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**Promoting Sustainable, Market-Based Microfinance:
Viet Nam Case Study and Lessons Learned for
APEC Economies**

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Acronyms

ADB	Asian Development Bank
MFI	Microfinance institution
NGO	Nongovernmental organization
PCF	People's Credit Fund
SOCB	State-owned commercial bank
VBARD	Viet Nam Bank for Agricultural and Rural Development
VBSP	Viet Nam Bank for Social Policies
VDB	Viet Nam Development Bank
VFU	Viet Nam Farmers Union
VPSC	Viet Nam Postal Savings Service Company
VWU	Viet Nam Women's Union
MFWG	Microfinance Working Group

Executive Summary

Microfinance has an important role to play in fostering sustainable development and inclusive growth, and APEC is committed to making the most of the potential of microfinance in the APEC region. This report is part of an APEC program to showcase best practices in microfinance. It aims to identify how microfinance is used in Viet Nam, an APEC economy, and the steps that Viet Nam can take to make microfinance for the poor commercially viable. It also aims to inform discussion among policymakers and practitioners of microfinance throughout the APEC region about best practices in market-based models in microfinance targeting the underserved, including women entrepreneurs.

Viet Nam stands out for the large-scale coverage of its microfinance system, but questions have been raised about the system's long-term sustainability and whether it is achieving the antipoverty impact desired.

Microfinance in Viet Nam has consisted principally of the subsidized provision of microcredit through large mass organizations and state development banks. But the Viet Nam government is seeking to lighten its subsidy burden, and so a shift toward market-based provision of microfinance through independent NGOs is underway. The current Vietnamese microfinance system, although extensive, still has large gaps in terms of whom it serves and the services it provides:

- Longer-term credit is needed.
- The cost of remittances is high and remittances could be more convenient.
- Housing and consumer finance are lacking.
- Microinsurance, microleasing, and credit bureaus are still in the infant stage.
- Lapses in microfinance coverage remain a challenge.
- Assessment of the social impact of existing programs is lacking.
- The regulatory framework is ill adapted for commercial microfinance, although the government and donors have begun addressing the issue.
- Policies should be pursued that make it easier for women to access microfinance resources and associated business development services.
- Monitoring—and therefore data collection and analysis—of the impact that microfinance services have on poverty is needed to encourage more effective targeting of microlending.

1. Introduction

Different definitions of microfinance are used in different contexts, but microfinance generally refers to the provision of financial services—savings, remittances, insurance, and credit—in small amounts to low-income households.

Purpose of this Study

This study aims to put forward for discussion by all APEC economies the questions that are raised by microfinance developments in Viet Nam. It examines

- The microfinance institutions and services available in Viet Nam, especially those for women;
- Viet Nam's plans for reforming the microfinance sector; and
- How the case of Viet Nam relates to other microfinance systems in the world and in the APEC region in particular.

This study also includes questions to prompt thinking among microfinance policymakers and practitioners in APEC economies; makes recommendations for action, and compiles a list of lessons learned for APEC economies. A detailed bibliography is included. Appendixes describe donor initiatives in microfinance in Viet Nam and the relevance and application of the Key Principles on Microfinance of the Consultative Group to Assist the Poor (CGAP) and the APEC Good Practices to Promote Women-Owned Microenterprises as endorsed by the APEC Gender Focal Point Network (GFPN) Microcredit Workshop in August 2009.

Vietnamese Government's Role in Microfinance

Control and Subsidy

Viet Nam has one of the most extensive systems of microcredit in the world. Unlike in other economies with deep microfinance penetration, such as Bangladesh, Indonesia, and India, however, in Viet Nam, microfinance institutions are characterized by government control and subsidy.

Viet Nam's microfinance system consists primarily of state-owned or -directed institutions disbursing loans and collecting savings with the assistance of mass party-connected organizations for women, farmers, youth, and veterans. These mass organizations, such as the Vietnam Women's Union (VWU) and Vietnam Farmer's Union (VFU), have nationwide coverage and manage much of the microfinance delivery process. For example, the VWU administers one-half of Vietnam Bank for Social Policy (VBSP) loans and collects the interest. (VBSP staff collect only the final payment of principal.) These mass organizations are affiliated with the government but operate mostly independently.

Approximately 40 private or foreign voluntary organizations are also involved in microfinance. Many, however, are facing difficulty converting into better organized and formal institutions. Not only are formal procedures complicated for these organizations, which lack administrative and monitoring capacity, but the government also has not rushed to loosen restrictions on private

lenders. The government is influenced by the many influential stakeholders in Viet Nam who feel that the poor cannot afford unsubsidized financial services and subsidies are warranted for social reasons. Furthermore, they claim that commercially self-sustaining, unsubsidized microcredit schemes do not provide adequate benefits to the very poor. As a result, the provision of microcredit to the poor remains heavily subsidized, especially through interest rate subsidies, which cost the government an estimated \$200 million a year.

