

Innovation in Save the Children/US Microfinance Program in Vietnam

Microfinance Regional Workshop

Sharing microfinance resources and knowledge in the Mekong region

Phnom Penh, Cambodia, Dec 2004

Overview

- Background
- History of Save/US microfinance in Vietnam
- Strengths & weaknesses of partner organization
- New partnership modality pilot in peri-urban area

Background

- Since 1986, Vietnamese Gov't has pursued a national strategy to fight hunger and poverty;
- Since 1989, a series of reforms has been carried out in agriculture & finance, resulting in rapid development of rural financial sector;
- Poverty rate was 29% in 2002, compared with 37% in 1998 & 57% in 1993;
- Rural financial sector has 3 sub-sectors: Formal sector, semi-formal sector, and informal sector

History of Save/US microfinance program

- ❑ Launched a rural program in 1998 in a poor district in Thanh Hoa province & had 550 active clients;
- ❑ Expanded to additional 3 districts in the same province as of 2004;
- ❑ Rural program has 9,500 active clients as of Nov. 2004;
- ❑ Launched an urban program in late 2003 in outskirts of Hanoi;
- ❑ Urban program has 1,300 active clients as of Nov 2004

Save/US goal in microfinance

- Save/US' goal in micro-finance is to build **sustainable institutions** that provide on-going access to financial services for poor women micro-entrepreneurs.
- Where credible local partners exist, Save/US works with them to **build their capacity** both **technically** and **institutionally**.

Partner Organization – Women's Union (WU)

Advantages

- Extensive network;
- No need to recruit new staff;
- Existing organizational structure is used to deliver program;
- WU cadres are familiar with locality & economic situation of members;
- Program can be implemented & outreach achieved fairly quickly;

Disadvantages

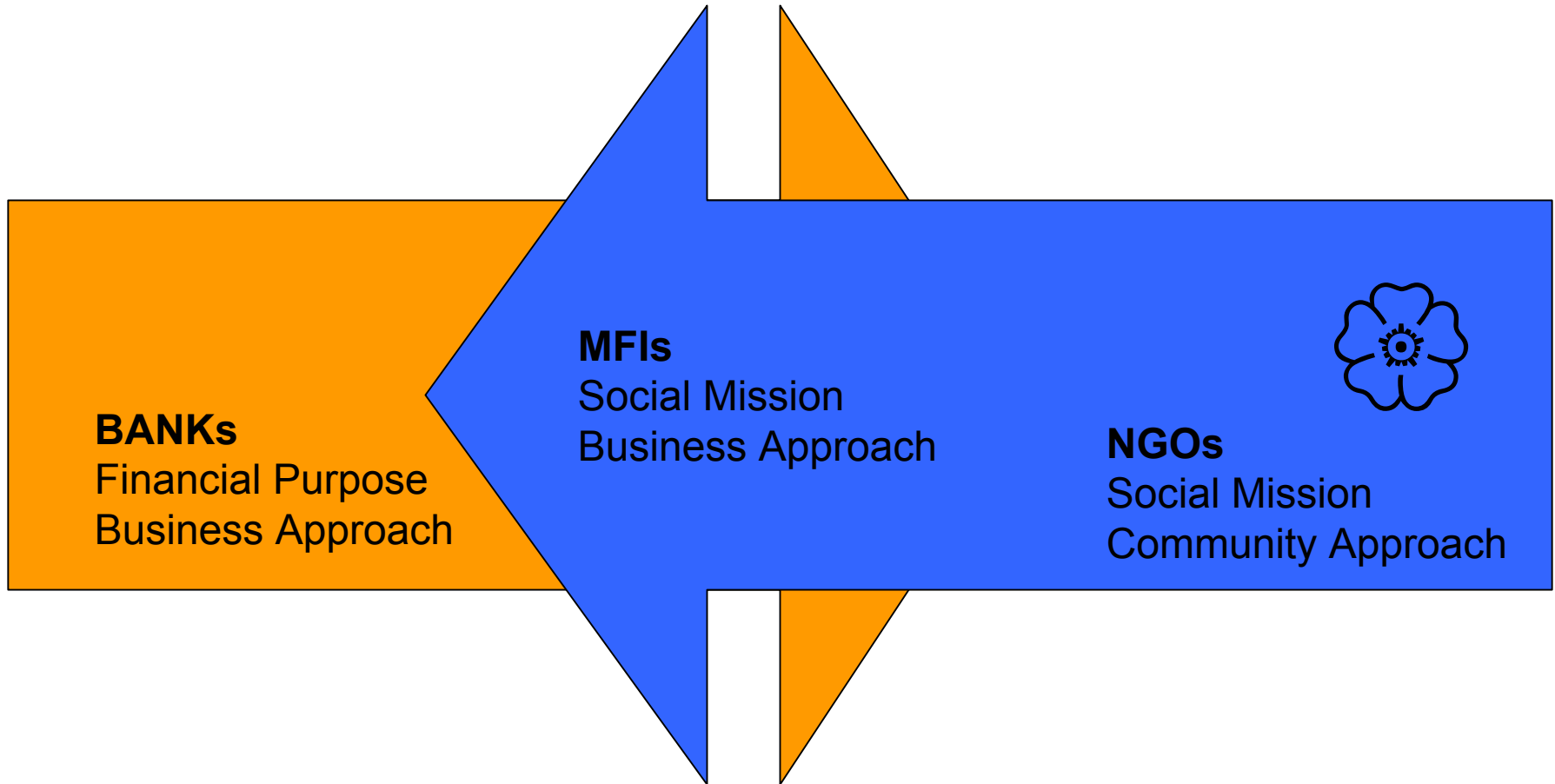
- WU lacks the business management skills to run a sustainable program;
- WU's social and political orientation may not be compatible with objective of financial sustainability;
- Priority may be placed more on # of clients rather than on quality of loan;
- Existing structure may not be appropriate and can hinder the productivity of the program

