Vietnam rural financial market- Fact dianostics and the policy implications for rural development of Vietnam

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Abstract:

The development of Vietnam rural sector has been given attention by different orientations and policy frameworks, of which rural finance is the key tool, notably the Decree 41 on credit for rural sector.
The Vietnam rural financial sector has been growing and making significant contribution to its rural development by a rapid expansion of outreach and available fund sources. However, there have been remaining problems that are very likely to hinder the sector from its further development. Such problems are: (1) there is a lack of responsive and adequate financial services in rural areas; (2) a significant number of the poor households still do not have access to any microfinance services, to name a few. Thus, this paper is intented to focus on two main issues. The first is to analyze the causes of such problems, and the second is to provide recommendations that are strongly expected to overcome such problems to enhance Vietnam rural development in the new decade with the Development Millenium Goal.

Keywords: credit, microfinancial institutions (MFIs), poverty reduction, rural finance, savings.

1. Overview of Vietnam rural financial market

1.1. What are the problems of Vietnam rural sector?

Vietnam has approximately 72% of the population living in rural areas, where 94% of the nation's poor also lives. Agriculture accounts for 54% of the national workforce and is the economic mainstay. Therefore, the rural economy sector plays an important role in Viet Nam. However, some 80-90% of Viet Nam's poor live in rural areas. The continued growth is set to bring Vietnam out of the low income country status to the group of middle-income countries in 2010, when the GDP per capita has surpassed the threshold of 1000 USD. The poverty rate, measured by the international standard, has decreased from 58% in 1993 to 14% in 2008 (GSO, 2009). It is an exceptional achievement, more than two times better than what is aimed for in the first Millennium Development Goal (MDG). In the absolute term, Vietnam has lifted some 35 million people out of poverty from 1993 to 2008, nearly 6,400 people every day (The World Bank Website). There are, however, still 12.5 million people living below the poverty line. The achievement in poverty reduction is still precarious and not yet sustainable. As the United Nations Development Programme (UNDP) stated: "*With so many of Viet Nam's people on the precipice of the poverty line, any major economic or natural disaster will only set Viet Nam back*" (UNDP Vietnam). Poverty in Vietnam is mainly a rural phenomenon. The poverty rate in rural areas is more than 5 times higher than in urban areas in 2008, 18.7% versus 3.3% (see Table 1).

Given the fact that 72% of the population live in rural areas, the rural poor account for 94% of the total number of poor people. Poverty is also increasingly associated with ethnic minorities. Both the poverty headcount (percentage of the population living below the poverty line) and poverty gap, which measures the seriousness of poverty, are higher among ethnic minorities. For example, 13.5% of Kinh and Hoa people were poor in 2006, while this figure was 45.2% and 73.6% in Tay-Thai group in Northern Upland and ethnic minorities in the Central Highland, respectively (Baulch Bob, 2010).

Participatory analyses of poverty in Vietnam often pointed out the lack of capital and limited access to financial services as one of the major causes of poverty. The poor people usually reported that they either did not have collaterals to access credits from commercial banks or the level of credit from VBSP offered through mass organizations (WU, FU, etc.) was low, not enough for production and business development (Vietnam Academy of Social Sciences, 2008). With relatively young population and declining fertility rate, Vietnam is now entering "the golden period" of the labor force (VietnamNet Bridge). The dependency ratio is low with 66.2% of the population is at working age (15-59) in 2008 (GSO, 2010). Most of the labor force work for themselves/their households or employed in household businesses. More than 70% of labor growth occurs in rural areas. However, the number of jobs in the agriculture sector is stagnant or declined throughout the decade, from 24.8 million in 1999 to 23.6 million in 2008 (ADB, 2009). Therefore, the solutions for developing rural Vietnam are employment creation and poverty reduction in sustainable ways.

Table 1: General poverty rate calculated by expenditure by urban and rural regions

	2002	2004	2006	2008
WHOLE COUNTRY	28.9	19.5	16.0	14.5
Urban	6.6	3.6	3.9	3.3
Rural	35.6	25.0	20.4	18.7

Source: (GSO, 2010)

