

**Evaluation of  
Capital Aid Fund for Women's Economic Development**  
[Mekong Organization of Microfinance (MOM) (proposed)]

**Submitted to:  
Norwegian Mission Alliance - Vietnam**

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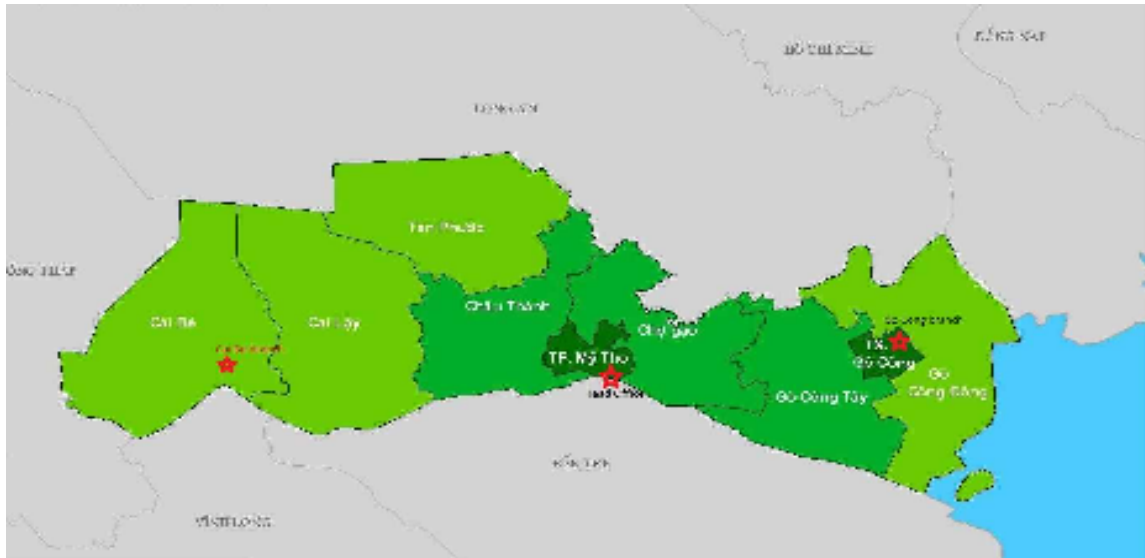
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**ACRONYMS**

ADB	Asian Development Bank
CEO	Chief Executive Officer
CO	Credit Officer
CWED	Capital Aid Fund for Women's Economic Development
FGD	Focus Group Discussion
GOV	Government of Vietnam
MFI	Microfinance Institution
MOM	Mekong Organization for Microfinance
NMA	Norwegian Mission Alliance
PCF	Peoples Credit Fund
PKSF	Palli karma Sahayak Foundation (of Bangladesh)
SBV	State Bank of Vietnam (Central Bank)
TOR	Terms of reference
TYM	Tinh Thuong One member Limited Liability Microfinance Institution
VND	Vietnamese Dong
VBARD	Vietnam Bank for Agricultural and Rural Development
VSPB	Vietnam Social Policy Bank
WB	World Bank
WU	Women's Union (of Tien Giang province)
GAAP	General Accepted Accounting Principle
HO	CWED's Head Office

**Map of Tien Giang Province showing branch locations (red stars)**



## Executive Summary

### Background

This report presents the findings and recommendations of an evaluation conducted from August 3 to September 7, 2011 of the Capital Aid Fund for Women's Economic Development (CWED) (formerly a microfinance project for the poor women of Tien Giang Province - Vietnam) funded by the Norwegian Mission Alliance (NMA) since 2002. The evaluation was conducted in the backdrop when CWED has been a) undergoing rapid growth and b) preparing to become a licensed microfinance institution (MFI) named as Mekong Organization of Microfinance (MOM), as per rules and regulations of the State Bank of Vietnam, owned by three institutions - Tien Giang Women's Union, NMA, and Tien Giang Lottery Co. owned by the People's Committee of Tien Giang Province. The focus of the evaluation has been to identify strengths, weaknesses, and opportunities of CWED and recommend measures for sustainable operations. The team has assessed impacts and sustainability, reviewed management system and capacity of CWED, and made an assessment of NMA's strategy to recommend on the future direction of CWED and NMA. CWED has a unique implementation mechanism where the client selection for microfinance services is done by commune-level staff members of the Women's Union of Tien Giang province under a service provider agreement, which makes the microfinance delivery a joint effort of CWED and the Women's Union. The evaluation team has also explored the effectiveness of this implementation arrangement.

### Methodology

The principal methodology has been on site verification and discussions with the clients and review of internal processes and systems. The team reviewed all planning, activity and financial reports, interviewed the clients at the center meetings and individually, held meetings with other stakeholders including the Peoples' Committees and WU at the provincial, district and commune level, reviewed management systems of CWED, held a two-day debriefing workshop, and analyzed operational and financial performance of CWED. The impacts of microfinance reported in this report are gleaned from interviews of clients. However, no formal impact study using quantitative method and statistically valid sample of clients has been commissioned.

### CWED's Program and Activities

Program outreach: CWED is primarily a microfinance program. It has expanded from two communes in 2002 to 67 communes, and reached to about 20,000 clients by June 2011 compared to only 310 at the beginning. The size of the present program as of June 2011 can be

measured from the following indicators: a) CWED has organized 19,959 poor women as clients of whom 19,901 have outstanding loans (i.e. current borrowers); b) it has disbursed VND 30.96 billion<sup>1</sup> as loan during January-June 2011; c) the clients have savings balance of VND 11.8 billion and credit balance of VND 39.24 billion; and d) loan repayment rate remains high, more than 99%.

Reaching the poor: The local WU members organize the poor women into groups and centers under service provider agreement between CWED and WU. The information from sample members interviewed during the evaluation shows that most of them belong to landless families or have less than 3000 square meters of agricultural land, own small house and may have more than one sources of income, none of which is sufficient to cover family expenses. CWED has successfully reached the poor women with microfinance services (savings and loan).

Selection process: The service of WU in organizing the poor women has been found to be effective. The credit officers make the final credit appraisal by visiting about 50% of the clients. But the present process makes the Credit officers of CWED distant from the clients. Microfinance being a supervised program the COs need to be very familiar with the economic life of their clients and the local economy.

Group management: CWED organizes center meetings once in a month where the clients make all financial transactions and occasionally the WU staff discusses social issues. Currently, individual clients do not have any passbook reflecting transactions and balances, which is a weakness in the management system that should be corrected soon.

Savings policies: CWED offers two types of savings to the clients: a) mandatory savings at the rate of VND 20,000 per month which can not be withdrawn; and b) voluntary savings without any limit but can be withdrawn. The rate of interest is 0.3% and 0.5% per month respectively. The voluntary savings is only 4% of total savings but if promoted can be increased. The savings is an important source of fund for microcredit, currently 28% of loan balance, and can be enhanced if the monthly rate is linked with loan amount.

Loan policies: The loan portfolio is expanding fast due to increasing number of clients and increasing loan size. CWED offers one type of loan: loan for 12 to 18 months to be repaid in monthly with an interest rate of 1.2% per month, which is similar to the industry norm. The loan ceiling is VND 6 million but the average loan size is about VND 3.5 million. The clients are happy with the present policies practices but about 20% of clients asked for larger loans up to VND 7-8 million only and some farmers suggested introduction of seasonal loan, that is, loan at the beginning of the agricultural season and repaid after harvest in one installment.

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<sup>1</sup> 1 USD = VND 20,000



Use of loan: The clients are using loan for crop production, raising livestock and running small business. In case of crop production the money goes for purchase of inputs such as seeds, fertilizers and pesticides. Since rural TG province is primarily an agricultural economy the portfolio is expected to remain same but proportion of livestock loan and trading may increase over time.

