

## **Innovations**

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### **Mobile Banking at VBARD**

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VBARD is innovative in reaching people at communes or grassroots level, where it has minimal representation. Lack of access roads and high transaction costs prevented it from serving the poorest, often the most isolated. In 1998, mobile banking units have been introduced to increase the outreach of its credit and deposit services, through the use of 159 vehicles equipped to travel on dirt road and hilly pathways. The World Bank's Rural Finance project has supported the acquisition of another 172 vehicles by VBARD, used to carry loan officers to process loan applications, disburse money, collect repayments and mobilise savings. The visits to remote areas followed a fixed calendar and were announced in advance, to coincide with weekly market days. The World Bank's program support was also the opportunity to integrate some microfinance methods into VBARD banking approach, using the mobile banking program as 'vehicle' for change:

- Offering appropriate loan products (wider range of products, some loans collateral-free)
- Linking lending and saving (disburse loans and collect savings during visits)
- Combining credit and training (to enhance borrowers capacity to identify and pursue economic activities)
- Group-based lending (peer pressure, incentives, empowerment)
- Reasonable interest rates (using cost-recovery rates, and keeping costs down)

At the end of 2003, the mobile banking program has provided financial services to 315,000 poor households, about 6% of VBARD clients. On average each mobile bank has disbursed 1,921 loans and mobilised 1,983 savings accounts every month. Each vehicle recorded a profit of US\$1,000 per month.

The major constraints and weaknesses of the model for replication are related to:

- Security concerns, despite that no robberies have happened so far, it could be an issue in other contexts
- Accessibility of funds, as clients need to wait for the next visit of the mobile bank to access funds
- Monitoring, should be reinforced in places where audit and accounting are not commonly practiced
- Group formation and training, are costly and time-consuming.

### **Microinsurance: TYM Mutual Assistance Fund**

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In 1996, TYM launched the Mutual Assistance Fund, where each member contributed a fixed amount every week in return for a specified benefit in case of death or illness. The primary objective for the MAF was to help TYM members with a small level of protection in the case of premature death or sickness. With a weekly contribution of VND 200 (\$1 cent), upon the client's death, her outstanding loan balance would be written off and her family would receive a small sum to cover funeral expenses. Likewise, a member would receive a payout upon the death of her spouse or child less than 18 years of age.

The MAF was introduced to TYM members as an additional benefit or service provided by the institution at a minimal cost. Premiums are collected at weekly meetings along with loan repayments and savings collection so there was no additional work involved either on the part of the members or the technical officers. The target market for the MAF is the same as that for TYM's loan products, but the potential impact on the household is far greater since the MAF enables the client's family to better cope with additional expenses incurred from the member's death and also relieves the family from the burden of repaying her outstanding debt. At the institutional level, the MAF enables TYM to have an additional level of reserve for its loan portfolio without having to increase its provision expenses and reduce its net profit.

#### *Customer satisfaction and impact on community.*

TYM members consider the MAF as good value for money. The MAF also helps to support group and community solidarity since members can rely on the Fund to help defray costs related to death and illness rather than use their loan capital. Participation in the MAF seems to have sensitised members as to the importance of "saving for a rainy day." This is evidenced by the fact that several TYM members expressed their willingness to continue to save and contribute to the MAF even when they have stopped taking out loans.

#### *Customer service.*

The MAF is highly appreciated by TYM members primarily because of the personalised service by TYM staff. Members do not have to travel far to make their contribution, the technical officers come to them. Likewise, the delivery of claims by the branch head and technical officer adds a personal touch and generates good word-of-mouth publicity and awareness. The staff also make frequent house visits to members, which strengthen client relations and help to prevent fraudulent claims.

### **Partnership: Save the Children US, urban project in Hanoi**

SC/US decided to explore potential partnership with a commercial bank in the implementation of a urban microfinance project for the following reasons:

- In Asia, commercial banks are entering the microfinance market to increase market coverage and profits;
- The microfinance sector is becoming more business-like and cost-efficient due to higher competition and fewer donor resources;
- Microfinance needs commercial funds to achieve scale and financial sustainability;
- SC/US needed a program arrangement that will facilitate its transformation into an MFI once the legal framework was in place

SC/US decided to use a service delivery partnership model, where roles are shared between a commercial bank, a service company, and an NGO (SC/US):

- SC/US, provides technical assistance and institutional development support, in setting up and subsidizing the first phase of development of a service company, negotiating with a commercial bank, and advocating for a supporting environment
- The commercial bank, performing the lending function on a legal basis, has available lending funds, and an entrustment role
- The service company, provides consulting services to the bank in implementing a microfinance model (promotion of loan products, clients assessment and training, facilitation of loan processing, financial reporting)

#### *Advantages of the model*

- 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

#### *Weaknesses of the model:*

- Microfinance is new to a majority of commercial banks;
- Difficulty in identifying a commercial bank as partner
- Entrustment and consulting fees may be high and difficult to calculate;
- Products are limited to loans only;
- The commercial bank might be reluctant to record high volume of transactions;
- No previous experience of such multi-stakeholder partnership in Vietnam, involving a bank, an NGO and a service company, to provide microfinance services.

#### *Recent developments*

- Service Company was registered as a LLC and functions as an independent entity, with a social mission, an independent board and a managing director seconded by SC/US
- Service Company operates through 2 branches and 1 regional office, reaching 1,300 active clients after one year of operation;
- Repayment rate 100%; 35% of operating costs covered by interest income;
- Trainings in lending methodology, book-keeping, product development, market surveys, & financial ratios were offered to Company staff
- The negotiation with a commercial bank is in final stage;
- Program operations are still underway under a temporary memorandum of understanding with the local Women's Union;

#### *Future development*

- Transform the Company into an MFI when the Microfinance Decree is passed;
- SC/US will become an investor in the MFI
- The Commercial Bank would be offered to become 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;
- Roles and responsibilities of parties need to be clearly defined;
- Agreement issues may be complicated and negotiation is time-consuming;

#### **Sources**

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