1.2. Rural finance - is it the answer for Vietnam rural development?

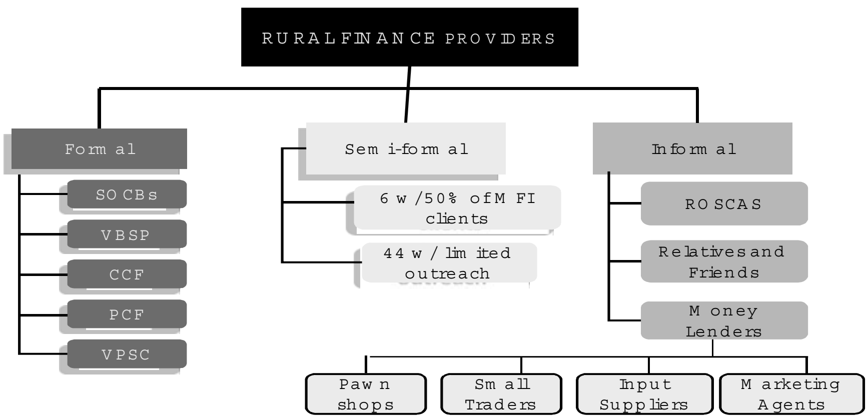
Although the literature on the link between rural finance/microfinance and employment creation/poverty reduction remains mixed, several studies show a strong poverty impact of rural finance/microfinance. For instance a study by Pitt and Khandker (1998) conclude that credit raises household consumption, especially when lend to women. Similarly, Khandker (2005) show that microcredit helps the extremely poor even more than the moderately poor. On the other hand, studies by Montgomery and Weiss (2005) and by Weiss, Montgomery, and Kurmanalieva (2003) show mixed result. They argue that while rural finance/microfinance may have a positive impact on poverty, its reach to the core poor is limited and there is a need to improve the design to make MFIs as part of the package for targeting the poor, rather than the whole solution. A recent study by Islam and Choe (2009) shows household participation in a rural credit program may increase child labor and reduce school enrollment, and this is more pronounced for girls and younger children. In a similar way, the ADB's review paper (2009) highlights the consensus that the financial sector development plays a vital role in facilitating economic growth and poverty reduction. The paper also concludes that microfinance and SME credit programs need to be well designed and targeted to be effective. In addition, rural finance/ microfinance programs need to be accompanied by other supporting services including access to markets and technologies.

The provision of agricultural and rural financial services has always been a major component of poverty reduction and employment creation measures of Vietnamese Government from the onset of Doi Moi in 1986. Several policies and actions have been made to provide better financial services for the rural sector.

1.3. Rural finance system of Vietnam

The rural financial providers in Vietnam consist of three types: formal (registered) credit institutions, semi-formal credit programs

Figure 1: Main rural providers in Vietnam



Source: ADB, 2010

Table 2: Key milestones of Vietnam rural finance policies and development

Year	Event
1988	Vietnam Bank for Agriculture (VBA) was established to focus on providing financial services to agriculture and rural sectors
1991	CEP – the first Microfinance insti tution (MFI) type was established by the Labor Confederation of HCM City
1992	TYM – one type of MFIs - was created by the Vietnam Women's Union
1993	People's Credit Funds (PCF) network started the pilot after the collapse of the whole Credit Cooperative System in the hypeinflation period before *Doimoi*
1995	The Bank for the Poor was established within VBA
2001	Decree No.48/ND -CP of the Government for improving organizations and operation of PCFs
2002	The Bank for Social Policies (VBSP) as established b y separating the commercial banking to VBA and social banking to VBSP
2003	Vietnam Bank for Agriculture was transformed into Vietnam Bank for Agriculture and Rural Development (VBARD) with full banking services
2005	New decree No. 28/ND -CP dated 8/3/200 5 of the Government on organization and operation of microfinance institutions (MFIs) released with ADB supports
2007	Amendment of Decree 28 above by Decree 165/ND -CP dated 11/7/2007 to
2008	Resolution 26 -NQ/TW- on "Tam nong" dated 5/8/2008 – of the Par ty Congress on three rural critical issues: agriculture, farmers and rural sector. One of solutions is to "continue to provide favorable credit to the rural sector, and encorage the financial institutions to lend to the rural sector"
2009	National Microfi nance Steering Committee was formed to assist the Prime Minister in policy and strategy formulation to develop a market -based microfinance sector
2009	The Decision No.497/QD -TTg of the Prime Minister dated 17/4/2009 on providing the interest support for f armers within the Demand Stimulus package
4/2010	Decree 41/ND-CP dated 12/4/2010 on Credit Policy for developing agriculture and rural sector, allow non -collateral borrowing to farmers up to VND 50 millions to farmers, VND 200 mill to non -farm households, and VND 500 mill to cooperatives/business farm
6/2010	The new Credit Institution Law (CIL) was released to replace the old version of CIL, which incorporates MFIs into the formal financial system and liberalize the banking operations, including the rura l finance
8/2010	TYM - The first MFI has been formalized to become one of credit institutions

Source: (Le Thanh Tam, 2008), (ADB 2010)

(mainly NGO-MFIs), and the informal sector.