Non-financial services: The selling of products is reported to be not a problem because of easy access to market, presence of a large network of middlemen operating in each commune and good road communication. The farmers keep producing the same crops repeatedly. However, there may be opportunities to introduce new high value fruits and vegetables, flowers and herbs, decoration plants etc. Further investigation and training to clients are needed for developing new businesses.

Loan demand and expansion strategy: The expansion of loan portfolio is natural for any microfinance program; about 20% of CWED's clients are asking for larger loans. Besides, a rough estimate is that about 100,000 clients could be reached within TG province if resource is available and capacity of CWED is built. To keep the cost down CWED should be expanding in the existing villages and communes before moving to new communes and districts. What is more important is to develop the management parameters such as number of clients, loan portfolio, staffing and cost for a model branch, which then can be replicated in new places closer to the clients. Currently, the three branches are unbalanced in terms of clients, portfolio, and geographical coverage, in some instances far from the clients.

### **Management System**

CWED has developed internal policies, management process and system for implementing microfinance program. The system is by and large adequate and appropriate for an MFI but some improvement needs to be made. It has skilled and experienced staff members to manage the program but capacity of WU's local staff members needs to be enhanced. CWED's field operations depend on the WU staff members for selection of clients, which should be jointly done.

### **Effects and Impacts**

The effects of CWED's program are significant. It has created opportunities for small savings for the poor women, ensured sustainable access to credit at a reasonable cost, reduced dependence on high-cost informal market for small loans, allowed expansion of business and established strong linkage with the local government. The impacts of the program are as follows: increase in income and assets, improved food security, and reduced dependence on money lenders.

### **Relevance of microfinance and Effectiveness of NMA**

Microfinance is recognized by the central government as well as local governments as an effective tool for poverty alleviation. The government provides legal and regulatory support although the decisions on issuing licenses are being delayed. The poor clients find microfinance very necessary to investment purposes.

NMA's role as a donor and capacity builder has been very effective in transforming a microfinance project into a sustainable organization. A similar strategy needs to be continued.

### **Sustainability**

The portfolio quality and repayment is very good. Overall it has already achieved operational sustainability and on the way of achieving financial sustainability. But high inflation in Vietnam is adversely affecting financial sustainability of CWED.

The cooperation and support for CWED have been strong from WU, People Committees and the provincial SBV, which provides strong social and institutional support from CWED. But the license to operate as a formal MFI would put it on strong legal putting, and made it easier to mobilize savings.

### **Opportunities and Challenges**

The demand for its financial services is high among the poor. CWED can expand in the whole of TG province to reach about 100,000 clients and subject to availability of resources and government permission, may even expand in the whole Mekong region. CWED can develop more demand driven financial products. If it receives license it can even offer micro-insurance to the clients and mobilize savings from the public.

The absence of sources of capital to meet credit demands is the main challenge for CWED, which could be mitigated if more resources are available from NMA and similar 'wholesale' lending sources and license is available from the SBV. One structural limitation of the microfinance sector in Vietnam is the absence of one or more formal wholesale lending agencies that would lend to MFIs. Besides, high inflation is eroding capital base of CWED and income base of the clients.

### **Lessons learned**

The well known impacts of microfinance have been proven here as well. The clients reported increase in production and sales of business and increase in profit due to additional capital at reasonable cost. That led to increase in income and consequently, consumption in food and

other essential items, and in some cases, increase in asset. But they will need sustainable access to finance to maintain enhanced income, which would need continued access to finance by CWED from NMA and other sources.

The institutional support from local government such as People's Committees and WU has been very useful to gain strong local presence. But the absence of formal legal and regulatory support from in form of license is hindering growth.

### **Recommendations**

The detail recommendations are presented in Section 11. In short, the main recommendations for CWED are to a) make some changes in the management system such as introduction of passbooks for clients, b) enhance capacity of staff members of CWED and WU, c) strengthen client selection and center supervision by jointly working with the WU, d) develop management system of a model branch for future expansion, e) mobilize capital from NMA and other sources such as mandatory and voluntary savings, and f) expand within TG province subject to availability of resources.

NMA should be continuing its role as part owner, lender and mentor for NMA. It may also try to develop a wholesale fund singly or jointly with other donors.

One important step from the part of the government would be to setting up a wholesale lending agency to finance microfinance institutions in Vietnam. The donor agencies in Vietnam may lobby the government for setting up such agency. Examples of such agencies are available in Bangladesh and other countries.

## 1. INTRODUCTION

### Introduction to the report

1. This report presents the findings and recommendations of an evaluation of the Capital Aid Fund for Women's Economic Development (CWED) (formerly a microfinance project for the poor women of Tien Giang Province - Vietnam) funded by the Norwegian Mission Alliance (NMA) since 2002. A three-member team<sup>2</sup> conducted the evaluation from August 3 to September 7, 2011 that included field visits from August 2-13, 2011. The focus of the evaluation has been to identify strengths, weaknesses, and opportunities of CWED and recommend measures for sustainable operations. The team has assessed impacts and sustainability, reviewed management system and capacity of CWED, and made an assessment of NMA's strategy to recommend on the future direction of CWED and NMA. Note that CWED has a unique implementation mechanism where the client selection for microfinance services is done by commune-level staff members of the Women's Union<sup>3</sup> of Tien Giang province under a service provider agreement. In effect the microfinance delivery is a joint effort of CWED and the Women's Union. The evaluation team has also explored the effectiveness of this implementation arrangement. The terms of reference of the evaluation is reproduced in Annex 1.
  
2. The report is organized as follows:
  - Section 1 provides an introduction to the project, and background and methodology of the study;
  - Section 2 presents an assessment of microfinance program and its progress;
  - Section 3 reports findings of a review of internal management system of CWED including accounting and financial management system, human resources, internal controls and audits, and management information system;
  - Section 4 makes observations on the present and the potential future roles for NMA;
  - Section 5-8 deals with strategy of NMA, relevance, impacts, sustainability and efficiencies of the microfinance program;
  - Section 9 presents lessons learned followed by SWOT analysis in Section 10; and finally,
  - Section 11 offers conclusions, recommendations and potential future directions for both CWED and NMA.

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<sup>2</sup> Dewan A. H. Alamgir (Team Leader), Le Thi Lan, National Microfinance Specialist, and Pham Lien, Assistant. Mr. Dung Phuoc Hoang Lan, Project Coordinator, NMA and Ms. Tran Thi Thanh Thuy, Director, CWED participated in meetings and two-day workshop and coordinated the activities of the team on behalf of NMA and CWED respectively.

<sup>3</sup> A mass organization under Vietnamese government system

## Perspective

3. The evaluation was conducted in the backdrop when CWED has been a) undergoing rapid growth and b) preparing to become a licensed microfinance institution (MFI) named as Mekong Organization of Microfinance (MOM) owned by three institutions - Tien Giang Women's Union, NMA, and Tien Giang Lottery Co. owned by the People's Committee of Tien Giang Province, as per rules and regulations of the State Bank of Vietnam.
4. The NMA-funded microfinance program implemented by the Women's Union of Tien Giang province, later transformed into CWED, has been in operations since 2002, almost nine years in operation at the time of the evaluation. The project has expanded from two communes in 2002 to 67 communes in 2011 and reached to about 20,000 clients by June 2011 compared to only 310 at the beginning. As per requirement under the microfinance law, the project was registered as a Social Fund (CWED) in 2010, and later in the same year applied for license as MOM to become a fully functioning microfinance institution. CWED/MOM has met all legal requirements for the license and waiting for the approval by the SBV. That is, the project has progressed from a small operation funded by NMA to a Social Fund (CWED) and now to become an MFI (MOM). So far only one microfinance institution in Vietnam named Tinh Thuong One member Limited Liability Microfinance Institution (TYM) has been issued a license by the SBV.
5. Several indicators reflect the size of the present microfinance program as of June 2011: a) CWED has organized 19,959 poor women as clients of whom 19,901 have outstanding loans (i.e. current borrowers); b) it has disbursed VND 30.96 billion<sup>4</sup> as loan during January-June 2011; c) the clients have savings balance of VND 11.8 billion and credit balance of VND 39.24 billion; and d) loan repayment rate remains high, more than 99%.
6. But the future program as an MFI (MOM) has many opportunities as well as challenges. On one hand, it could reach as many as 100,000 clients only in Tien Giang province, and potentially could expand to other provinces in the Mekong region to reduce poverty by providing financial services to the poor women. On the other hand, the challenges are also huge: management of a potentially large organization, mobilization of resources, and capacity building of MOM to effectively run such operation.
7. As the former main donor and currently, part owner and lender to CWED, NMA is expected to continue its involvement with CWED and remain a strong partner of the potential growth. This formal evaluation is an effort to identify impacts as well as future opportunities and challenges prior to further expansion.