Although the government wants to continue to use microcredit to pursue social goals, the general transition of Viet Nam from a command to a market-led economy, the diversification of microfinance institutions, and decentralization increasingly affect how microcredit is provided in Viet Nam. Microfinance in Viet Nam is evolving into a more market-based system, with specialized, autonomous, NGO-type microfinance institutions emerging, although most of these institutions are still connected to state-directed mass organizations.

The government has indicated its intention to remove interest rate controls but has not yet done so. Although reducing the budgetary burden seems to be the main impetus behind the drive for reducing the interest rate subsidy, the effectiveness of the subsidies in targeting beneficiaries has also been brought into question. Microfinance experts often object to interest rate subsidies because subsidies encourage nontarget groups to benefit from microfinance and because subsidies are less efficient in helping the poor than direct income transfers. A recent Asian Development Bank (ADB) study suggests that the marginal benefit that the Vietnamese subsidy provides is small and might be achieved more efficiently through other means, such as direct income-transfer schemes.

Constraints on further interest rate liberalization persist. According to the most recent estimates, the share of credit extended at subsidized interest rates remains high—12 percent of total credit issued by the banking sector. This credit is managed mostly by VBSP and the Vietnam Development Bank (VDB). Though forcing clarity on interest rate policy in connection with microfinance may have some political cost, it will establish a clearer basis for developing the country's microfinance system.

Regulation and Supervision

The four primary reasons for microfinance regulation in Viet Nam are (1) to pursue social objectives, (2) to protect depositors, (3) to control illegal financial activity, and (4) to prevent fraud on the public in the name of social goals.

To ensure that microfinance is focused on poverty reduction and social purposes and to prevent subversion, the government controls the activity of both private, for-profit investors and NGOs. Investors can invest in financial institutions (up to 50 percent), which can then engage in microfinance, but few for-profit investors in financial enterprises have done so.

Vietnamese official regulation and supervision of microfinance is undergoing reform to operate on more market-based principles with a more diverse and private mix of microfinance institutions. New legislation—the Credit Institutions Law and amendments to legislation for rural credit, bank supervision, and the central bank—has been enacted, and a national microfinance policy is being elaborated and implemented (with technical assistance from the ADB). (Microfinance-related decrees 28 and 165 have come into effect after some delay.)

The State Bank of Viet Nam (SBV), the central bank and financial sector supervisor, has created a new category of licensed microfinance institutions, which covers commercial banks, insurance companies, financial institutions, and development banks, among others. As of December 2010, three applications for licenses had been filed in this category. One has been granted, to the TYM Fund, a company owned 100 percent by VWU that follows group lending principles. This license will make it easier for VWU to take deposits and make loans. The TYM Fund was the first officially licensed microfinance institution in Vietnam. The government is now considering issuing more licenses as it aims to meet its commitment to formalizing NGOs as microfinance institutions.

Some microcredit programs run by NGOs charge higher rates than formally permitted, often in the form of fees instead of a percentage of the amount loaned. The government has largely ignored the practice because the scope of such programs is small, and in fact, the government treats these practices as pilot cases for alternative revenue-raising means. This does not mean, however, that the government will tolerate the high level of interest applied in some economies, and newly established formal microfinance institutions still need to observe the interest rate level permitted by the government.

These new microfinance institutions require an enabling regulatory and institutional environment, which the Vietnamese government is attempting to create.

Formal or Informal Microcredit

Official statistics (2008) show that more than 6 percent of the poor borrow from moneylenders, and about a quarter borrow from friends and relatives; even these significant figures may understate the real situation. The government has developed the People's Credit Fund (PCF) system and expanded the operations of VBSP to offer alternatives to moneylenders in rural areas. Meanwhile, commercial banks that were supposed to target rural areas are converting themselves into urban banks to target the more lucrative urban markets while ignoring rural farmers. This development contrasts with the situation in Indonesia and the Philippines, where privately owned banks are important sources of microfinance for the rural population.

Transparency and Accountability

Though the general picture of extensive state-subsidized microfinance is generally considered accurate, data are lacking. Few impact studies have been carried out, especially those tracking how microfinance actually works at the household level (households, not individuals, receive loans) and within society as a whole. Figures are often reported late, have little detail, and are subject to limited internal or external audit. These shortcomings occur even while cross-checks by the mass organizations, parastatal financial institutions, and organs for review of public activities were believed to exist. With microfinance opening up to market forces, however, public, transparent data are needed to enable enforcement of accountability of economic agents—investors, clients, and partners—so that society can judge what policy reforms are required.

Range of Microfinance Products

Viet Nam's microfinance sector provides mostly credit services. VWU has developed an extensive network of savings and credit groups, as have other microfinance institutions, including NGOs and cooperatives, but savings and remittance services—the—are not as well developed as credit services. A greater variety of microfinance instruments is needed.