The formal sector consists of 6 types of credit institutions (SBV, 2010)

- Commercial banks, especially VBARD. Before 2005, more than 16 joint-stock rural commercial banks were established and operated in rural areas. After 2005, no more rural banks were operated, as the Government does not distinguish among rural-urban banks anymore.

- Vietnam Bank for Social Policies (VBSP) – wholly owned by the government, provided subsidized credits to the poor, and funded mainly from the State Budget.

- People's Credit Funds (PCFs) system with Central People's Credit Fund (CCF) as the apex institution - applying the cooperative model.

- Vietnam Postal Savings Company (VPSC): Providing savings mobilization services only.

- And TYM - the first newly formalized NGO Microfinance Institution which just has been registered in August 2010.

The semi-formal sector includes more than 300 small-scale microfinance programs, of which 40 are relatively big and focusing on microfinance. All of them are NGO-typed, with the number of clients ranging between 1,000 – 10,000 and the majority of the loan portfolio is below US$1 million (except CEP and TYM – two biggest MFIs). The programs strongly focus on the poor, have typical loan size between US$150 – 300; locations mostly on the rural parts of Vietnam; and lend almost entirely to women – (94% of the clients are female). Among them, the 6 biggest ones account for more than 50% of market share for the whole semi-formal sector. Their savings are mainly compulsory, very tiny voluntary savings. They also receive few commercial funding sources (MFWG, 2009). The informal sector consists of the Rotating and Savings Associations (ROSCA), relatives and friends.

The operation of main rural finance providers are presented as followed:

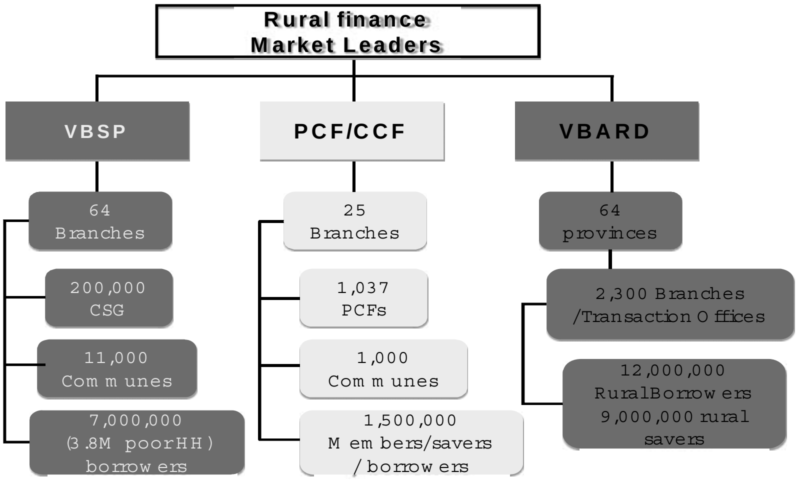
The three biggest rural finance market players are: VBARD, VBSP and CCF/PCFs system. Of which, the biggest credit provider is VBARD (56.34%). However, the credit approach of VBSP is quite different from others, as it has subsidized interest rates (ranging from 0.4% to 0.9%/month). The savings capacity of these rural finance providers is much less than credit. Only PCFs/CCF system and the VBARD operate as commercialized institutions, with the main funds for lending sourced from savings mobilizations using market rates. VBSP and NGO MFIs mainly provide credits, with pilot savings program (VBSP started in 2007), or compulsory savings (NGO MFIs).

Table 3. Rural finance formal and semi -formal landscape up to 2009

Institution	Number of borrowers (mil.)	% of total borrowers	Total outstanding loans (USD mil.)	% of total outstanding loans	No. of savers (mil.)	% of total savers
VBSP	7.8	36.62	4,398	26.40	2.14	15.88
VBARD	12	56.34	11,182	67.11	9.00	66.77
PCFs	0.9	4.23	1,006	6.04	1.5	11.13
NGO MFIs	0.6	2.82	75	0.45	0.43	3.19
VPSC	0				0.41	3.04
Total	**21.3**	**100**	**16,661**	**100**	**13.48**	**100**

Source: ADB (2010), Agribank (2010)

Figure 2: Rural finance market leaders of Vietnam



Source: ADB, (2010)