## Objectives

8. The broad objectives of the evaluation are to:

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<sup>4</sup> 1 USD = VND 20,000

- a) Identify strengths and weaknesses of the CWED fund; and
- b) Identify potentials, opportunities and measures for improvement of the continuous program and to propose recommendations related to future support of the project.

### **Methodology**

9. The following steps have been undertaken to conduct the evaluation:

- a) Reviewed relevant documents such as project documents of 2002/03, all project plans, agreements and activity reports from 2002-2010, and financial reports 2003-2011;
- b) Reviewed project documents of a ADB-funded project where CWED is also a partner/beneficiary;
- c) Reviewed relevant documents produced by the ADB, World Bank and other important stakeholders on the microfinance sector of Vietnam;
- d) Participated in four centre meetings of CWED attended by about 100 clients (women) in four communes and held discussions on the process of implementation of microfinance program, impacts and collected views of potential changes;
- e) Interviewed individual clients from all three branches in diverse geographical areas (peri-urban and remote villages, old and new project areas) who invested in many different income generating activities such as crop production (rice, chilly), livestock raising, small trading business, small eateries, handicrafts etc;
- f) Interviewed representatives of the peoples' committees and the Women's Union at the commune, district and provincial levels;
- g) Interviewed staff members at all levels of CWED and project staffers from NMA;
- h) Reviewed the operations and management system of CWED at three branches as well as at the Head Office in My Tho City;
- i) Organized a two-day workshop attended by officials from CWED, NMA and other stakeholders (SBV, Ministry of Foreign Affairs, Women' Union, Peoples' Committees, Centre leaders) where findings from the evaluation were shared and reviewed;
- j) Briefed Director of NMA at My Tho City, and met with representatives from the Habitat for Humanity; and
- k) Finalized the draft report after incorporating revisions and suggestions from NMA wherever applicable.

10. The team's programmes are in Annex 2 and the proceedings of the workshop are in Annex 3.

## 2. CWED'S PROGRAMS AND ACTIVITIES

### Selection of members/clients (Targeting)

11. The mandate or objective of CWED is to reach the poor with financial services as per GOV national poverty index measured by average income per capita per month. At the beginning of the microfinance project, WU, commune's peoples committee and project staff used to conduct 'poor household mapping survey' which was later in 2003 complemented by housing index indicator to prepare a list of poor households in a commune. The evaluation team tried to develop a profile of the present clients from discussions at the center meeting, individual interviews and discussion at the debriefing workshops. The basic features found are as follows: a) clients are all women except in a small number of situations men represented the households where women died; b) clients mostly came from landless (families without any agricultural land) or small farming families (families owning maximum of 5,000<sup>5</sup> square meter land); in fact in most cases clients either owned no land to maximum of 3 000 square meter of land. From a group of more than 100 clients only one woman reported owning 7 000 square meter land; c) participating poor families may have multiple sources (2-3) of income, a common feature for the poor families, such as crop production, raising livestock, agricultural or non-agricultural hired labor, small paying government or private jobs, small trading etc. In most of the cases, income from one source is not enough for maintaining the family; d) all clients own family houses but not necessary made of bricks; and e) in terms of education, clients are either illiterate or completed primary education<sup>6</sup>; f) Normally clients are permanent resident of the village/commune; only in one case where the client is found to be a non-resident. Table 1 below presents land owned by the clients of two centers.

**Table 1: Land ownership distribution of two sample centers**

Land ownership	Number of attending clients in the center meeting 1	Number of attending clients in the center meeting 2
None	3	10
Up to 1000 m2	9	4
Up to 2000 m2	10	1
Up to 3000 m2	11	-
Up to 4000 m2	1	1
Up to 5000 m2	-	3
Up to 6000 m2	-	1
Up to 7000 m2	1	1
Up to 8000 m2	-	1
Total	35	22

*Source: Client interview*

<sup>5</sup> 10,000 square meter = 1 hectare

<sup>6</sup> For overall literacy situation readers may refer to Population and Housing Census 2009: Education In Vietnam: Analysis of Key Indicators, General Statistics Office, Ministry of Planning and Investment, GOV

12. Most of the participating women, in some centers, all women came from poor households of the village although there may be poorer families or more poor households in the village because number clients per village is small compared to the total number of households. Note that the level of poverty, consequently, income and net wealth of households, varies between communes and therefore, within the clients. The participants in the debriefing workshop noted that client selection has not been a problem. But there is increasing chance that slightly richer clients may join the groups if CWED expands aggressively in the existing villages. Overall, CWED has done an excellent job of reaching out to the poor women with financial service.

### **Client Selection Process**

13. It is important to understand the client selection and initial process of organizing the poor in a village to become clients of CWED. The WU of the province has signed agreement to organize the poor women on behalf of CWED. The provincial WU has written a letter explaining the activities of CWED, the process of participation and the role of local WU and peoples' committee. The interested communes then inform CWED and initiate the process of identifying the poor women and submit the list to CWED. CWED credit officer then conducts credit appraisal to make final selection. The selected women are organized into groups of 7-10 women and centers of four to five groups. However, exceptions are also reported. For example, the evaluation visited one center with 48 women clients, which the branch plans to divide into two centers.
14. CWED organizes monthly meetings for the centers where clients deposit savings and repay loan installments. The group meetings, as expected, focus on financial transactions, that is, the main function of the center and the program. Occasionally, the local staff members of WU also discusses social issues such use of safe water, sanitation, reproductive health, various government rules and regulations etc. Reportedly currently clients' attendance is about 60-70%. At times, some clients send their savings and loan installments by neighbors or relatives. With additional motivation and persuasion by the WU's staff, center leaders and credit officers the meeting attendance can further be improved although it is not expected that all clients will attend all monthly meetings.
15. So far the process has resulted good selection. However, some concerns regarding the selection of clients and related issues are as follows:
  - The local staff members of WU are solely involved in the preliminary selection that limits the role of COs in identifying clients and becoming familiar with the local conditions. That makes credit officers to some extent distant from the clients and less informed about the clients' use of loan, sources of income, potential risks of repayment whereas at the end of the day credit officers are responsible for managing high repayment and portfolio quality. Since the microcredit program is collateral-free its needs further close contact with the clients. Although wrong selection, disbursement of loan and repayment of loan are not problems yet but with time and expansion these issues may become main big issues for managers. Besides, not all WU staff members have good education and skill for managing the centers, which may lead to weakness in supervision of the program. In addition, local WU staff has merely two-year tenure,



thus, new WU officials who will also new center chiefs may encounter of difficulties unless not trained..