Other economies have recognized the need for all kinds of microfinance instruments. Grameen Bank underwent the shift from offering microcredit only to offering all kinds of microfinance, and in Indonesia, where rigid limitations have never been applied, microcredit institutions offer a variety of instruments and services, with savings facilities considered more important than credit.

Microsavings

There is an extensive program for microsavings, but it is not closely related to the microcredit system. Why they have not been linked is not clear, because deposits could be a cheap, unsubsidized source for microlending, and the poor could benefit from having a one-stop shop for all their microfinance needs.

The emerging microfinance institutions, however, are characterized by a much closer link between savings and credit. Many of the new NGO programs provide connected savings, credit, and remittance services.

Table 1

Estimated Microsavings in Viet Nam in Poor, Rural Households

Financial Institution	No. of Depositors
VBARD	5,267,000
PCFs	1,500,000
NGO microfinance institutions	430,000
VPSC	411,830
VBSP	43,000

Note: Data for VPSC is 2009, all others 2008.

Source: Viet Nam Microfinance Sector Assessment and Key Elements to a Microfinance Strategy: Preparing Microfinance Sector Development Program, ADB, 2010

Microremittance

Microremittance service is desirable both for meeting the needs of small clients and for formalizing economic activity. A number of pilot microremittance initiatives have been introduced, such as VBARD's and some commercial banks' system for migrant workers in the south to remit money to family members in the Red River delta.

Microinsurance

Microinsurance has considerable market potential. Pilot initiatives and regulatory changes are being undertaken.

Microleasing

Microleasing has received less attention, perhaps because nonrepayment of loans has not been a big problem in Viet Nam, but its expansion could be expected with the growing marketing of microfinance.

Reach of Credit—Microfinance for the Poor

Many microfinance initiatives focus on lending to the poor and supporting income-generating activities. But the extent to which targeting of the poor succeeds is an open question. In practice,

determining who the recipients of financial services are and what they use their money for is difficult. Statistics are only beginning to be collected on these matters; IMF and ADB note generally inadequate banking and microfinance sector statistics.

Although definitions of poverty vary widely—poverty is said to affect anywhere from 15 percent to 35 percent of households—and although the statistics themselves could be wrong, the reach of microcredit is impressive by any comparison. Biennial surveys conducted by Viet Nam's General Statistics Office show that 46 percent of poor households received social credit in 2008.

The VBSP reports reaching 23.4 percent of 24 million poor families, or about 5.6 million families; VBARD claims that of its 10 million clients, 4.7 million are poor. PCFs also serve the poor. And the emerging specialized microfinance institutions serve a growing number, but nothing comparable to the numbers served by the parastatal banks (see table 2).

In the absence of a sector survey, how well this corresponds to demand is unclear. The volume of penetration suggests that much of the demand is being met, but the alacrity with which the loans are taken, and the importance given to them in the general literature on the poor in Viet Nam suggest that there is still unmet demand (Le Thi 2008).

Table 2

Microcredit in Viet Nam

Financial Institution	Clients (million)	Percent of Total Clients	Loans Outstanding (\$ million)	Percent of Total Loans
VBSP	7.0	57	3,000	40
VBARD	3.2	27	3,500	46
PCF	1.3	11	1,000	13
NGO/MFI	0.6	5	0.75	1

Note: Data for VBARD and PCF are only for their poor clients. Data for VBSP include all loans, including student loans. Source: Viet Nam Microfinance Sector Assessment and Key Elements to a Microfinance Strategy: Preparing Microfinance Sector Development Program, ADB, 2010

According to general reports, the VWU and others are targeting their lending to the poor less and less because subsidized lending practices are putting them under financial pressure.

Thirty-nine percent of the poor are ethnic minorities, although they make up only 14 percent of the population. Ninety-four percent of the absolute poor live in rural areas. Both ethnic minorities and rural areas are underserved by formal sector microfinance.

Provision of financial services to poor populations that are nevertheless not in absolute poverty is also extensive. Even successful microcredit organizations with a social orientation—for example those in Bangladesh (which have a significant element of subsidy through their access to donor funds)—do not yet serve the absolute poor extensively, though promising attempts are being made to do so.

To the extent that microfinance is intended to address the problems of poverty, Viet Nam has made remarkable progress, though it is uncertain how much subsidized microfinance has attributed to this. According to official figures, poverty has been reduced from 58 percent in 1993 to

14.5 percent in 2008 and Viet Nam is poised to achieve its Millennium Development Goals by 2015. Assessments are needed to determine the impact on poverty of microfinance schemes.

Supplementary support services provided by the organizations administering loans also contribute to poverty alleviation efforts. A wide range of support services are integrated into microfinance schemes, including business development support, agricultural practices training, and education on reproductive health. VWU and the VFU play an important role in implementing these programs.

Gender

Among the groups that microfinance is especially concerned with empowering are women. This is the case internationally and in Viet Nam, but a lack of statistics in Viet Nam limits an understanding of the situation.

