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**National Consultation-Workshop on
Alternative Mechanisms for the
Promotion of Microfinance in Vietnam**

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National Consultation-Workshop on Alternative Mechanisms for the Promotion of Microfinance in Vietnam*

On 24-26, 1996, the Vietnam Bank for Agriculture (VBA) and the Asia Pacific Rural and Agricultural Association (APRACA) held a joint workshop in Hanoi on *Alternative Mechanisms for the Promotion of Microfinance in Vietnam*. The workshop was hosted by VBA and supported by the German technical assistance agency GTZ.

The workshop was attended by some 60 national participants from the State Bank of Vietnam, the Government Office, the Ministry of Agriculture and Rural Development, the Ministry of Finance, the Ministry of Labor, Invalids and Social Affairs, the Ministry of Planning and Investment, the Central Economics Committee, the People's and Mountainous Committee, the Vietnam Bank for Agriculture, the Vietnam Bank for the Poor, the Central People's Credit Fund, the National Economics University, the Vietnamese Farmers' Association, and the Vietnamese Women's Union. Further the workshop was attended by some 20 foreign participants from APRACA, ACS (APRACA Consultancy Services), BAAC (Bank of Agriculture and Agricultural Cooperatives) in Thailand, Bank Indonesia & PHBK, Bank Rakyat Indonesia, CIDSE (an international NGO in Vietnam), GTZ, NABARD from India, and UNDP (Hanoi and Kuala Lumpur).

APRACA and VBA had agreed on the following workshop objectives:

1. to disseminate APRACA research findings on *Grassroots Financial Systems Development in Vietnam*¹;
2. to exchange experiences among local institutions on the implementation of microfinance programs in Vietnam;
3. to identify workable financial mechanisms in Vietnam that will address the problem of access to rural financial services by Vietnam's poor and marginalized sector;
4. to formulate a workable plan or country program on microfinance for Vietnam under

the *APRACA-GTZ Regional Program on Linkage Banking and Grassroots Financial Systems Development*.

The core issue to be addressed by the participants was, *how best to develop the rural financial system in Vietnam, comprising sound financial institutions with sustainable financial services for all segments of the population including small farmers, small entrepreneurs, women and the poor*. Participants were to work out strategies of development most appropriate to the social and economic requirements of the country, with an emphasis on key issues such as,

- appropriate strategies for the development of microfinance institutions, viable and sustainable bank operations and microfinance strategies, best strategies in savings mobilization, credit delivery and linkage banking, and adjustments in the policy and legal environments;
- possible contributions by governmental and nongovernmental organizations and donors; and
- exposure training programs for national policy-makers and institutional decision-makers.

The workshop was inaugurated with welcome speeches by Mrs. Ha Thi Hahn on behalf of VBA, by Mr. Zulkifli M. Noor on behalf of APRACA and by Prof. Dr. H. D. Seibel on behalf of GTZ and an address by Mr. Pham Van Thuc, Chairman and Director-General of VBA.

The first sessions of the workshop dealt with the state-of-the-art of microfinance in Vietnam. After the launching of APRACA publication *Grassroots Financial System Development in Vietnam* which laid the foundation for the workshop, the results of that study were presented in detail by its author, APRACA consultant Ms. V. Abiad. In the following representatives of government agencies, the

* This paper was first published in *Asia Pacific Rural Finance*, April-December 1997, pp. 119-123

leading Microfinancial Institutions (MFIs) in Vietnam such as Vietnam Bank of Agriculture, Vietnam Bank of the Poor, Vietnam Women's Union, the Central People's Credit Fund and NGOs presented their papers.

In the second part experiences from abroad were introduced. After a presentation on microfinance strategies in Asia by Prof. H. D. Seibel, three of the linkage banking projects in the region were presented during the workshop: the project of the Bank for Agriculture and Agricultural Cooperatives in Thailand by Pisan Sillapasopon, the project of Bank Indonesia by Syhril Bermawan, the project of NABARD in India by Ashok Sharma. All three projects are supported by GTZ with technical assistance but each however has its own biography and identity.