- The credit officers make home visits of about 50% of the clients for credit appraisal due to time constraints that makes them dependent on the WU staff members and centers leaders for making disbursement decisions. This has also been due to long distance between branch and center locations.
  - The locations of present branches are far from some communes, which may lead to loose contact with and supervision of the clients. The new branch can be brought closer to the clients in future when adequate resources are mobilized. The present approach is also not cost-effective.
  - The WU staff members do not always get a chance to discuss social issues as envisioned due to their other works. Microfinance, as it is supposed to, should help lifting women's social status by providing them knowledge and skills apart from financial services. The Local WU officials, however, do not have adequate capacity building ability. Besides, low attendance of clients (60-70%) may not give opportunities to discuss social issues at the center meetings.
  - The credit officers currently visit defaulting clients with the help of the WU staff members.
  - The W.U local staff and Center Leaders are critical for cohesiveness of centers that needs to be improved through training.
16. Although the selection of clients has been good so far but the present process appears to be a weakness in CWED's management system. The credit officers should know their clients and the local areas - physical as well as economy – better. This can be achieved through a) joint survey of potential clients, b) appraisal of 100% clients by credit officers, at least at the time of first selection, c) visiting to defaulting clients, e) checking use of loan for large borrowers, f) jointly organizing or participating social or commune events, g) implementing training or discussion sessions at the centers in more organized way.

### **Group and Center Management**

17. CWED's clients meet once in a month to do financial transactions: disbursement of loans and collection of installments. The WU staff and group leaders decide a date of each month for the meeting. Usually a local venue such as village community center or shop is selected for the meeting. The credit officer takes a print out of client information at the center meeting and provides receipt for financial transaction, which is normally kept with the center manager. The individual clients and center as a whole do not have any passbook indicating each transaction, balance of savings and loans. It is important to introduce such individual passbook that would enhance transparency, strengthen internal control since CWED's controller can then verify individual client's records, improve trust and help to resolve dispute between the two parties- CWED and clients.
18. It is important that CWED continues its emphasis on high attendance of monthly meeting that provides opportunity to learn about the clients and maintain high loan recovery rate in addition to strengthening group and social cohesion.

19. The drop-out of clients, that is, clients leaving the centers, is low that reflects attractiveness of the program.
20. In some specific cases, commune-level WU officials, who are also center leaders, reported that they managed several (3-4) centers at once, which is overloaded to them. This may weaken center management and lead to potential risks.

### Outreach and quality

21. Clients: Table 2 provides basic information of the microfinance program. At the end of June 2011, CWED has organized 19,959 members of whom 19,901 had outstanding loans (clients or borrowers). This is a great increase in outreach compared to 2002 when it had only 301 clients. CWED had started significantly expanding since 2007 (5,246 members). But the real expansion came during 2009-2011 when it nearly doubled its memberships from 10,667 in 2009 to 19,959 in June 2011. In fact, the main expansion was in 2010, the year it applied for license, when it added about 8,000 new members.

**Table 2: Basic indicators of CWED's microfinance program**

Indicators	2007	2008	2009	2010	2011(June)
Members (#)	5,246	7,180	10,711	18,619	19,959
Clients/borrowers (#)	5,246	7,167	10,667	18,552	19,901
Annual disbursement (million VND)	11,454	15,065	27,581	48,046	30,964
Number of loans disbursement (#)	5,245	5,957	9,497	16,855	9,204
Average loan size (million VND)	2.18	2.53	2.90	2.85	3.36
Loan balance (million VND)	8,234	11,177	19,712	33,189	39,239
Total savings balance (million VND)	2,219	3,435	5,458	9,378	11,815
Loan balance per client (million VND)	1.57	1.87	2.07	1.97	1.97
Saving balance per member (million VND)	0.42	0.48	0.51	0.50	0.59

*Note: m= million; Source: CWED*

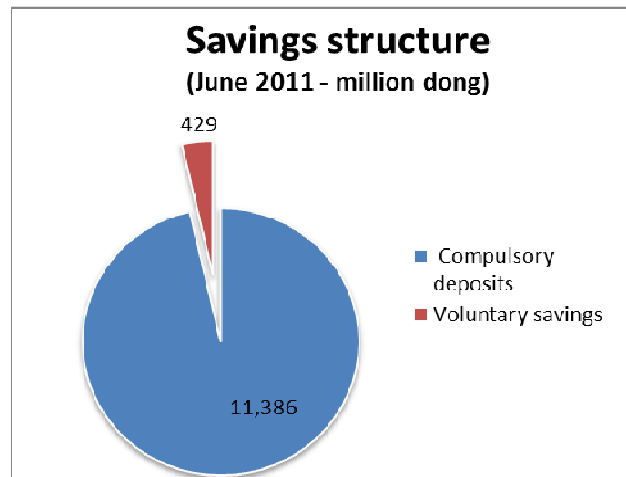
22. Savings: CWED offers two types of savings: mandatory and voluntary savings. At the end of June 2011, the total saving balance was VND11,815 million (VND 11,386 million mandatory and VND 429 million voluntary savings). On an average, each member has deposited VND 0.57 million mandatory savings. About 35% of members (7,017) made voluntary savings; average balance per person was VND 61,130 in June 2011, very small compared to its potential of mobilizing voluntary savings. See further discussion on savings policies in Section 2 para 27-31.
23. Disbursement of loan: With the expansion of clients and increase in loan size CWED has continued expanding loan disbursement. The average size of loan remained more or less similar during 2007-2010, below VND 3 million. That reflects shortage of capital. But in 2011 the average size exceeded VND 3 million. Currently, CWED has mobilized additional capital and due to high inflation clients are also taking larger loans. The average loan size is expected to increase due to increase in inflation, expansion of business by clients and

increasing confidence of the poor women to invest and manage loan money. See further discussion on loan policies in Section 2 para 32-37.

24. Repayment and balance: CWED collects loans in monthly installments. All transactions are conducted at the center meetings. At the end of June 2011, total loan balance was VND 39,239 million, an increase of 18.2% compared 2010. Since 2007 it has experienced a portfolio growth of 476%, reflecting increase in clients and loan size.
25. Repayment rate: The rate of repayment is the single most important indicator used to assess performance of a microcredit program. Historically, CWED has been successfully maintaining high repayment rate, which is currently more than 99%. But it has been observed in other places that with time, and with increase in loan size and number of clients the repayment rate tend to decline, if use of loan is not ensured and supervision from the MFI is lax. Therefore, caution is warranted.
26. Portfolio quality: The portfolio quality as measured by Portfolio at Risk (PAR) is very good; PAR is only 0.18% at the end of June 2011.

### **Savings Policies**

27. Savings rate: A small savings deposit is an integral part of financial service offered by CWED (MOM). As soon as a member is enrolled in a group, she needs to deposit a small amount of mandatory savings every month (current amount is VND 20, 000 per month). The clients may save additional amount as 'voluntary savings'. The savings fund is an important source of finance for microcredit, which at present (June 2011) 28% of loan balance. Currently, the voluntary savings is only 3.5% of total savings balance. There is a strong case for promotion of voluntary savings to the clients. In addition, discussions with clients and staff members show that even mandatory savings can be increased; the current rate of VND 20,000 per month is small. A suggestion at the debriefing workshop has been to link the mandatory savings to loan size. That effectively means that each client deposits different amount depending on her loan size. That is, the present policy of one rate across the whole organization may be dropped. However, this will make all the more important to introduce individual passbook to record her transactions. But any revision of the savings policy should be widely consulted with the clients at the center meetings.
28. Interest on Savings: CWED pays 0.3 % and 0.5% per month on mandatory and voluntary savings respectively. The rate reflects incentive for voluntary savings but lack of promotion and persuasion at the center meetings is probably the main cause of low level of voluntary savings. CWED's rates on savings are similar to industry norm. It may be difficult for CWED to increase the rate because of its low profitability.