Viet Nam is advanced in terms of women's participation in economic activities and gender equality. Life expectancy has increased for both men and women, to 69 and 73 years, respectively. Viet Nam has the highest percentage of women in the national legislature in the Asia-Pacific region and one of the highest economic participation rates in the world: 83 percent of women between the ages of 15 and 60 participated in the labor force in 2002 while 85 percent of men participated.

The government is committed to gender equality. The National Strategy for the Advancement of Women in Viet Nam until 2010 states this objective:

Improve the quality of women's material and spiritual life, as well as establishing the conditions necessary for women to experience their fundamental rights, and to fully and equally participate in and benefit from all aspects of political, economic, cultural and social life.

Despite the progress made, gender equity remains a challenge. Almost half of the targets in the Plan of Action for the Advancement of Women for the period 2001–2005 were not met, including female attendance in secondary school and access to health care services. Ethnic minority women and girls lag behind ethnic Kinh and ethnic Chinese women as well as ethnic minority men in accessing health and education services and economic opportunities. There is persistent gender stereotyping in textbooks, which perpetuates gender inequality. Residual social attitudes lean toward a preference for boys. Men benefit from more jobs with decision-making power and status. Women's ability to compete equally with men in the private sector is constrained by open discrimination practices. In recruitment, women's lower education and skills count against them. Their lesser ability to capitalize assets when their names are not on the land-use certificates is a handicap. In the public sector, which will continue to be a major employer for some time, the different retirement ages for men and women, while representing a transfer of public resources to women in the form of additional pensions, also works against them, reducing the career and promotion prospects for younger women.

The Law on Gender Equality, which took effect in July 2007, greatly improves the legal system in respect to gender equality. It also reflects the strong commitment of Viet Nam's leaders for gender equality.

Vietnam Women's Union

In the microfinance industry in Viet Nam, there is a strong commitment to gender equality. Leading the process of improving women's access to microfinance is the VWU, which worked with VBSP in giving its woman members access to microfinance credit. The VWU is a well-organized social organization with offices in almost every commune and district in Viet Nam's 63 provinces. At an administrative level, the VWU works in close cooperation with local governments.

Members of the VWU are organized into groups through which loans are disbursed by VBSP. VBSP estimates that in some provinces, 95 percent of its borrowers are women. The VWU also combines access to microcredit with other activities for women, such as HIV prevention, family planning, and economic empowerment.

The cooperation between the VWU and the microfinance institutions in reaching out to the poor has resulted in a high level of female microfinance borrowers in Viet Nam.

The VWU is implementing new programs for woman-headed households with funding from the government and donors. The program will include microfinance, but the main focus will be on women's empowerment through training on financial literacy, entrepreneurship development, business counseling, training, simple legal advice, and accessing business development services. According to the VWU, it is important to train women on how to use loans and to provide them with ongoing support services on using the loan effectively.

Ease of Access to Credit

A survey of borrowers by ILO and the Viet Nam Chamber of Commerce and Industry in 2007 reveals that most women (86 percent) and men (88 percent) do not consider it more difficult for women entrepreneurs to access credit than for men (ILO and Vietnam Women's Entrepreneurs Council 2007). Those who think it is more difficult mentioned women's lack of collateral as the main reason. Half of the interviewees thought that women are not taken seriously by banks and credit institutions.

The requirement that only households can apply for loans is disadvantageous for many women because traditionally, household registration documents and land titles are in the husband's or in-law's names. Recently, the government has stipulated that the wife's name should be included on land certificates, but this applies only to newly issued land certificates. The government has taken action to ensure that the wife's name is also on land titles, but the process has been very slow.

The survey also found that both men and women generally have good access to bank loans: 49 percent of women and 42 percent of men had received a business loan.

Because loans are made to households, not individuals, especially in rural Viet Nam, the VWU and microfinance institutions do not maintain disaggregated data on borrowers by gender. And according to microfinance institutions, they do not need disaggregated data because there is no discrimination against women borrowers—but neither are women targeted for lending.

2. Recommendations

Our recommendations are for decision makers in Viet Nam but may also be valid for other APEC economies considering how they can enhance their own microcredit regimes and promote market-based models to target the poor more effectively.

The transition to a market-based microfinance system in Viet Nam is underway, but details of that policy system are still being hashed out.

1. *The interest rate cap should be removed or significantly raised.* The NGO microfinance institutions that have been operating in a legal vacuum for several decades find they need to charge interest rates of 25–35 percent to survive. These are nonprofits, and the level is not high in international comparison, particularly given high inflation levels.

2. *Viet Nam should not regulate microfinance institutions that do not take deposits.* Most economies do not regulate microfinance institutions that do not take deposits. Furthermore, Viet Nam needs to encourage new lenders that will have to compete with established, subsidized institutions.