Conclusions

On the basis of the national and international experiences presented in the papers, in the third session the workshop participants discussed the findings and their relevancy for the future development of microfinance in Vietnam. Four discussion groups were formed, namely on the viability of MFIs including VBA, savings mobilization strategies, strategies for linkage banking, and the regulatory framework. Four major conclusions were presented, pertaining to an adequately diversified institutional infrastructure, profitable MFIs, appropriate cooperation between MFIs, and the right legal and policy framework.

Concerning the *institutional framework* it was stated that during the past five years great progress has been achieved in rural and microfinance, with a proliferation of microfinance institutions and services. The financial infrastructure now comprises VBA, VBP and cooperative PCFs as formal financial institutions, financial programs of NGOs, VWU and other mass organizations as part of the semiformal financial sector, and informal financial institutions such as SHGs and joint liability groups linked to formal and semiformal institutions. Even though the participants concluded that outreach is still limited, thus restraining the access of large portions of the population to savings deposit facilities and credit. To further increase institutional outreach, the institutional infrastructure must be

further diversified; and the capacity of the existing MFIs for offering effective microfinancial services (MFS) must be enhanced.

Institutional sustainability of MFIs can only be achieved if they are viable and autonomous. There is now wide experience with sound or *best* practices among Vietnamese institutions as well as APRACA member countries which need to be collected, tested, packaged and disseminated. Institutions must be able to mobilize their own resources at interest rates with positive real returns to savers; this is the basis of institutional self-reliance. Interest rates on loans must allow for an adequate margin to cover the costs of funds, administrative costs, risks and profits. Only profitable institutions can be independent of government and donors. For effective financial services, suitable microsavings, microcredit and microinsurance products are needed, requiring substantial R&D (research and development) into financial innovations which may be shared between the various institutions. While there was universal agreement among the participants on the principle of market rates of interest as a prerequisite for institutional self-reliance and viability, the application of that principle was controversial in some of the groups. Several participants surmised that young institutions need access to preferential credit, while some other felt that the very poor should not bear the brunt of exorbitant rural market rates. There was no objection against subsidization as long as government and donor assistance was confined to institution-building rather than lower lending rates of interest. This issue clearly needs further discussion in Vietnam, perhaps with inputs from other APRACA member institutions.

With regard to *institutional cooperation and coordination*, the participants agreed that two types of linkages need to be strengthened in Vietnam, i.e. vertical linkages in the framework of linkage banking programs, and horizontal linkages between MFIs.

Since 1992 when the first APRACA workshop was held in Hanoi on the concept of linking banks and self-help groups, numerous approaches to linkage banking have evolved in Vietnam. Examples of such vertical linkages are those between VBA and VBP, VBA and

PCFs, VWU or other mass organizations and SHGs, NGOs and SHGs, MFIs and joint liability groups. There is little coordination between the various programs and projects, and there has been little transfer of linkage banking technology from APRACA projects with a long experience and strong training programs. All linkage projects could greatly benefit from a coordinated exchange of experience and an organized exposure to the experience of APRACA member countries.

While there has been a mushroom growth of MFIs and of vertical linkages between various institutions in the formal, semiformal and informal financial sectors, horizontal networking has been virtually absent. This means that there is no systematic exchange and transfer of experience through training and consultancy services, and there are no apex organizations offering specialized services.

With respect to *policy, legal and supervisory framework*, a variety of important laws have been passed in recent years which are essential for effective microfinancial services and business activities. Participants agreed that further adjustments are needed in the legal framework, particularly regarding the banking law, specific laws or other regulatory provisions for smaller financial institutions including self-help groups who presently lack the protection of the law, and insurance laws. For such laws to be appropriate to the requirements of microfinance, it is essential for MFIs to participate in policy dialogues and articulate their legal demands. Such articulation of interests of numerous small institutions can only be achieved by effective networks of MFIs.

Recommendations

The workshop presentations, discussions and conclusions resulted in the following recommendation:

To establish a network of microfinance institutions with apex services or organizations engaging in policy dialog and supervision, in research and development on microfinance strategies and products, in institutional capacity-building and training, and in the promotion of linkages between various types of microfinance institutions, with the objective of

effectively developing a diversified system of microfinance in Vietnam.