**Figure 1: Composition of savings**

29. Documented policies: CWED has got well documented savings and credit policies in the form of a manual available in all branch offices. All staff members have access to that, which is also used as part of staff training.
30. Withdrawal policy: Since CWED is not a licensed MFI, it can not accept savings from the public. Because of its capital shortage the current withdrawal policy is restrictive: clients can only withdraw the voluntary savings not the mandatory savings. The discussions at the center meetings show that clients prefer to save money and want to accumulate in absence of any opportunity to save at the commercial banks. The banks are either not available nearby or their savings are deemed small. In that sense CWED has an advantage of mobilizing savings from its clients.
31. Knowledge of policies: The discussions at the group meetings show that the clients know the savings policies of CWED. Most of the members opined that they did not withdraw any savings as they did not face any crisis. But not all members could mention their savings balance, for which they depend on the credit officer and center leader.

### Loan Policies

32. Time duration and repayment: CWED basically offers one type of loan: loan for income generating activities for a period of 12 or 18 months to be repaid in monthly installment.
33. Loan size: The loan size is relatively small, maximum of VND 6 million (USD 300) only. And most of the current loans are between VND 3 to 5 million, with an average of VND 3.36 million. It seems that smaller loan size has ensured good repayment and the size may gradually be increased. About 20% of clients asked for larger loans up to VND 7-8 million only.
34. Interest rate: The current rate of interest is 1.2% per month (flat) (in theory, it is effectively 28.8% per year)<sup>7</sup>. But the yield on total portfolio seems to be much lower, possibly because

<sup>7</sup> Although this nominal rate of interest is high but note that the inflation rate is about 20%, which makes the real interest about 8.8% per annum.

of inefficient use of funds<sup>8</sup>. (See Section 8 on Sustainability). The largest MFI in Vietnam (TYM) charges 1.2% and Dariu, a small MFI in Tien Giang province charges 1.5% per month, that is, CWED's rate is similar to the microfinance industry norm. Compared to the informal market the rate is low: a) local shop owners (fertilizer sellers) effectively charge from 3 to 5% per month (36 to 60% per year) if fertilizers are bought on credit; b) moneylenders (loan sharks) charge 8 to 10% per month (that is, 96 to 120% per year).

35. Waiting period: Currently, the disbursement of loan from the day of application takes around one month due to shortage of funds, which can be reduced to a few days if funds are available and loan applications are processed one month before the full repayment of last loan, if the clients immediately want another loan.
36. Customer satisfaction: The clients seem to be pretty satisfied with the terms and conditions, delivery of loans and behavior of field staff members. They very much appreciate the monthly collection system at the centers, easy process, absence of collateral requirement, and the current size of loan except that 20% of clients would prefer larger loans. In general, the present loan policies are serving the clients' need and do not warrant any change except gradual increase in loan ceiling subject to demand and availability of funds.
37. Potential loan products: During discussions with clients some members, especially farmers (rice and chilly producers) suggested seasonal loans for 3-4 months, that is, loans to be disbursed at the beginning of the cropping season and to be repaid after harvest in one installment, a practice followed by the fertilizer shop owners who provide fertilizers on credit and get payment after the harvest. CWED may like to investigate the feasibility of such a loan product in due course. It should, however, now focus on strengthening the management of current system. The introduction of any new loan product not only requires stronger supervision but also modifications in the MIS and software used to monitor the loan program.

### **Loan of use**

38. Three major uses of loans have been reported: a) Crop production (rice, chilly, fruits and vegetables), b) raising of poultry and livestock, c) small business (trading) including handicrafts, embroidery etc. The loan portfolio is almost evenly divided into the three broad categories. In case of crop production, the client families used the loans to buy inputs in cash (seed, fertilizer etc) that reduced dependence on input sellers who sell inputs on credit at high interest rate (60% per year). Since CWED operates mainly in rural areas and the whole of Tien Giang province and the Mekong region is predominantly agricultural it is expected that CWED's the composition of loan portfolio will remain similar. But with increasing loan size many clients showed interest to expand into livestock.

### **Access to market**

39. The clients interviewed by the team noted that selling of crops and livestock was not a problem because of good communication and presence of many middlemen. The farmers

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<sup>8</sup> Note that the higher rate of interest of 14.4% (flat rate) was introduced only in early 2011. It will take about one year to bring full portfolio at this interest rate. And its effect on the sustainability is expected to be quite positive and can be seen when audited financial report of 2011 is available.

normally sell to the middlemen - some of them may be from the same communes - who bring their trucks sometimes near the farms to collect crops from the field. The prices of agricultural commodities are known to the farmers from neighbors or from other sources. Although crop production is profitable but that very much depends on price, which fluctuates very much within the harvesting season. The increasing cost of input and labor are reportedly two main causes of concern.

### **Potential new business**

40. The rural economy in Tien Giang province is very much depends on agriculture: rice, chilly, fruits and vegetables, livestock, fisheries and related trades, and it is expected to remain same for quite some time. The farmers keep producing the same crops repeatedly. However, even within this setting there may be opportunities to introduce new high value fruits and vegetables, flowers and herbs, decoration plants etc. Some examples of such opportunities were seen at the time of the evaluation. Further exploration is needed to identify new opportunities for diversification of agro-business in the CWED's working areas. Such diversification process is normally slow but should be attempted to enhance income. CWED may promote and train clients on potential businesses under the new NMA-funded project. One obvious diversification is expansion of livestock business, which the clients repeatedly mentioned during the evaluation.

### **Capacity building of clients**

41. As a part of microfinance program CWED provided orientation training on rules and regulations of the program. The clients depend on traditional knowledge of farming and other activities to run their present income generating activities. They asked for training mostly on agricultural technologies to improve productivity. NMA is currently implementing a capacity building project that will provide training to the clients on agricultural production. In some cases such training could be on tailoring, sewing, embroidery, food processing etc.

42. However, although the training on production technology is important but supply-driven trainings often found not effective. A more appropriate approach is to do value chain analysis of selected potential sectors (products) where the clients are currently involved or may get involved to diversify their businesses. The analysis identifies opportunities and constraints in the whole value chain starting from the input sellers to the final customers. The next step is to develop solutions and activities to remove the constraints, and one of the activities may very well be production training for the clients. In many cases, additional activities such as linkage with good sources of seed, new product design (for non-agricultural products), introduction of new crops, linkage with buyers, developing new marketing channel, accessing correct market information are critical for farmers and small businesses. Therefore, a more effective approach would be to do a sector analysis and design activities where production training could be one of the activities.

**Demand for Loan and Expansion strategy**

43. CWED has opportunities to expand microfinance program (i.e. portfolio and clients) within the existing clients by increasing loan size and or by organizing new clients. The expansion of portfolio will be very easy as about 20% of the clients are asking for larger loans, and will be cost effective because the portfolio will increase, hence income without increasing any cost.
44. The second strategy for bringing more clients may or may not increase cost depending on the strategy undertaken. The team found that clients may be included under the same centers or new centers may be formed with clients from the same village where CWED is now offering its service. This approach will not practically increase any cost. The second step would be to form centers in the same commune that may increase some travel expenses and require new staff members. However, that would be more cost effective than expanding to new communes.
45. But as the program expands it will be necessary to include new communes. So far CWED has depended on the interest and request of peoples' committee of a commune to start microfinance program in that commune. Although it is important to follow that request as CWED has agreement with WU and partly owned by WU, the result of the present procedure has been that it started microfinance in some cases (for example, in Go Cong Branch) in distant communes than communes near the branch. That has increased cost of operations and weakened supervision. A more natural strategy would be to expand first in nearby communes and gradually expand to distant communes. For this to happen, the commune selection process needs to be reversed. Either the Director or branch manger should visit the communes to test interest and persuade the peoples' committees and the WU local officials to launch microfinance program, that is, CWED needs to be proactive and do some 'marketing' of its program.
46. But the location and size of present branches are not suitable for that. The present branches are of uneven size in terms of clients and portfolio and covers widely varied geographical areas. Presently one branch serves 10,000 clients, another branch 8,000 and a new branch serves 2,000 clients. This makes it difficult to supervise loan program and understand cost-effectiveness of the program. Since the population density, poverty level and communication conditions are more or less similar in the whole province CWED may develop the structure or parameters of a model branch and replicate that in new areas. The structure means a) number of clients per branch (centers per branch), b) portfolio size in billion VND, c) number of staff members, d) other expenses, and e) capital needed in addition to savings so that the branch becomes financially viable in the shortest possible time and can properly supervise its clients. The time and process of reaching the viable operation needs to be tested in a pilot scale (one to two areas). Normally a branch should reach viable operations (i.e. income more than expenses) within a year if adequate capital is available to meet the loan demand. Once such a structure is developed CWED can repeat

the same structure and process in new areas. The beauty of this approach is obvious: a) financially viable program, b) strong control over the program, c) controlled expansion, and d) superior quality of service to the clients.