3. *A greater diversity of institutional forms for licensed microfinance institutions is required for the poor to continue to have access to microfinance.* The parastatal system has already reduced its lending at the bottom and is likely to continue to do so as it receives less subsidy. For-profit microfinance institutions, because they bring in funds, often foreign investment, are frequently efficient enough to provide better and cheaper service to poor clients than nonprofits.

4. *The government should give high priority to the VBSP's proposals for reducing the subsidy for major players and develop market-sustainable bases of operating,* even if the current lead institutions continue to be major players and even if they continue to enjoy some level of state subsidy. The budgetary burden caused by the current system of subsidies is unsustainable.

5. *The transition to lower subsidies and greater diversity of institutions and instruments requires significant institutional capacity building.* This can be provided by the government or donors but will be financed mostly by market entrants themselves and their private partners. The transition will require support from a variety of sources; the government cannot meet these needs on its own, even with support from market entrants and their private partners who have an interest in providing assistance.

6. *There is a critical need for manpower, appropriate management, and IT for the new organizations*—specifically monitoring and evaluation capacity, including statistical reporting and impact studies. This assistance can be provided through technical assistance and training. Weak capacity been a major obstacle to expanding microfinance in Viet Nam, in addition to the regulatory constraints mentioned above. Statistical and monitoring and evaluation training will give market participants, especially stakeholders in microfinance institutions, information about what is actually happening in terms of outreach and sustainability. Otherwise, unpleasant surprises may lead to institutional degeneration rather than institution building.

7. *Data must be collected on borrowers by gender and must be made available for analysis.* Because loans are made to households and disaggregated gender-specific data are lacking, microfinance institutions might underestimate or not understand accurately the problems faced by women as microfinance borrowers. As the sector grows on a market basis, it will undoubtedly

develop the diversity of instruments and information about its differential impact on women and the poor that will facilitate further growth.

8. Constraints specific to women borrowers should be identified, and on that basis, policies and regulations should be adjusted to make it easier for women to access microfinance services.

9. Stronger effort to include the wife's name on land use certificates should be made. Having their name on land-use certificates will make it easier for women to access small loans offered by formal financial institutions such as VBARD, State-Owned Commercial Bank (SOCB), and PCF and even other private commercial banks, which are increasingly branching out to rural areas.

10. Finally, the emerging approach of offering women's business development services in addition to microloans should continue. Business development services will strengthen the capacity of women to compete. VWU has proven the need to provide such an integrated and efficient service package in a demand-driven and decentralized manner to meet the entire spectrum of women's needs.

3. Lessons Learned

Viet Nam microfinance is in such a state of transition from a state-directed to a market-driven model that it will be several years before the new lessons are clear. Tentative lessons, however, can be drawn for the benefit of other APEC economies. Many of these are already incorporated in such consensus documents as the microfinance sector assessment sponsored by the ADB and the SBV and will likely be represented in the draft National Strategy.

1. As the CGAP phrases it: "Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people." APEC economies cannot afford the level of subsidized microcredit currently provided by Viet Nam, especially if the reach of microfinance reach is expanded—so microfinance will have to move to a more self-sustaining market-based model.
2. A self-sustaining, market-based model implies greater diversity of microfinance institutions and instruments, each of which will draw on some market for funds. The diversity may also help meet unmet microfinance needs and serve presently unserved regions. The exact extent of broadening instruments and institutions is still very much an issue.
3. To avoid fraud and antisocial activity, some level of regulation combined with promotion is needed—though the extent of this regulation is also a point at issue.
4. The penetration of microfinance varies and will continue to vary from area to area and from target group to target group—depending on local initiative and the availability of resources. This is one factor that makes greater diversity in instruments and institutions critical.
5. A state-run system directed from the top could perhaps do without formal monitoring and evaluation and the collection of disaggregated statistics, but a market-driven system, especially one that involves a mix of market and donor-provided resources, cannot. The actual mechanisms by which microfinance works in Viet Nam and other APEC economies must be charted; the degree of self-sufficiency, or its opposite, subsidy dependence, must be known.

6. This is particularly the case for gender equity—where Viet Nam’s already significant accomplishment might be improved on if more exact social impacts were analyzed.

7. When governments do pursue subsidized lending practices, separating those practices from parallel commercial lending practices is important. In Vietnam, commercial banks used to run government-subsidized lending programs, but control over these programs was transferred to VBSP and the VDB when these institutions were established. This separation encourages the growth and coverage of commercial microfinance and makes the subsidy more transparent.

8. Mass organizations such as VWU and VFU, which play an exemplary role in maximizing microfinance outreach to the poor, are unique to the Vietnamese context. Microfinance institutions in other APEC economies can work with mass organizations, or their equivalent, to improve outreach and efficiency for the benefit of the poor, particularly those living in rural and historically underserved areas. VBSP could not have relied on its 9,000 employees to reach the estimated 7 million households that have microloans. VBSP enhanced its capabilities by leveraging the resources of the approximately 200,000 heads of credit and savings groups across the country, 100,000 officers of VWU, VFU, local people’s committees, and other local authorities.

