

People's Credit Funds (PCFs)

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Brief History

Vietnam's rural credit cooperatives collapsed in the late 1980s, with a loss of an estimated VND 100 billion in the form of deposits of small savers. Under the supervision of SBV a new system of rural savings and credit co-operatives, now called People's Credit Funds, was established by the government as part of a stated policy to reform and strengthen the country's banking system. One of the most important objectives was to restore public confidence in the formal rural finance system. PCFs are commune-based entities, jointly owned, operated and managed by their members to provide savings and credit services. PCFs are modeled on the *Caisses Populaires* credit union system, established a century ago in Quebec, Canada. At the end of November 2004, 900 individual PCFs were operating, reaching almost one million clients.

Methodology

People's Credit Funds are managed on a model of self-help, self-organization, and managerial autonomy. 15 potential founding members are required to set up a PCF. These founding members, generally better off, provide a capital base of VND 50 million (US\$3,000). Each founding member is expected to buy a minimum amount of shares amounting to VND 3.3 million (US\$220).

Once the PCF is registered, it will recruit more members, with a minimum share cost of VND50,000 VND (US\$4), which is usually a barrier to entry to the poorest.

PCFs collect deposits from both members and non-members. However, loans are only provided to members. The average loan size is usually less than VND1 million. No collateral is required for small loans. However, borrowers of large loans need to provide collateral that can consist of land use right licenses or other assets. The maturity period for loans is less than 12 months. PCFs charge interest rates of around 1.5% per month, while the monthly savings rate is 0.9%. These rates are determined by the SBV, and are generally higher than those provided by Vietnam Bank for Agricultural and Rural development (VBARD) and Vietnam Bank for the Poor (VBP). Excess liquidity are channeled to a 'Central Credit Fund' (CCF) for lending within and outside the system.

Area of Operations

As of November 2004, they were 901 PCFs operating in 53 provinces, mostly implemented in areas economically well-developed and that benefit from better infrastructure. In result, PCFs have limited coverage in Vietnam's poor regions, such as the northern mountainous areas.

Clients

PCF currently assist 955,657 households (November 2004 data). PCF's main clients are farmers and small entrepreneurial households.

Active clients	Active savers	Active borrowers	Gender
955,657	955,657	560,000	N/a

As of November 2004

Poverty Focus

PCFs are shareholding banks and do not target directly the poor. Providing a viable rural finance system to farmers and small entrepreneurial households stimulate economic development, which indirectly contributes to poverty eradication.

Average Loan Outstanding	Average outstanding loan size / GNP per capita	Average deposit size
n/a	n/a	n/a

Distinctive Features

Deposit mobilization methods vary and are adjusted to each client's needs. A deposit insurance is also available for deposits with terms exceeding 3 months. PCFs are located close to their clients and have relatively fast loan-approval processes.

Innovations

n/a

Financial results

In 2001, PCFs benefited from a credit line from ABD loan under the "Rural Enterprise Finance Project" to finance micro and small rural enterprises, and income generating activities of low-income households. The ADB assistance was also used to strengthen PCFs' capacity to serve these clients.

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits (US\$)	OSS / FSS	RoE / RoA
n/a	n/a	n/a	n/a	n/a

Challenges and development plans

SBV is expected to continue to provide strong guidance and control over the PCFs, including issue of new licenses. SBV is developing new guidelines on auditing, training and deposit insurance. DGRV from Germany provides advisory assistance and technical support to the development of an operational, decentralized network of PCFs.

Inclusion in financial Sector

The Central Credit Fund, and the network of PCFs, are cooperative credit institutions with legal status (under the Cooperative Law, 1997), regulated and supervised by the State Bank of Vietnam (SBV).

Sources

- People's Credit Funds (PCFs) in Vietnam, an alternative form of financial institutions. Presentation by Mr Vinh, DGRV, during the BWTP regional microfinance workshop in Phnom Penh, December 2004.
- Vietnam Country Profile from 'The Role of Central Banks in Microfinance in Asia and the Pacific' Asian Development Bank (ADB).