47. An estimated 100,000 clients can be reached in Tien Giang province. But that would require huge capital and enhanced management capacity of CWED. However, if expansion is not properly managed it is easy to lose control of the program and portfolio. The nature of microfinance is that it is extremely difficult to collect large amount defaulted loan. Therefore, prevention is the only option through proper management and controlled growth.
48. We may conclude that the appropriate expansion strategy would be: a) to expand within the same client groups through increasing loan size followed by expansion in the existing villages and communes, communes near the branch and of course, in the same province (present legal permission does not allow moving into another province); and b) to develop structure or parameters of a model branch and its management system to be replicated in new areas.

### 3. INTERNAL PROCESS AND MANAGEMENT SYSTEMS

#### Organizational Structure

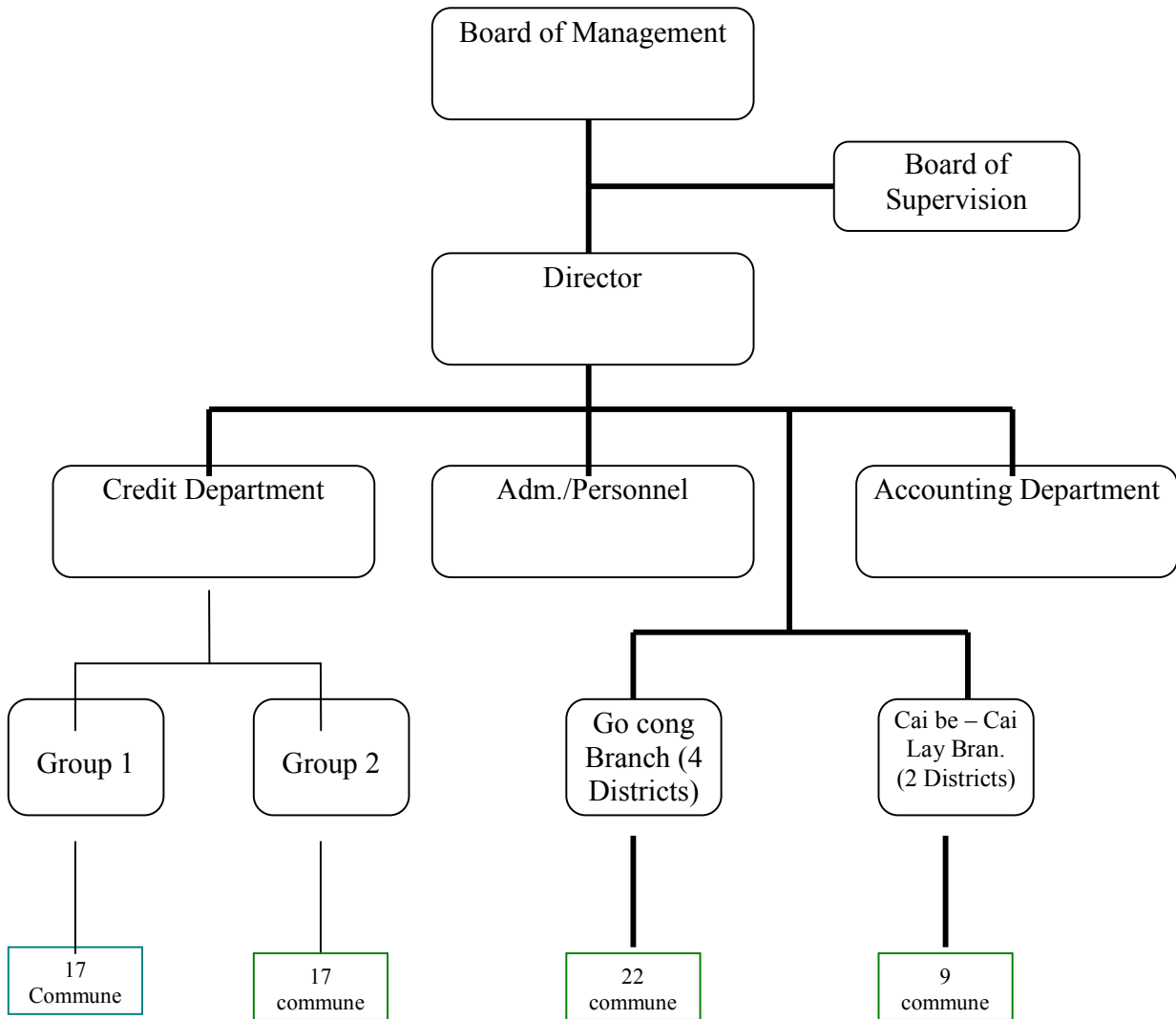
49. The key features of the present organizational structure (see Figure 1) are as follows: a) a Management Board is represented by the three owners' representatives, b) Board of Directors (current one Director – CEO), c) four separate departments (Loan department, Accounting, Human Resources and Internal Control and Office Admin). The main weakness of the present structure is the lack of clarity of supervision and reporting of microfinance operations. Currently, two branch managers and one Credit Manager, who is in charge of loan program managed from Head Office and other credit related activities, run Head Office related Loan operations with the help of two 'Team Leaders' – report to the Director. There is no formal head of Loan Department; the Director is CEO and de facto head of loan program.
50. A much clearer organizational structure is recommended in Figure 2. The key features are: a) Management Board will remain as before; b) a Control Board is required by the microfinance law, c) the Board of Directors will be Director/CEO who will be responsible for overall management and performance of CWED/MOM and all department heads will be reporting to her/him; d) Loan department will be headed by a Credit Manager, senior person who can supervise all present branches as well as future expanded operations of MOM; e) Loan operations of Head Office will be termed as Branch-3 (if necessary divided into two branches); f) all branch managers will report to the Credit Manager; g) each branch will have a clear structure with branch manager heading the branch and Credit officers, cashier and accountant reporting to the branch manager; h) any new branch will have similar structure and will report to Credit Manager. Since CWED can not afford to have a



senior credit manager now, the Director will continue to act as head of microfinance department as well.

51. The proposed structure is along the functional line and clearly defines roles and reporting line. It is also expected to institute proper supervision.