9. In any rapidly expanding industry such as microfinance, rogue actors will emerge whose actions turn public support against the industry. In India, microfinance is currently facing a crisis of confidence. Borrowers in the Indian state of Andhra Pradesh have been encouraged to default on their loans after unscrupulous lenders, in some highly publicized and politicized cases, have been accused of aggressive lending and recovery practices. To counteract these developments, microfinance institutions must demonstrate the greatest transparency: they must provide accurate accounts, facilitate thorough audits, and provide transparent financial reporting. To enable such transparency, private investors, donors, and governments must enable improvements in financial information systems and maintenance of accounts standards by internal and external auditors, transparency in banking supervision, and publication of accounting information. The Microfinance Information Exchange, CGAP, and the Small Enterprise Education and Promotion Network have worked on accounting and reporting standards. Also, like other businesses, microfinance institutions require a supportive political environment. This has been underscored by recent backlash against microcredit lenders in Bolivia, Bangladesh, India and Nicaragua.

4. Discussion Questions

What Is Microfinance For?

What is the purpose of promoting microfinance? Is it primarily to support poverty alleviation? Are there other purposes such as promoting economic growth through supporting enterprise and ensuring broad access to financial services—not limited to the poor?

On what terms and conditions should microfinance be linked to the rest of the financial sector? Because of arbitrage (the process by which operators can make profits by buying in one market and selling at a higher price in another), can it be avoided?

Because of fungibility (the liquidity of money), can the precise relation of an incremental income with incremental expenditure be determined? Is it possible to target credit to particular purposes or even particular people? This is a salient question for gender targeting.

Commercial or Social Microfinance?

What are the fundamental differences between commercial and social microfinance? What kinds of services does commercial microfinance provide compared to social microfinance? What are the different implications of both for coverage and cost? What are the different implications of both in terms of reaching the most poor?

Subsidy

Does microfinance justify subsidies? Are subsidies required for institutional sustainability? For poverty impact? If yes, in what cases? For what purposes? If targeted at the absolute poor? If targeted at excluded groups? In what forms—interest subsidies, operating subsidies, start-up subsidies, subsidized equity? Is the subsidy required for universal access to credit fiscally sustainable?

Is the concept of a double bottom line (social impact and financial sustainability) valid? Is it possible?

Is cross-subsidization in microfinance institutions possible or desirable? More generally, can nonspecialized institutions successfully engage in microfinance? What is the merit of downsizing financial institutions?

Governance

Who should own and control microfinance institutions? Are for-profit institutions likely to exploit their clients? Are foreign institutions likely to impinge on national sovereignty? In practice, what kinds of ownership and control structure works?

Regulation and Supervision

Do microfinance institutions have to be regulated and supervised? If so, why? And by whom (bank supervisor, government, police authorities, self regulatory organization)?

Is a national microfinance strategy needed? What kinds of studies or information are required to prepare a national strategy? Who should develop it? Who should enact it?

Transparency and Accountability

What information needs to be disseminated to which stakeholders for accountability? How do we make sure the information is accurate?

Though not obviously connected, what are the risks that information can address for microfinance institutions? What limitations on that information are desirable?

What privacy concerns does transparency pose?

Gender Equity

Does microfinance enhance women's status? Are the terms and conditions such that recipients' status is enhanced? (There are empirical studies that argue both for and against it.) Even if the status of borrowers is enhanced, do the interhousehold mechanics result in enhanced status and enhanced social impacts for women?

Is there a danger of ghettoization of women in microfinance and obstacles to their graduation to larger-scale enterprise?

Do the circumstances of microfinance organizations favor women's advancement in community power?

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Appendix A. Donor Support

Asian Development Bank

The Asian Development Bank is the most important donor for microfinance development in Viet Nam. The bank provided a US\$100 million loan to the Viet Nam government in 2000 to improve lending outreach to the rural poor. The credit was lent through VBARD and PCFs and aimed at strengthening the capacity of the two institutions in microfinance. ADB's more systematic involvement in the sector started with two technical assistance grants for microfinance.

In 2001, ADB provided TA in the formulation of the legal framework for microfinance. With this assistance, in March 2005, Decree 28/2005/CP-ND on the operation and management of microfinance institutions was issued. One of the main objectives of the decree was to transform semiformal microfinance programs into formal institutions. ADB also provided technical assistance in the implementation of the decree. But because the decree was too restrictive, none of the semiformal microfinance institutions was willing to be transformed. ADB then provided technical assistance in the revision of Decree 28. In November 2007, Decree No.165/2007/ND-CP was issued to supplement Decree 28.

In 2009, the Japan Fund for Poverty Reduction, financed by the Government of Japan and administered by ADB, extended a \$1.5 million grant to help the government of Viet Nam formalize the microfinance sector. In May 2008, the government of Viet Nam requested a loan of US\$40 million to support the microfinance sector. ADB is providing a Project Preparation Technical Assistance (PPTA) for the preparation of this loan.