Considerations for Urban Program

- ❑ In the region, more commercial banks are entering the market to increase market coverage and profits;
- ❑ MF's becoming more business-like and cost-efficient due to higher competition and fewer donor resources;
- ❑ MF needs commercial funds to achieve scale and financial sustainability;
- ❑ Save/US needs an program arrangement that will facilitate its transformation into an MFI once the legal framework is in place

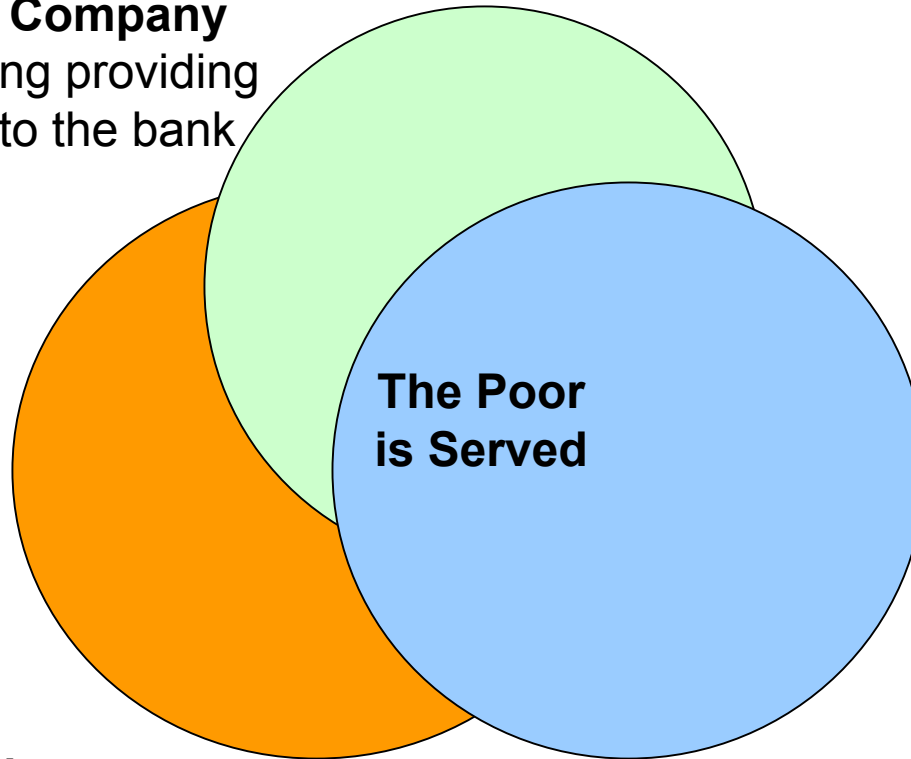
Choose a new partner: COMMERCIAL BANK

Banks and MFI's meet



Service Delivery Partnership

Service Company
Consulting providing
support to the bank



**Local Private
Commercial Bank**
Performing lending entrustment

Save the Children/US-NGO
Technical Assistance &
Institutional Support

Save/US roles

- ❑ Introduce international best practices in microfinance;
- ❑ Provide institutional capacity building for the Company
- ❑ Provide loan funds through the Bank;
- ❑ Compensate the Bank for its services
- ❑ Pay consulting fee & infrastructure setup for the Company;
- ❑ Subsidize the Company before break-even;
- ❑ Explore with the Bank & the Company the possibility to obtain soft loans from big donors;
- ❑ Build State Bank's support over microfinance sector

Commercial Bank roles

- Provide a legal lending license;
- Provide loan funds needed for the service company operation;
- Review activity & financial reports of the Company

Maintain least involvement !!!

Service Company roles

- Launch promotion of loan products;
- Coordinate with relevant local authorities & mass organizations;
- Conduct borrower assessment & training;
- Arrange loan contracts;
- Facilitate disbursement and collection of loans;
- Perform book keeping; and
- Prepare activity & financial reports

Analysis: Pros

- No need for a banking license;
- The company holds the technology and therefore can spin off when possible;
- The company is not a financial entity and does not require a large equity base;
- The company has its own structure, governance, staffing, that can be similar to an MFI;
- The company can develop more appropriate corporate culture for the poor;
- Potential access to plentiful and low-cost funds

Analysis: Cons

- ❑ Microfinance is new to a majority of commercial banks;