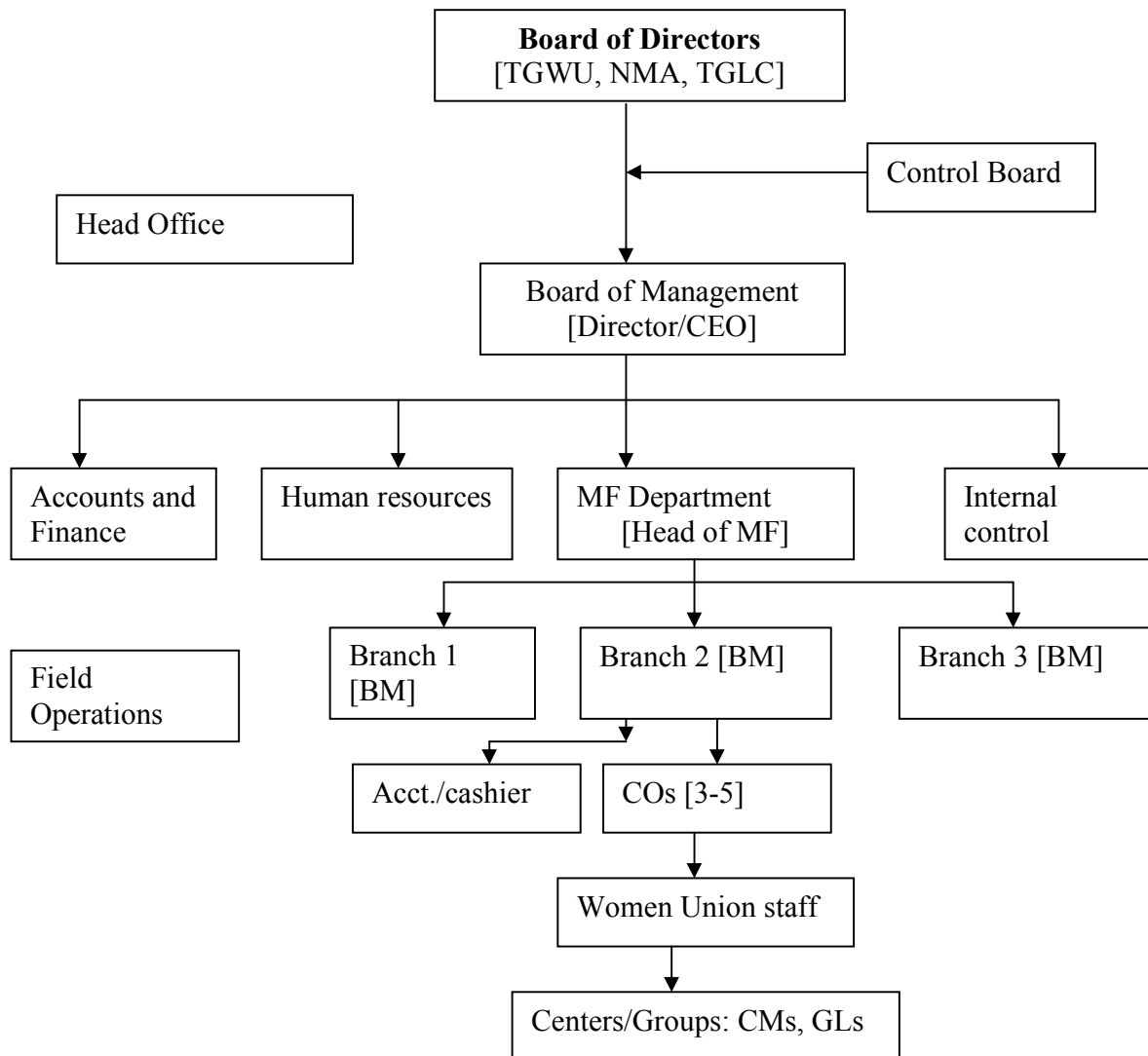
**Figure 2: Present organizational structure**



Head Office	Cong Branch	Caid Be Dis. -Cai Lay Dist.
Head office: 34 communes: • Chau Thanh District including 9 communes • Cho Gao Districts including 5 communes. • Cai Lay: 3 communes • Tan Phuoc District: 8	Go Cong Branch: 22 communes • Go Cong City : 10 Wards • Go Cong District 6: communes. • Go Cong East: 5 communes • Tan Phu East: 1 commune.	Cai Be Dist.- Cai Lay Dist Branch: 9 communes • Cai Be District : 4 communes. • Cai Lay District: 5 communes.

communes • My Tho Township: 9 wards.		
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**Figure 3: Proposed organizational structure**



52. The CWED’s microfinance management system depends on staff members of the local Women’s Union for preliminary identification of clients, preparing list of potential clients who are then appraised by Credit Officers for final selection as clients. The present process seems to be working well: cost of operation is low and selection of clients is good. But the Credit Officers need to be more familiar with their clients because they are ultimately responsible for ensuring repayment of loan and maintaining good portfolio quality. For this to happen, the Credit Officers should also be visiting clients after loan collection as well as be familiar with general economic and business opportunities in the area. Presently each branch covers a large geographical area when credit officers spend time in travel and collection. At the same time clients do not have a chance to visits CWED offices, their

financier. When and if CWED succeeds in mobilizing enough capital for expansion within the province it should plan for smaller branches located closer to the clients. It will improve supervision, and allow COs to know the clients and area better, and clients to know CWED better, an important step to ensure customer loyalty. In future there may be competition from other MFIs when customer loyalty will be critical for sustainable microfinance operations.

### **Loan management system**

53. Approval, disbursement and repayment: Over the years CWED has been able to develop loan management system, which is followed in all areas/branches. The selection criteria are more relaxed now, that is, poor women from farming families as well as small trading/processing professions are the clients. As mentioned earlier, the selection of clients at the first round is done by the Women' Union and the successive lending decisions are made by Credit officers. The loan processing is simple: after receiving applications from the clients, the Credit officer recommends them to the branch manager who verifies the application and approves the loans. The disbursement and repayment are transacted at the time of center meeting, which is very convenient for the clients. The residual money after transactions is kept at a local bank account of CWED. The credit officers take a print out of the list of clients that reflects amount of installment, savings, and balance of loan, and the payments are written on receipt and counter signed by center leader. CWED does not provide each client any savings/loan passbook that would reflect transaction of the month and balance of savings and loan. A passbook is a mirror of transactions kept with each client, which ensures transparency and builds up trust. CWED should introduce client savings/loan passbook as soon as possible.
54. Supervision: The main supervisory responsibility rests with the credit officers and the branch manager. In case of non-repayment the credit officer along with the Women's Union staff member visits the defaulting client(s) to persuade quick repayment. It seems that a credit officer has depend a lot on the Women' Union staff since she knows the area and the clients better but such dependence may not be good in the long run. The branch manager also visits centers and the clients as part of his/her job. At this stage the supervision seems to be adequate. But as seen in other countries as the program expands and the clients take loan many cycles, a percent of clients can not repay on time. For this reason strict supervision and emphasis on timely repayment is critical for a sustainable loan program. So far the repayment rate is good as also mentioned earlier. It is critical for the Credit Officers too know their clients and the working areas very well, independent of the Women's Union local staff; over dependence on them may lead to wrong selection of clients, relax supervision, and false sense of confidence on the system. The clients may rely more on the local staff than credit officers.

55. Independent monitoring: An official (internal controller) from the Head Office routinely visits branches to check disbursement procedures, applications and approval, accuracy of transactions and book keeping and visits sample clients. This is a good practice and should be continued. It has been reported that mistakes identified by the monitoring officer are quickly corrected and checked at the time of successive visit.

### Human resource management

56. Service rules or employment regulations: CWED/MOM has effectively become an independent organization that will now require all rules, regulations and system in place to function as per rules. Since the present and future employees will be the main asset for its effectiveness CWED has developed employee management rules that regulate their work with CWED. It is expected that with the growth of the organization new regulations will in place as and when necessary.

57. Qualification and skills: CWED is increasingly recruiting better qualified staff members and expected to continue this policy (see Table 3 for distribution and academic qualifications of current employees). It has been found that men/women with college and university undergraduate degrees have been recruited and it was not difficult to attract competent staff members. The accounting department is run by skilled accountants. The present skills seem to be adequate to manage microfinance program.

