%	12%	25%
No. Voluntary Depositors	0	0	0	0	*1,143*
Voluntary Deposits	2,309	0	0	0	124,560
Total Savings (Voluntary+Compulsory, $)	99,248	152,382	121,259	61,921	1,675,762
Macroeconomic					
GNI per capita ($)	690	690	690	690	690
Financing structure					
Capital/ Asset ratio	74%	51%	56%	77%	28%
Debt (liabilities) to equity	34%	97%	79%	29%	261%
Portfolio to Assets	88%	96%	95%	90%	91%
Total Savings to Loan Portfolio	28%	36%	43%	26%	*36%*
Financial Performance					
Return on Assets	3.9%	3.8%	4.5%	3.6%	2.2%
Return on Equity	5.9%	5.1%	5.1%	5.0%	13.5%
Operational Self Sufficiency	147%	170%	217%	135%	127%
Revenues					
Financial Revenue/Assets	15.5%	10.3%	11.7%	15.0%	10.3%
Profit Margin	32.0%	26.4%	34.3%	25.8%	21.5%
Yield on Loan Portfolio (Nominal)	18.7%	10.9%	13.2%	16.9%	11.7%
Yield on Savings (Nominal)	3.8%	*4.6%*	5.6%	*2.5%*	*5.0%*
Expenses					
Total Expense/Assets	11.2%	7.8%	8.6%	10.4%	8.1%
Financial expenses/Assets	1.7%	2.7%	1.6%	1.5%	*3.3%*
Operating Expenses/Assets	7.9%	4.9%	3.2%	7.4%	*8.1%*
Efficiency					
Operating Expenses/Loan portfolio	9.5%	5.3%	3.9%	7.8%	*9.2%*
(Operating) Cost/Borrower ($)	9.3	4.6	5.1	5.8	*14.9*
Productivity					
Borrowers per Staff member	170	181	170	156	329
Loan Portfolio/Staff Member ($)	24,132	15,630	15,086	13,901	41,676
Risk (may be unreliable)					
Porfolio at Risk>30d/GLP	0.1%	0.0%	0.5%	0.0%	*0.6%*
Write-off ratio	0.0%	0.0%	0.0%	0.0%	*0.0%*
Risk Coverage Ratio	225%1	1224%	367%	*1100%*	*824%*

Bulletin Table 5: Decree 28 & 165 Benchmarks

Data for 31/12/2007 (Vietnam) in USD. 1 USD=16,124VND (SBV, 6/6/2008) Peer group medians	7. Enough Equity for Decree 28 & 165		8. Total Savings >50% Equity		9. Collects Voluntary Savings	
	No	Yes	No	Yes	No	Yes
Indicates small sample	Ex-VBSP	Ex-VBSP	Ex-VBSP	Ex-VBSP		
Institutional charateristics						
Number of MFIS	15	10	13	12	17	9
Age (Years)	8	10	6	11	8	7
Total Assets ($)	260,915	1,081,798	333,157	845,081	439,841	642,334
Equity ($)	193,159	520,554	251,463	338,264	251,463	512,287
Branches	3	5	2	11	4	11
Personnel (number of people)	16	45	18	35	27	34
Outreach Indicators						
Number of active borrowers	3,898	6,880	3,874	6,880	4,505	4,415
Gross Loan Portfolio (GLP, $)	247,676	994,071	284,358	807,882	370,425	636,505
Percent of women borrowers	100%	96%	99%	98%	98%	99%
Average loan balance per Borrower ($)	76	112	84	133	88	119
Average loan balance per Borrower/GNI Per capita (%)	11%	16%	12%	19%	13%	17%
No. Voluntary Depositors	0	0	0	0	0	365
Voluntary Deposits	0	0	0	0	0	4,962
Total Savings (Voluntary+Compulsory, $)	65,120	411,543	61,921	366,720	129,441	211,711
Macroeconomic						
GNI per capita ($)	690	690	690	690	690	690
Financing structure						
Capital/ Asset ratio	68%	56%	77%	45%	68%	48%
Debt (liabilities) to equity	47%	81%	29%	121%	48%	108%
Portfolio to Assets	94%	90%	90%	96%	92%	91%
Total Savings to Loan Portfolio	36%	28%	24%	43%	28%	36%
Financial Performance						
Return on Assets	4.1%	3.3%	3.7%	4.8%	3.8%	2.0%
Return on Equity	5.1%	8.8%	3.7%	10.2%	5.1%	5.7%
Operational Self Sufficiency	200.1%	127%	146%	164%	172%	127%
Revenues						
Financial Revenue/Assets	12.1%	15.4%	11.3%	15.4%	10.4%	15.9%
Profit Margin	32.6%	21.3%	30.9%	32.6%	31.3%	21.5%
Yield on Loan Portfolio (Nominal)	14.3%	17.3%	12.1%	15.5%	11.5%	18.8%
Yield on Savings (Nominal)	4.7%	4.5%	3.7%	5.3%	4.1%	5.3%
Expenses						
Total Expense/Assets	8.6%	10.4%	7.9%	10.3%	8.1%	11.8%
Financial expenses/Assets	1.7%	1.8%	1.1%	3.5%	1.5%	2.7%
Operating Expenses/Assets	7.0%	8.2%	6.0%	7.6%	4.6%	10.1%
Efficiency						
Operating Expenses/Loan portfolio	7.1%	10.4%	6.2%	7.6%	5.2%	11.8%
(Operating) Cost/Borrower ($)	4.4	11.6	4.5	9.1	4.4	15.5
Productivity						
Borrowers per Staff member	165	181	185	181	168	204
Loan Portfolio/Staff Member ($)	15,066	24,225	14,116	19,585	15,066	24,318
Risk (may be unreliable)						
Porfolio at Risk>30d/GLP	0.0%	0.1%	0.0%	0.5%	0.1%	0.1%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk Coverage Ratio	367%	853%	1174%	367%	367%	926%