Among three major players in the rural finance market, VBARD is a commercial bank with profit-orientation, and balances its development banking mandate with profitability and sustainability concerns. To date it has 2,300 branches and transaction offices covering all of the provinces and districts, focusing on the upper-segments of the rural finance market. In 1993, the State Bank of Vietnam (SBV) promoted the setting up the People's Credit Fund (PCF), a form of financial cooperatives, to provide commune level financial services. The Central Credit Fund (CCF) was also established to act as the PCFs apex institution and provide support to the PCFs. The prudent nurturing of the PCF by SBV was aimed at restoring confidence in financial cooperatives that suffered massive failures in prior years mainly due to the hyper-inflation and the rapid devaluation of the VND. By June 2010, there were 1,037 PCFs covering about 10% of the country's communes and serving some 1.5 million members, about 50% are considered as poor. The PCFs have always been and continue to be market-oriented. They adhere to the basic cooperative principles of self-help and mutual assistance with less than 15% of their resources funded from external sources, mainly from CCF.

The Vietnam Bank for the Poor (VBP) was set up in 1995 as a Fund administered by the VBA (now VBARD) to target poor households. By 2002, VBP was spun off from VBARD to create the Vietnam Social Policy Bank (VBSP), a non-profit entity focuses on subsidized "social policy lending" to poor households and disadvantaged groups as being defined by the Government. By the end of 2009, VBSP had about 8,000 staff assigned in all districts with 98% coverage of all communes of the country. However, VBSP currently covers different types of customers.

There are 18 subsidized credit programs directed by the Government to different stakeholders, except the rich and big enterprises (Le Thanh Tam, 2008; ADB, 2010). NGO-MFIs are mainly covering the non-poor and poor households, which have been proved to have the best outreach to the poor in term of quality (Le Lan, 2005).

2. Main obstacles of Vietnam rural financial market

The rural finance sector has developed and contributed significantly to the rural development of Vietnam, with a rapid expansion of outreach, and available fund sources. However, the remaining problems are still the stagnancy to the next development. The main obstacles of the rural financial markets are:

2.1. Government of Vietnam has applied the dual approach in rural financial policy, which may cause the risk to customers.

Since the onset of *Doi Moi,* the Government has created and nurtured commercially-oriented financial institutions which have become major players in the micro and rural finance – VBARD and the PCF network. Simultaneously, it has also developed and expanded the role of VBSP, which has become the main provider of the "social policy lending" to target groups funded by State-mobilized funds and heavily supported with subsidies. The establishment of this bank makes the government out of concerns about the exclusion of these groups from the market-oriented operations of VBARD and the PCFs. In addition, the microfinance sector is also encouraged to develop. Starting from 2005, government has carried out several initratives to transform semi-formal microfinance institutions (MFIs) into formal MFIs. The newly approved Credit Institutions Law (CIL) passed in 2010 is a landmark legislation - not seen even in countries with major advances in microfinance - that integrates microfinance as a subset of the financial system.

Indeed, the continuing efforts of Government resulting in the passage of the new CIL and the ongoing efforts to formulate the Microfinance Strategy and Roadmap are major steps in the right direction. However, the government also has to ensure that its focused pursuit of other social objectives will not undermine its objectives for the microfinance sector. The major risk is that the government - in its concern to ensure the inclusion of its "social policy lending" target groups - could cause the exclusion of the vast majority of the poor and low-income households from accessing permanent, responsive, and a range of financial services, not just micro-credit.

2.2. The implementation of an opening and rural-support legal framework is not as good as expected.

Although the legal framework for rural finance sectors has opened up and is supportive to clients, the implementation is not as smooth as expected. Since 2008, the idea of "tam nong" – three key stakeholders in farming – (agriculture, farmers, rural sector) has been given attention. However, the policy of "continue to provide favourable credits to rural sectors, and encourage financial institutions to lend to rural sectors" needs further implementing rules and regulations.

Under the prime ministerial Decision 497/QD-TTg dated 17/4/2009, the government provides interest-free loans for farmers and entities to buy fixed assets for productions, such as agricultural machinery and vehicles. The loan period is 24 months. The programme also offers farmers a 4 per cent interest rate subsidy on loans for a one-year term to buy fertiliser, pesticides and construction materials. Total budget for this package was VND 12 trillion (equal to USD 700 millions). However, this demand stimulus package did not reach the objectives, as only VND 776 billions were released up to 31/12/2009, and many farmers did not get access to this package because of the complicated procedures or lack of information (Look at Vietnam, 2009).

In order to effectively pursue the credit policy for the agricultural and rural development, the SBV held a conference in August 2010 to review the 10-year implementation of this policy and implement the Decree No.41/2010/ND-CP, with the participation of representatives of the provincial and municipal People's Committees, ministries and central agencies. The SBV Governor requested ministries and agencies to issue as early as possible the guidelines related to their tasks as assigned in the Decree No.41/2010/ND-CP. However, for commercial banks with profit-orientation such as VBARD, the issue of a non-collateral loan maximum to VND 500 million to business farms is a big issue.