World Bank

World Bank support to the microfinance sector in Viet Nam is mostly through a number of credit lines that aim at improving the rural poor's access to small credits. One of the most important projects financed by the bank in this regard is the Rural Microfinance Loan Fund. The World Bank has also supported a number of studies on microfinance in Viet Nam.

KfW

KfW is supporting the development of microfinance in Viet Nam through different programs, e.g. the Rural Credit and Saving Program (implemented with VBARD) and Revolving Credit Fund for Poverty Alleviation.

Développement International Desjardins and CIDA

DID continues its technical assistance to support the development of the People's Credit Fund (credit union) system according to the Desjardins model. The support has been particularly successful and widely acknowledged by many players in Viet Nam, including the State Bank of Viet Nam. CIDA provided additional funding to sustain the support by DID to the PCF system. The technical assistance is mostly on institutional structure, regulatory framework for PCF, staff training, organizational structure, product development, and information technology. The assistance has last for more than one decade and is still on-going.

GTZ

German technical assistance to microfinance is also through providing additional support to the development of the PCF system. Its technical support to the PCF is mostly in the areas of supervision, external audit, internal audit and operations of PCF system guarantee scheme.

Agence Française du Développement

AFD is particularly active in microfinance development in Viet Nam. It provided a loan for rural enterprise finance through VBARD. The agency also cooperates intensively with CGAP to carry out policy studies on microfinance in. Recent discussions between SBV, AFD, and CGAP indicating that plans may be underway to draft a national microfinance policy and strategy presents a prime opportunity for all stakeholders in microfinance in Viet Nam to shift the perspective from the politically ingrained divergence between charity-based poverty reduction and profit-orientation that has held back the industry, to a new consensus embracing the double bottom-line of inclusive access by all poor people to sustainable financial services in line with global best practice.

Embassy of Belgium

The Embassy of Belgium supports institutional strengthening for the VWU on providing microfinance and advice on the microfinance institutional legal framework. The assistance is nearing its end.

Ford Foundation

The Ford Foundation supports the establishment of the Microfinance Working Group (MFWG), among other things.

Australian Aid

AusAid has provided funds for the “Expansion of CEP’s Microfinance Services”. The agreement between AusAid and the Government of Vietnam underpinned the establishment of the 7-year, AUD 5.7 million CEP (Capital Aid Fund for Employment of the Poor) Microfinance Expansion Project. Of this, \$4 million is being used for on-lending to the poor. The remainder is being used for technical assistance, building capacity, and improving management systems.

ILO

ILO offers technical support both in microfinance and microinsurance. Its support is mostly in the form of training and capacity building for MF practitioners and MFIs: improving performance, making microinsurance work, new product development.

Other donors supporting the working group are Citi Foundation, Cordaid, SEEP, Save the Children, ADA. ILO and IFAD also actively supported the activities of the group. The Citi Foundation’s Micro-entrepreneurship Awards Program was introduced to Viet Nam in 2007 in collaboration with the MFWG and the Microfinance and Development Center.

Appendix B. CGAP Key Principles and WLN Workshop Recommendations

CGAP Key Principles

Table B-1 lists the key principles of microfinance endorsed by the CGAP and describes how they are applied in Viet Nam.

Table B-1

Application of CGAP Key Principles on Microfinance in Viet Nam

Principle	Application In Viet Nam
Poor people need a variety of financial services, not just loans.	Mostly short-term credit is available, but some savings as well. Consensus that range needs to be broadened but initiatives are still pilots.
Microfinance is a powerful tool to fight poverty.	There is some indication that this has been the case, but the data are insufficient to be sure.
Microfinance means building financial systems that serve the poor.	Microfinance has been a dependent function of mass organizations and parastatal banks but a movement toward independence and sustainability is underway.
Microfinance can pay for itself and must do so if it is to reach very large numbers of poor people.	Microfinance in Viet Nam is highly subsidized and puts a heavy burden on the budget. This is scheduled to change, but will microfinance survive without heavy subsidies?
Microfinance is about building permanent local financial institutions.	Same as above.
Microcredit is not always the answer.	See principle 1.
Interest rate ceilings hurt poor people by making it harder for them to get credit.	Low interest rate ceilings are in place, though they are ignored by some parties. A process is ostensibly underway that may lead to modification of interest ceilings.
The job of government is to enable financial services, not to provide them directly.	Presently microfinance is overwhelmingly provided by the government but a process is underway to change this.
Donor funds should complement private capital, not compete with it.	External, private, for-profit capital is banned—and no change is planned but there is greater openness to the entry of voluntary donations and cooperative credit institutions.
The key bottleneck: shortage of strong institutions and managers.	Everyone agrees.
Microfinance works best when it measures and discloses its performance.	At present few data are collected and available but there are proposals to remedy this.