Bulletin Table 6: Peer Groups

Data for 31/12/2007	Age	Outreach	Scale	Target Market*	WU Credit Officers	Geographic Size	Enough Equity for Decree 28 & 165	Total Savings >50% Equity	Has Voluntary Savings
Binh Minh	New	Small	Small	Low-end	No	1 District	Yes	No	Yes
CEP Ba Ria Vung Tau	Mature	Small	Small	Low-end	No	2-9 Districts	Yes	Yes	No
CEP Long An	Young	Small	Small	Low-end	No	1 District	No	No	No
CEP	Mature	Large	Large	Broad	No	10+ Districts	Yes	Yes	Yes
CF Bac Kan	Young	Small	Small	Low-end	Yes	1 District	No	No	No
CF Hoa Binh	Young	Small	Small	Low-end	Yes	2-9 Districts	No	No	No
Counterpart	New	Small	Small	Low-end	Yes	1 District	No	Yes	No
CSOD	Young	Small	Small	Low-end	No	2-9 Districts	No	-	Yes
Dariu	New	Small	Small	Low-end	No	2-9 Districts	No	No	Yes
WU Ha Tinh	New	Large	Medium	Low-end	Yes	10+ Districts	Yes	Yes	No
M7 Mai Sơn	Mature	Small	Small	Low-end	Yes	1 District	No	Yes	No
M7 Uong Bi	Mature	Small	Small	Low-end	Yes	1 District	No	Yes	No
M7 Dien Bien City	Mature	Small	Small	Low-end	Yes	1 District	No	Yes	No
M7 Dien Bien District	Mature	Small	Small	Low-end	Yes	1 District	No	No	No
M7 Dong Trieu	Mature	Small	Small	Low-end	Yes	1 District	No	Yes	Yes
M7 Ninh Phuoc	Young	Small	Small	Low-end	No	1 District	No	No	Yes
M7 Can Loc	Mature	Small	Small	Low-end	No	1 District	No	Yes	No
NMA	Young	Small	Small	Low-end	Yes	2-9 Districts	Yes	No	No
Plan Int	Young	Small	Small	Low-end	Yes	2-9 Districts	No	No	No
SC/J	Mature	Small	Small	Low-end	No	2-9 Districts	No	No	No
SNV NAPA	Mature	Small	Small	Broad	Yes	2-9 Districts	Yes	Yes	No
TCVM Thanh Hoa	Mature	Small	Small	Low-end	No	2-9 Districts	Yes	No	No
TYM	Mature	Large	Medium	Broad	No	10+ Districts	Yes	Yes	Yes
VBSP	Young	Large	Large	Broad	Yes	10+ Districts	-	-	Yes
VBCP	Mature	Large	Medium	Low-end	Yes	10+ Districts	Yes	Yes	Yes
World Vision	New	Small	Small	Low-end	No	2-9 Districts	Yes	No	No

* Excluded from Benchmarks Tables for brevity. "Low-end" is average loan balance<150USD. "Broad" >150USD but less than 150% GNI/capita

Circular implementing microfinance regulations released, workshop held

On the 2 April 2008, the State Bank of Vietnam finalized the Circular implementing the microfinance regulations Decree 28/NĐ-CP & 165/NĐ-CP. On the 29th April 2008, the Vietnam Microfinance Working Group (MFWG), in cooperation with State Bank of Vietnam (SBV), organized a workshop explaining the new legislation to industry stakeholders. With the support of ADA Luxembourg, Cordaid, and ILO, there were 142 participants attended the workshop, including representatives of central and local governments, representatives of the Women's Union and State Bank at the provincial level, Vietnamese microfinance institutions, NGOs and donors. Mr. Truong Ngoc Anh from the State Bank summarized the main points of the circular and then participants were given an opportunity to raise their concerns. In this Bulletin, the first article summarizes the main points of the legislation.

Copies of Decree 28, Decree 165 and the circular are available by contacting the MFWG on taichinhvimo@gmail.com Mr. Truong Ngoc Anh's slides are also available in both English and Vietnamese.

Annual Meeting 2007

The 2007 Annual Meeting of the Vietnam Microfinance Working Group was held in Hanoi on January 25th, 2008 and involved more than 60 participants. At the meeting, participants had a chance to review the activities of MFWG in the year 2007 and also contribute ideas and comments on the draft of the strategic/business plan of the Vietnam MFWG. At the presentation, participants heard the rationale behind the legal formalization of the Group. The meeting also voted in 12 members of Steering Committee including representatives of World Vision, TYM, SC/US, M&D, Dariu Foundation, NGORC, SNV, Binh Minh CDC, PPC Ha Tinh, Thanh Hóa Microfinance Program, CFRC, and ILO.

In the meeting, Mr. Truong Ngoc Anh from State Bank introduced Decree 165/ND/CP and answered some questions from participants. To have soft-copies of Decree, the office of Vietnam MSWG.

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