Moreover, given the legal framework for MFIs (Decree 28/165 and the new Credit Institution Law), the formalization process of semi-formal MFIs into financial market is still difficult, although TYM – the first semi-MFI has been given the license in August 2010 (SBV, 2010). Following is the summary of the problems faced by MFIs in the formalization process.

Therefore, the macro environment has been good, but the meso environment needs to be improved for bringing the enabling environment for rural finance development.

2.3. Dominance of subsidy from VBSP causes the burden to the Government, while discorage the development of market-oriented rural finance institutions, especially MFIs.

VBSP applies a similar group lending technique to borrowers. About 98% of VBSP's lending are channelled through commune-based credit and savings groups (CSGs) composed of 35-50 clients, organized through the VBSP's highly effective use of mass organizations and the People's Committee networks that permeate down to the hamlets. In fact, most of the target clients of VBSP are also of MFIs. VBSP offers 16 type of loan products to different policy customers. Their features are all prescribed by the government and funded from the state budget, mandatory deposits of SOCBs, entrusted funds and borrowings. VBSP's target clients are eligible to borrow from all lending programs.

Apart from the usual adverse impact of subsidized credit to the proper functioning and development of a robust microfinance sector, the strongest case against VBSP's subsidized lending is the marginal monetary benefit derived by the borrowing individual target household (HH) that cannot justify the increasingly heavy fiscal burden imposed to the government by such a subsidy. The paradox is due to the small average size of the target HH's loan of VBSP (ave. USD521) and the unsubstantial difference between VBSP's subsidized lending rates averaging at 0.65%/month as against VBARD's, the market leader, and most of the PCFs' lending rate at 1%/month. Using the end of 2009 figures of VBSP and applying the difference between VBARD's lending rates against VBSP's, the poor HH clients of the VBSP benefited only about VND 33,735/HH/month (USD1.82/HH/month) due to the subsidy, or a little over VND 8,000/indi-

Table 4: Some issues and concerns raised by MFIs

KEY FEATURES	ISSUES/CONCERNS
Legal Capital	Only few MFIs can readily comply with the SBV provisions, mostly, only those big MFIs established in early 90's.
Ownership	This limits the MFI to call for Capital to support its expansion. The ownership composition required to have mass-based organizations poses a concern since most organizations change leaderships every 5 years, thus will become a threat in the policy direction. In terms of fund ownership, there is also an issue for the capital granted by donors since it will imply fund capitalization sharing with the poor community.
Branching	Server/PC and security requirements will be impractical to most MFIs since they operate in far-flung areas and it will increase their cost significantly. Further, the control on branches opening only after one year shall constraint the expansion of MFIs operations.
Legal Registration Allowed to Establish MFI	-Some MFIs do not match with Circular 02 because it was founded under Decree 88. -Some NGOs have limited capitals. If these available capitals will be invested to comply, it will be more difficult for an MFI to financially support the expansion of its operation.
Head Office of the MFI	While most MFIs have offices in Hanoi or HCMC, their microfinance operations are in provinces and remote areas. Therefore, the setting-up of the Head Office in actual areas of its operations will be difficult for the MFIs.
Security	These requirements shall be difficult and impractical for the MFIs especially if they are working in mountainous and remote areas. Further, the MIS required (Daily Cash Balance report) will also be very costly for MFIs.
OTHER LAWS RELATED TO THE DECREES 28 AND 165	
• Interest rate • Tax	• Although the formalized interest rate policy is negotiable, the informal cap relating to the base rate and the alliance among bankers still remain. This poses a problem for the MFI's financial sustainability. Also, it is still unclear for most MFIs whether the interest rate shall be imposed on a flat or declining mode. • The current standard corporate income tax rate is 25%. This would not be appropriate given the nature of many MFIs that provide the poor with access to credit and savings services and additional supporting programs to improve the well-being of poor communities.
Restriction on Foreign Borrowings	This shall limit the expansion capabilities of MFIs.
Auditing and Accounting Standards	MFIs raised issues on the SBV's provision of clear auditing and accounting standards for microfinance such as the CAMELS rating, CGAP ratios, SEEP, WOCCU's PEARL

Source: (ADB, JFPR-VIE, 2010)

vidual/month based on an average of 4 members/HH. On the other hand, the cost to the government in interest income forgone from 3.8 million poor HH could reach USD USD6.93 million/month or about USD 83 million/year (ADB, 2010).