Networking: MFIs in Vietnam need to establish a network with horizontal linkages between members, functioning as a forum of exchange, a body representing the interests of the network members, and a provider of supervisory and training services. The network may also build up other services, such as R&D (research and development, as well as documentation and dissemination of results) on microfinancial financial technologies. Funds would be needed to cover the institution-building costs of the network, the operating costs and the costs of services. Once the institution is established, it will work, in a medium-term perspective, towards financial self-reliance to cover its operating and service costs from fees and contributions.

Apex organizations: The network will engage in dialogues and provide services to member institutions. Such services may comprise participation in policy dialogues and regulatory interventions, monitoring and supervision; R&D on institutional viability and sustainability, sound practices, strategies of resource mobilization, and microsavings, microcredit and microinsurance products; capacity-building and training; central banking and refinancing; and linkage banking.

In an initial phase, such services will be provided in a loosely organized way that will be consolidated according to demand. For the network to fully exhaust its potential, such activities may eventually evolve into apex organizations with a variety of structured services and functions.

Policy dialogue, regulation and supervision: The network will engage in policy dialogues (i) on interest rate deregulation and the effective implementation of market rates of interest on savings and loans; and (ii) on laws and other regulatory provisions in the field of microfinance. In particular it will analyze legal and regulatory requirements of its member institutions and their relations with customers including women and the poor and initiate regulatory action in a bottom-up procedure to complement the top-down approach of legal and regulatory authorities. This may include adaptations in existing forms, as well as propositions for new forms, of legal status. In

addition, the network may propose appropriate forms of recognition by regulatory authorities for informal financial intermediaries and groups - *to be recognized but not legally registered*.

Given the vast and rapidly increasing number of microfinance institutions, the central bank is not in a position to effectively supervise all microfinance banking institutions. The network may therefore establish apex organizations functioning as second-tier regulatory authorities to guide, monitor and supervise banking and nonbanking microfinance institutions.

Research, documentation and dissemination:

There is a great need to systematically evaluate the experience of microfinance institutions and make the results available to the network members. The network may therefore establish an R&D program or apex organization to collect, review and revise microsavings, microcredit and microinsurance products, schemes and strategies as well as institutional innovations as discussed in detail during the workshop. This may also include financial innovations from APRACA member institutions in the Asian region. The results may then be appropriately packaged and disseminated through publications, training and consultancy services.

Institutional capacity-building and training:

There is an immense need of institutional capacity-building and staff training at two levels, that of the network and its apexes, and that of the various types of microfinance institutions, programs and projects. Utilizing the results of its own R&D, the network may therefore provide capacity-building, training and consultancy services that may eventually evolve into an apex organization.

The network may also arrange for exposure training programs and apprenticeships in successful institutions and programs in Vietnam and, with the assistance from APRACA, in APRACA member institutions abroad. Exposure training programs may be provided to policymakers and to the management and staff of microfinance institutions, apprenticeship programs to the recruits of new institutions and projects.

Linkage banking: The promotion of microfinance linkage banking, particularly of vertical linkages between formal microfinance institutions and various types of self-help

groups as a particular form of wholesale banking geared at outreach to the poor and lower transaction costs, is a cross-cutting issue throughout the proposed approach to networking. The network partners may therefore decide to give special attention to the enhancement of such linkages in the framework of each of the five principal recommendations:

- *Networking:* Several microfinance institutions, government agencies and NGOs in Vietnam are already engaged in linkage banking, which is spreading rapidly. The proposed network will provide a new institutional framework for linkage banking partners and projects.
- *Apex services:* The network may provide special services to linkage banking partners through its programs and apex organizations.
- *Policy dialogue and regulation:* Due to the informal status of some of the linkage partners, special consideration is required from policy makers and regulatory authorities. The network and its policy dialogue and regulatory service or apex organizations may assist in finding appropriate forms of official recognition of informal financial intermediaries and groups, in the adoption of the legal status of an RSHB or a PCF, or in the preparation of new forms of legal status for small local intermediaries and groups. It may further assist in the adoption of sound banking practices by both formal and informal linkage partners, including the application of genuine market rates of interest by informal intermediaries and groups.
- *Research, documentation and dissemination:* Given the wide experience with linkage banking in Vietnam and in APRACA member institutions in the region, special emphasis may be given to an evaluation of the existing experience through R&D and the dissemination of information on effective linkage strategies and products.
- *Institutional capacity-building and training:* The capacity-building, training and consultancy services of the network and its future apexes may be made available to the partners in linkage banking. There is a special need for capacity-building and