- ❑ It can be difficult to find a commercial bank that is willing to get involved in micro-finance in the way we want;
- ❑ The entrustment and consulting fees may be high and difficult to calculate;
- ❑ Products are limited to loans only;
- ❑ Bank might be reluctant to record high volume of transactions;
- ❑ Save/US might not familiar with building support for a company and partnering with a commercial bank

Institutional arrangement so far...

- ❑ Service Company was registered as a LLC and functions as an independent entity;
- ❑ Company charter was developed with a social mission and a commitment to operate to international standards;
- ❑ Company Board represents a combination of people with complementary strengths;
- ❑ Save US seconded an employee to act as Managing Director;
- ❑ Negotiation with a commercial bank is in final stage;
- ❑ Program operations are still underway under a temporary memorandum of understanding with the local WU;

Program operations so far...

- Service Company has 2 branches and 1 regional office;
- 1,300 active clients after one year of operation;
- Repayment rate 100%;
- 35% of operating costs is covered with interest income;
- 123 active clients/loan officer – 40% of target
- Trainings in lending methodology, book-keeping, product development, market surveys, & financial ratios were offered to Company staff

Future development

- Transform the Company into an MFI when the Microfinance Decree is passed;
- Save/US will become an investor in the MFI;
- Invite the Commercial Bank to be an investor or a wholesale-loan provider for the MFI;

Lessons Learned

- ❑ Service company model can be an excellent approach in countries where there is no legal framework;
- ❑ Careful selection of traditional commercial bank;
- ❑ Careful selection of the board/leadership for the company;
- ❑ Roles and responsibilities of parties need to be clearly defined;
- ❑ Partnership can be significantly modified to meet program objectives as well as overcome context constraints;

Lessons Learned (continued)

- Agreement issues may be complicated and negotiation is time-consuming;
- HO and local lawyers should communicate directly;
- There is no perfect option and be ready to accept some risks;
- It may take much more time than planned so please be realistic in your planning