The success of VBSP in achieving its mandate backed by substantial government resources and subsidies, and 98% coverage of communes are also seen to discourage the entry of other institutional players. This in turn would adversely impact the development of a market-driven microfinance sector, which is crucial in promoting competition and efficiency, as well as in widening the choices of clients for microfinance providers and the services they offer. And while VBSP has attained remarkable outreach, it is also becoming an increasingly heavy fiscal burden for the government that may not be justified (ADB, 2010).

***2.4. The quality of financial services provided are still low*.**

First, credit is still the main financial product provided by rural financial institutions. About 70% of the total outstanding loans of VBARD is for the rural sector, which reached more than VND 270 trillions in 2009 (Agribank, 2010). In recent years, a sharp increase of credits to poor households and social policy lending target groups was mainly driven by the rapid growth of VBSP's portfolio funded by State-mobilized funds through budget allocations, compulsory deposits from state-owned commercial banks (SOCBs) and fully government guaranteed borrowings.

Second, savings are still limited. Among rural financial institutions, VBARD is the champion in mobilizing deposits from customers. However, the rural sector is still the net borrower, as VBARD has to transfer the mobilized funds from urban to rural sectors. VBSP has started to mobilize savings as a pilot program to transform it into a more sustainable institution. CCF/PCFs system are characterised by the self-sustainability manner, therefore savings mobilization is the main source for their operation. However, up to 2010, CCF/PCF system only covers 10% of communes, and total savings of PCFs reached VND 17,900 billions in 2009. Semi-formal MFIs only can mobilize compulsory savings with insignificant volume, and only TYM can mobilize voluntary savings after its formal registration. The savings products are still very simple and undiversified, not tailor-made to rural demand.

Third, other financial products are very scant or underdeveloped. Few products such as payment and remittance are provided by VBARD and Vietnam Postal Savings only. CCF/PCFs system and VBPS have started to test the remittance products. VBARD is currently the best positioned institution to offer quality banking services, especially for payment and remittance systems, given its extensive branching network and the adoption of information and communications technology (ICT). Microinsurance is just in the pilot testing period for many credit institutions.

***2.5. The infrastructure for rural financial development is inadequate*.**

The infrastructure for rural financial development includes capacity-building facilities and credit information exchange. However, only VBARD joins the SBV's Credit Information Center (CIC). Up to now, VBSP and PCF networks are not members of CIC, given their large volume of micro-loans that cannot be accommodated by the system, their commune level operations that will not pose systemic risks at national or even provincial levels, and low-level IT of the PCFs and VBSP. The real risk is that the poor and rural HHs that are most vulnerable to the adverse impact of over-indebtedness. There are anecdotal indications of the multi-financing of borrowers, especially with the rapid growth of VBSP in rural areas that are also extensively covered by VBARD and the 1,000 communes covered by PCFs. VBSP has just recently consolidated its accounts to borrower-based, rather than loan product-based monitoring, to avoid double counting and over-financing of a HH, since this can avail of several loan products.

Despite the long existence of the rural financial providers, most of the service providers for capacity-building of MFIs are in the nascent stage or developing their capability to meet specific demands of the microfinance sector. There are about 6 notable centers providing the training services for rural finance, of which many of them base on the donor subsidy. The courses are scattered and not ofternly provided.

3. Policy implications for the rural finance market and rural development of Vietnam

To enhance the development of the rural financial market in particular and to rural sector in general, the following issues should be taken into consideration:

3.1. A clear vision and strategy for rural finance should be developed by the government.

The market-based approach should be applied for ensuring the sustainability of financial providers, and the quality of products. The rural industry offers a broad range of appropriate financial products and services at reasonable costs, to its target clientele, including savings, short and long-term credits, leasings and factorings, mortgages, insurance, pensions, payments, money transfers and remittances. Financial products and services shall be offered at market terms and interest rates, and will be differentiated not in terms of price but in terms of quality, range of services and efficiency in providing these (and not subsidy, regulatory relief, or undue advantages provided by the government).

3.2. Making the enabling meso environment for rural finance.

As analysed in part 2.2, the macro environment for rural finance has been opened up and developed. However, the implementing regulations are still lacking or inadequately enforced. Therefore, more implementing regulations should be prepared for the detailed implementation of the new Credit Institution Law and the Decree No.41. Incentives for downscaling of commercial banks and upscalling of MFIs in rural finance market should be taken into consideration, such as tax incentives, cheap funding sources, “fit and proper” rule to commercial banks. The non-financial measures should be incorporated in complementary ways (such as market development, infrastructure investment, capacity building for rural employees, job creation, etc). Following are the detailed recommendations.