upgrading among the informal intermediaries and groups. The experience of APRACA has shown that such services can be effectively provided by NGOs specialized on microfinance training for self-help groups.

Project proposal

As a result of presentations and discussions during the workshop, its conclusions and recommendations, a preliminary project proposal on a *Microfinancial institution networking project* was submitted. Through the intervention of the project, the following objective is to be attained:

A network of microfinance institutions with apex services or apex organizations engaged in policy dialog and supervision, in research and development on microfinance strategies, sound practices and appropriate microsavings, microcredit and microinsurance products, in institutional capacity-building and training, and in the promotion of linkages between various types of microfinance institutions is established.

The project proposal starts from the core problem worked out that the access to sustainable microsavings, microcredit and microinsurance services by a diversified infrastructure of microfinance institutions in Vietnam is inadequate. While generally two ways of solution exist, a strategy taken from above, i.e. by the Government and a strategy from below, i.e. by microfinance institutions and non-governmental organizations with their projects, the proposal tries to interlink both approaches: while the project purpose focuses on the establishment of a network of microfinance institutions and projects, the project holder suggested for such a project is a government body. All the results to be achieved by the project hinge on initiatives to be taken by microfinance institutions and projects; but each one requires for its success close cooperation with policy makers, government bodies and local authorities. The proposed project holder is the State Bank of Vietnam or the Vietnam Bank for Agriculture.

In order to attain the project purpose, the following results are to be achieved:

1. a network of microfinance institutions and projects is established;
2. a system of apex services is established within the network of microfinance institutions - to be consolidated, in a subsequent phase, in apex organizations;
3. participation in policy dialogues and regulatory activities is effective - to result, in a subsequent phase, in the establishment of second-tier regulatory authorities to guide, monitor, regulate and supervise the various categories of microfinance institutions;
4. a system of research, documentation and dissemination is established;
5. capacity-building and training services are established - to be consolidated, in a subsequent phase, in apex organizations;
6. the effectiveness of existing linkage banking schemes and projects is improved by making use of project activities under results 1-5.

The project is planned for the period from 1997 to 2007, divided in two projected phases. During the first phase (appr. 1997-2002) the network as an informal body will be established and consolidated into an organization with legal status. Further, loosely organized services will be established and consolidated in apex organizations. In the second phase (appr. 2002-2007) the emphasis lies on capacity-building of formal network organization and apex organizations, enhancement of quality of services of apex organizations, expansion of their services.

This project is understood as one contribution to an effective diversified system of microfinance comprising viable financial institutions with sustainable financial services in Vietnam. To fully attain this broad development goal, additional measures will be required that are beyond the scope of this project. This project proposal builds on the experience of MFIs and linkage banking projects in Vietnam and other countries of APRACA member institutions discussed at two VBA/APRACA workshops in Hanoi, 1992² and 1996. The promotion of linkage banking may be included as one of several results of the proposed project. However, with its emphasis on networking and microfinance systems development, it goes beyond the scope of

linkage banking, becoming perhaps the first of a new generation of APRACA-initiated microfinance projects.

¹ In preparation of the workshop, APRACA had initiated a study on microfinance in Vietnam carried out by Ms. V. G. Abiad and launched during the workshop, entitled „*Grassroots Financial Systems Development in Vietnam*“ (APRACA-GTZ Publication 1996/1, Bangkok).

²Cf. H. D. Seibel, *The Making of a Market Economy: Monetary Reform, Economic Transformation and Rural Finance in Vietnam.*, 1992. Verlag für Entwicklungspolitik Breitenbach, Auf der Adt 14, D-66130 Saarbrücken