WLN Workshop Recommendations

Table B-2 lists the recommendations endorsed by the GFPN Microcredit Workshop and Women Entrepreneurs August 6, 2009, and describes their application to microfinance in Viet Nam. The recommendations cover the entire range of support interventions—enabling policy, business development services, access to markets, and microfinance. Among the 23 recommendations, five focus on access to finance, and several others are relevant to microfinance in an indirect way.

Although all the recommendations are listed, those with lesser applicability in the Vietnamese context are labeled “NA.” These recommendations may be relevant to successful microfinance but are not the focus of this study on access to finance.

Table B-2

Application of Good Practices on Promoting Woman-Owned Microenterprises in Viet Nam

Practice	Application in Viet Nam
IMPROVED ACCESS TO FINANCE	
1. Expand access by women’s microenterprises to appropriate financial services	Women are already estimated to receive 95 percent of loans, but statistics are difficult to interpret. Many women want and need loans but are not able to get them.
2. Consider affirmative action for women’s microenterprises	Formal affirmative action is not in place, but the prime microfinance actor is the VWU, and many of the new microfinance organizations are focused on women and state that they especially encourage women.
3. Require gender-mainstreaming strategies	Most programs are gender mainstreamed but many stakeholders want a greater focus.
4. Engender microfinance	Precisely because of the mainstreaming the level of gender awareness may not be as high as desired, despite management commitment. Monitoring and evaluation does not yet permit the application of gender analysis tools.
5. Level the playing field for access	Not clear that there is an accepted gender baseline or that one could be developed given the present statistical base. Even though the substantive level of gender service may be high, gender is not a separate category, and data and analysis are consequently limited.
BETTER ACCESS TO PRODUCT MARKETS—EMPOWERING WOMEN TO COMPETE	
6. Ensure availability of business support services	NA
7. Support Integrated and efficient service delivery points.	NA—but VWU and new microfinance organizations do provide integrated service.
8. Engender value chain	This is done by some microfinance organizations but much less by the VWU.
9. Help bring women entrepreneurs together	The poor, and even single-headed households, are organized, but the organization of small business is still nascent.
10. Improve quality control	NA
11. Harnessing technology	NA
12. Help protect property rights	This is an issue pursued by the VWU, particularly getting women’s name on real property records and ensuring that their consent is secured for household borrowing—No discussion of reverse problem of getting men’s consent for standard household based loans.

Practice	Application in Viet Nam
13. Promote sound environmental practices	NA
14. Foster better media exposure	NA
ENABLING ENVIRONMENT: MAKE MARKETS WORK FOR WOMEN	
15. Overcome the informality hurdle	NA. Dealing with informality is still problematic.
16. Support gender mainstreaming in sector policies	This is the role of VWU. NGOs are also active.
17. Level the legislative playing field	NA
18. Consolidate a national strategy for women' s enterprises	NA
19. Provide a home for dialogue	NA
20. Reduce red tape	NA
21. Facilitate access to existing or new business support programs	NA
22. Avoid gender-stereotyped business promotion	NA.
23. Engender surveys, project design, monitoring, and impact evaluations.	The lack of these studies and appropriate evaluations and design mean that the consciousness and gender-specific focus is lacking.

Source: MLN Microsoft Workshop Recommendations

Appendix C. People Interviewed

Name	Position	Institutions
Mr. Dao Van Ha	Director in charge	International Banking Project Management Unit, State Bank of Viet Nam
Ms. Nguyen Thi Nam	Expert	International Banking Project Management Unit, State Bank of Viet Nam
Ms Dao Mai Hoa	Dept. of Economic	Viet Nam Women's Union
Mr. Nguyen Ngoc Anh	Deputy Director General	Banking and Financial Department, Ministry of Finance
Hoang Thi Hanh	Household Credit Department	Viet Nam Bank for Agriculture and Rural Development
Mr. Nguyen Kim Chung	Director	International Department, Viet Nam Bank for Social Policy
Mr. Tran Quang Khanh	Director	PCF Association
Mr. Bui Chinh Hung	Vice Secretary General	PCF Association
Ms. Hoang Quoc Manh	Director	Department of Financial Institution Licensing and Banking Operations, Bank Supervision and Inspection Authority, State Bank of Viet Nam
Ms. Nguyen Hong Hanh	Programme Manager-Livelihoods	Save the Children
Ms. Nguyen Bich Vuong	Managing Director	Micro Finance Working Group
Ms. Duong Thi Ngoc Linh	Vice Director	TYM Fund
Mr Eiichi Sasaki	Senior Rural Financial Specialist	ADB
Mr. Reno P. Velasco Dr. Mariano Cordero	Financial Institutions Strengthening Specialist	ADB
Mr. Cedric Javary	Adviser	Women's Union
Jay Kryk	Economic Team Leader	USAID
Bud Samarasinghe	Advisor	Making Markets Work for the Poor (DFID/ADB)