3.3. Reforming the VBSP operation

The reforming of VBSP is essential for reducing the government’s fiscal burden, utilizing the government sources for poverty reduction, while enabling the participation of several rural finance-oriented credit institutions to join the market. The different subsidized programs of VBSP should be reviewed. The essential supporting programs such as stu-

Box 1: Six levels of enabling regulatory environment for rural financial market

1. MARKET
The specific market it operates in with specific characteristics and activities that determine that all players in that market can be compared to each other and allowing them to compete fairly with each other (also called a "level playing field");
2. MEASUREMENT
The specific cost and income particularities that determine the profitability, the sustainability of the specific market activities and their sustained growth need to be accurately measured. Reporting requirements thus need to be detailed so that an individual institution's operations and performance can be accurately assessed and verified. It also means that performance can be compared with other players in the same market [1]. Only with such measurement is it possible to assess whether policy and regulatory measures are effective;
3. OWNERSHIP
The nature of the owners of the players in that particular market and whether and how they can be held liable for their actions and for the performance of the organization they own;
4. FINANCIAL SOURCES
The nature, conditions and impact of the different sources for financing the different players in this specific market;
5. MANAGEMENT, HUMAN RESSOURCES
The responsibilities, skills and organisational environment that managers and staff need to have as well as the legal, contractual and financial conditions that govern their activities;
6. GOVERNMENT
   a. Government needs to have a department that has strong authority over this specific market; that has adequate credibility (competence) and sufficient resources to ensure compliance of market rules by its players and to ensure that other private sector and public sector agents do not interfere in this market without proper authorisation;
   b. On the central government level there needs to be effective policy making and coordination on policy implementation. On this level specific support measures can be determined for the development of different sectors and their conditions.

Source: Piet Paw Vandijk, ADB Microfinance Legal Specialist, 2010

dent loans, loans for very disadvantaged clients still can be subsidized, but it should be managed in a different way. For example, the off-balance sheet management is one good choice, and the government will pay the fee for doing that. This measure also can encourage the participation of other credit institutions; applying the market interest rates for the programs which could be commercialized. VBSP can also become the wholesale bank for other credit institutions, particularly MFIs in providing financial services. Savings mobilization should be more encouraged to make it really a "Bank" in a sustainable and efficient manner.

There is no single model for successful rural financial institutions (RFIs). The following is the summary from several RFIs in the developing countries by Yaron, which could be applicable for Vietnamese RFIs in general, VBSP in particular.

3.4. Encouraging the participation and development of various rural finance providers, particularly the PCFs and MFIs.

The PCFs model has been proved to "meet the demand of rural customers the best" (World Bank, 2007). PCFs should be encouraged to expand its operation to 90% of communes which are not covered now. It is also essential for expanding the scope of each PCF, not just inter-commune as now. The planned coverage of PCFs are at the district-level. The transformation of CCF into the Cooperative bank should be accelerated to make it more effective and efficient in working as the Hub for the whole development of PCF system.

Semi-formal MFIs, at the micro level, have better performance in targeting the poor, tailoring services to their needs and mobilizing their savings than other formal institutions. MFIs should be encouraged to expand their coverage. In order for the institutional forms determined by the Government to effectuate its Microfinance policy, the Policy Banks, the Associations, the Funds and the Cooperatives

Box 2: Key characteristics of successful RFIs in developing countries

1. Ensuring appropriate governance .
2. Clearly defined strategies and objectives.
3. Motivated and skilled staff. Staff trainings and incentive systems are essential for improved performance.
4. Innovative low-cost systems and procedures which meet the special needs of targeted cliente. Examples are mobile-banking for improved delivery of financial services and joint-liability groups – which reduce transaction cost and replace the traditional form of collateral.
5. Positive interest rates on loans and high repayment rates. Flexible loan terms and conditions, careful monitoring of loan repayments, and incentives to clients for early repayment.
6. Savings mobilization through flexible and accessible savings facilities and positive interest rates.
7. Risk diversification through lending for both agricultural and non-agricultural activities; geographic diversification and integration with the broader financial system.
8. Advanced management information system (MIS) which enable the monitoring of loans, individual client records and staff performance

(Source: Yaron, Y., Rural Finance: Issues, Design and Best Practices, In Rural Well-Being: From Vision to Action, World Bank Report, 1996)

need to have rules that ensure their Financial, Institutional, Legal and Personal capabilities. They need to have "Deep Pockets" (long term solvency, liquidity), their owners and management need to be "Fit & Proper", and the owners and managers need to be held "Liable", personally, legally and financially responsible for possible failure, damages and losses (under current Vietnamese legal practices, it needs to be possible to take them to court and make them pay);

Special support measures can and need to be put in place that support and not undermine the abovementioned process. Support, such as start-up subsidies, technical and financial assistance, in-/direct tax advantages, tax holiday, etc. can be designed as "Smart Subsidies", integrated into a market-oriented financial sector development process. In particular the central bank could also chair a process for designing a national capacity building program with an official certification process, which would ensure that all players are competent to work in Vietnam.

