

Best Practices and Standards

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Best Practices in Microfinance

A preliminary review undertaken by the Ford foundation in Vietnam included a list of good practices mentioned by microfinance practitioners:

- Strong organization with clear organizational structure and policies.
- Transparent management information and accounting systems, which easily show the current financial health of the program.
- Start to establish solidarity groups and credit discipline training right from the beginning.
- High repayment rates and compliance with discipline.
- Poverty targeting- choosing the right people, who are the poor and the poorest.
- Aim for sustainability right from the beginning. A good MFI must be able to calculate when its program will break even.
- Continuous internal control.
- Strong management team with adequately paid, full time staff.
- Policies and operational mechanisms must be clear at the beginning of program implementation.

Lessons learned

From CARE International, lessons learned in implementing microfinance in Vietnam are as follow:

1. Credit and savings services must be demand-based.

- Misuses of loans are seen as a consequence of un-match between supply and demand for financial services
- It is critical to well understand the needs and demands of the poor in different geographic localities.

2. Credit and savings services must be accompanied by technical assistance and capacity building.

- Information sharing and dissemination is key for success.
- Non-farming activities should also be promoted.
- Microfinance providers should follow a participatory process in designing and implementing credit and savings program, resulting in demand-driven products and involvement of the target population.

3. C&S programs must be accessible to & manageable by the most vulnerable:

- Small sizes of saving/credit enable poor households to be involved
- Collateral or guarantor requirement lead to discrimination
- Service availability in remote communities makes financial services more accessible to the poor.
- Application and appraisal procedures should be simplified to be suitable for the poor
- Loan disbursement must be quick, appropriate and simple.

- Selection criteria must be established in cooperation with target community
4. Joint liability groups make microfinance programs perform better:
- Members of joint groups can offer mutual help and create group pressure resulting in high repayment rates.
 - Cohesion of community (among members of a group and between local implementation partners, e.g. VWU and groups) is seen as a success factor

CEP

CEP, the Capital Aid Fund for Employment of the Poor, aims to establish itself as a demonstration model of a successful and sustainable Vietnamese microfinance institution, and to encourage replication of this model. It is recognised as the leading organisation in Vietnam in terms of use of best practices.

Sources

- Notes from preliminary Review on Micro-finance for Poverty Reduction in Vietnam. *Nguyen Thanh An, Ford Foundation. September 2004.*
- CARE International in Vietnam's Experience in Microfinance - A focus on the Mekong delta region. *Presentation made by Nguyen Ngoc Thuy, Senior Design Officer, CARE international in Vietnam, during the BWTP regional microfinance workshop, Phnom Penh, December 2004.*
- CEP website www.cep.org.vn