3.5. Diversifying rural financial products and improving the quality of financial products provided.

As living standards are being improved, people's demand increased. Therefore, rural financial products need to be diversified to satisfy the demands of rural people. The needs of people include the 5 hierarchy as in Maslow's figure. The products provided cover credit, savings, insurance, payment, money transfer services and other non-financial services.

Diversifying loan products: RFIs will provide various credit products with different size, duration, form and interest rates to meet the various demands of customers. VBARD should develop the tailor-made credit products specifying for the different needs of the rural

Figure 3: Maslow's Hierarchy of Needs

Source: http://www.ict-learningnow.com sector, depending on different regions and the agricultural structure. Diversifying credit products also depends on financial capacity, management capacity of the institution and fund utilization capacity of customers. Institutions should not provide too many credit products in the context where their supervision capacity and their customers' loan utilization are limited because this lead to the risk of deferred payment or capital loss. Traditional individual transaction model can be supplemented with group transaction models. From international experiences as well as practical experiences at financial institutions like VBARD, VBSP or MFIs, we can see that the model of providing financial services through self-help groups has proved its adaption to rural finance since it can deploy community power and decrease transaction costs for financial institutions. Therefore, financial institutions should enhance this strength, promoting lending through mass organizations, conducting democracy and transpareny in credit activities.

Diversifying savings products: with the purpose of taking customers as the centre, savings products of RFIs should be designed to ensure security for savers, i.e. savings interest rate should cover inflation and earn profits. Small and frequent savings should be encouraged. Compulsory savings should be applied only at the initial stage when the MFI is newly established. When customers gain awareness and get on with their savings habits, MFIs should promote voluntary savings with various durations and interest rates to meet demands. Such savings products would be truly convenient for customers, however, institutions themselves need to enhance management capacity to utilize efficiency.

Developing micro insurance products. Micro insurance is a social insurance model for low income customers. If it is distributed through RFIs, beneficiaries will not only be insured customers but the RFIs themselves. It is important for RFIs to work with official insurance organizations to make clear the agent roles, or RFIs to set up its own subsidiaries to specialize in microinsurance.

Developing non-financial products. As any other customer, customers of RFIs have desires for knowledge and skills in order to improve their existing business or open new ones. They need to identify markets, demands and distribution methods to maximize profits. They also need services on health, education and culture. RFIs should have a strategy to cooperate with professional organizations to provide such products and services to their customers. They are microfinance supporting products such as: agriculture and forestation extension, communication education, capacity enhancement, community development, e.t.c. When customers are more mature, their capacity is improved, microfinance activities would be more helpful both for customers and RFIs.

3.6. Improving the infrastructure for rural finance

Improving human resource and management skills toward professionalization, and sustainability are essential for RFIs in the future. In order to improve capacity for RFIs, it is necessary to conduct the following activities:

- Study and design short term and long term training courses with or without certificates on disseminating policies of the State on rural finance and on the management and operation of RFIs. The training funds could be raised by tuition fees and by the combination of public-private partnership.

- Find fund sources and potential partners who can provide technical assistance (such as hiring consultants to assess the institution, recommend solutions for improving each institution and support deployment of such solutions) for organizations already received microfinance operation license or not yet received but have the orientation to operate professionally and sustainably.

For other infrastructure supports, such as advisory services relating to the establishment of agencies, institutions functioning as supporting units for rural finance sector to develop effectively and sustainability, details are as follow:

- Set up a rural credit information agency, or an independent unit in the Credit Information Center to establish information and statistic based on rural finance activities, which support customer risk appraisal, increase operational efficiency of MFIs;

- Form a rural finance forum for RFIs to cooperate and coordinate resources and experiences in providing for the rural finance;

- Facilitating the establishment of MFIs Associations to create a forum for MFIs to gather, share experiences and difficulties in carrying out microfinance activities; to enhance the application of best practices, thus, helping programs/projects conducting microfinance activities to have a sustainable development strategy;

- Support, help institutions and individuals who have desires to set up training centers which are independent from any RFI to providing training to RFIs' human resources.■

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