**Table 3: Number and education of CWED staff members**

Job Title	No. of staff		Education					
	Total	Female	Bachelor M.	F.	College M	F	Intermediate M	F
Head office:								
- Director	1	1	0	1				
- Adm./Personnel	2	1	1	1				
- Accounting Unit	4	4	0	2	0	1	0	1
- Credit Unit	13	2	3	0	3	0	5	2
- Internal control	1	1			0	1		
- Support to clients	1	1	0	1				
Transaction Unit at area of Go Cong Dis.	7	4	0	2	0	1	3	1
Transaction Unit at area Cai Be – Cai Lay	4	2			1	1	1	1
<b>Total</b>	<b>33</b>	<b>16</b>	<b>4</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>9</b>	<b>5</b>

58. Responsibilities and Authority: The authorities, responsibilities and work process are known to the staff members of different levels. For example, TOR for accountant, internal ‘auditor’ and other key positions are written and explained to the respective staff members.

The work process of credit officers, branch managers and internal auditor are well known and practiced.

59. Recruitment policies: The CWED has been recruiting staff for different levels through head hunting, and informal advertisement at the local level. It is increasingly becoming professional/formal in recruitment, and independently recruited the present Director. It should spell out the recruitment process in the service rules so that the process is followed as per declared rules.
60. Adequacy of staffing: The staff members for the present size of operations seem to be adequate. A proper ratio of clients per Credit Officer should always be maintained for effective management. All other departments are also adequately staffed. A Credit Manager who will be in charge of whole Loan department should either be recruited or internally formally placed. CWED may further check the need for having a cashier and an accountant in a branch when it has an efficient computerized system of book keeping.
61. Staff development and Training: Both CWED and NMA had arranged various training in the past. The staff members have received training on group formation, financial analysis and risk management, rural development, gender issues, team building and rules and regulations of microfinance program. NMA has planned under its new project to train staff members to be trainers for the clients on various business issues. The officials from all departments will receive training under an ADB-funded capacity building project in the coming years where CWED will share 50% of the cost of the training courses. Currently, the new Credit Officers receive on the job training and coaching from other credit officers and the branch manager. The present process is adequate.
62. But CWED as a matter of policy should a) determine required skills set needed for each level and position of the organization, b) training needs for corresponding levels, and c) link training and staff capacity building with job description and career path. For example, when a credit officer is considered for promotion to become a Branch Manager, she/he should complete required training before being promoted. This link will encourage staff members of all levels to complete all training courses and acquire the knowledge and skill sets.
63. Compensation package: The present salary and allowance has been reported to be competitive.

### **Procurement system**

64. CWED is yet to make any big purchase. So far the practice has been to collect three price quotations or proposals from three suppliers of a particular product. A group of senior officials review the proposals and the Director finally approves the purchase. A more elaborate system may gradually be developed and incorporated as a part of management

system for CWED. Any large purchase should be pre-approved by the Management Board. Note that the Management Board approved the purchase of microfinance management software from a local firm.

### **Accounting system**

65. Accounting systems and principles: CWED follows the Generally Accepted Accounting Principle (GAAP) in accounts keeping. The policies and practices at the HO as well as branches offices are compatible with country regulations. It follows double entry and accrual basis of accounting except in case of interest income (interest income is recorded as cash) from the microcredit program, which is the correct practice. It has a chart of accounts and transactions are summarized accordingly.
66. Books of accounts: All standards books of accounts such as Cash book, general ledgers along with some subsidiary registers are maintained in the accounting software. The accounting software does not produce financial analysis reports and calculation of various indicators commonly done for microfinance programs, which are done by the accounting department using spread sheet analysis.
67. Financial Reporting: CWED produces three reports such as cash-flow (Receipts and Payments report) Profit and Loss Accounts (Income statement) and Balance sheet every month. The presentation of the reports is similar to commonly used by MFIs and consistent with requirements of a financial program.
68. Loan-Loss Provision Policy: CWED classifies its loan portfolio as current loan , 1-31 days overdue, 31-60 days, 61-90 days, 90-180 days, 180-365 days, and more than 365 days past-due. The present practice is to make provision for bad loan as 1.2% of total loan outstanding at the end of the year by the accounting department. The present practice is reportedly to be more stringent than the present regulations dictate. It has a write-off policy but has not yet written off any bad loans.

### **Financial management and business plan**

69. CWED prepares an overall budget for the microfinance program every financial year. It follows consultative process led by the Director and involves branch managers, credit manager, and the accounting department. Normally the membership and loan disbursement plans are prepared by the branch managers and the overall budget is prepared by the accountants. The annual plans are reviewed by the Management Board as well as NMA. The branches are not yet skilled to prepare annual financial plans for the respective branches. Gradually the planning for the loan program should be 'bottom-up', that is, branch managers should be able to develop their plans, which later can be consolidated and revised at the Head office to reflect overall plan and availability of funds.
70. CWED has developed three year business plan as part for its application for license from the SBV and five-year business plan as advised by the Management Board. Although the

plan looks very ambitious in terms of growth of the microfinance program given the fund shortage but the CWED management must be credited for the skill of developing such a plan, which can easily be adjusted to reflect fund situation.

### **Internal Audit**

71. CWED has designated one official to conduct internal audit/verification of loan and other transactions at the branch level. The internal audit normally spends eight days per month checking at branches and works at the HO for the rest of the time. . She verifies the proper implementation of savings and credit policies at the centers, cross checks financial information of the individual members as well as groups with data preserved at branch level, examines loan proposal, loan approval and bank transactions, checks MIS reports, follows up previous audit findings and H/O instructions, observes expenses and office management; and prepares report and submits it to the Director. However, she rarely comes directly to centers to check. And, there is also no record book at centers for crosschecking.

### **External Audit**

72. CWED conducts external audit every year and the audits reports were available at the time of the evaluation. The disclosures of the audit were found adequate and the reports are also expected to meet the compliance of the SBV after CWED/MOM receives license.

### **Fiduciary responsibilities**

73. CWED mobilizes resources from clients in the form of savings, and from external agencies in the form of grants and loans. The Management Board and Director are responsible for proper use of all funds as per law and as per contract signed with the savers and other donors. We observe CWED management is managing all funds as per contract. It is expected to comply with all regulatory requirements when it is granted a license. CWED is preparing and improving its system to receive license. In addition, as external donor NMA also conducts its own supervision, which is an additional safeguard.

### **Governance**

74. Board of Directors: CWED has formally become a Social Fund with the objective of becoming a formal microfinance institution and thereby formed necessary governance structured as stipulated in the present microfinance law: three boards namely – Board of Directors, Control Board and Management Board. The Board of Directors (BoD) represented by the three owners meets three times a year, which takes decisions on strategic and important issues. The resolution of the last meetings shows that it took decisions on purchasing of software, raising staff salary, allocating funds for charitable activities, continuation TGWU as local service provider, formation of Control Board, approved agreement with NMA for new training project, approved revised plan for 2011 and advised preparation of plan for 2012. This reflects active involvement from the Board on important issues and guidance to the management, which are normal functions of such Boards. CWED/MOM is on the right track for becoming an independent organization.



75. Director/CEO: The present director, recruited in 2009, is the chief executive officer in charge of overall management of CWED/MOM. In absence of any senior manager in charge of microfinance program she is effectively also head of loan operations. She is a busy person as the CEO for overall activities of CWED that affects supervision of microfinance program. She needs to divide her time between office works and field operations until a competent person heads the microfinance program.

### **Management Information System**

76. CWED maintains an MIS using new software which provides details information on clients, savings, disbursement, loan balance by individual, by center, and by branch. It is in the process of migrating to the new system from the old system and the process is expected to take one year as all new loans are records using new software. The system generates all necessary reports. As mentioned, CWED does not use passbook for individual client and for individual center, which represents a weakness in the MIS and flow of accurate information. Once passbooks are introduced it will be the job of internal auditor to reconcile records of passbooks with branch information every six months.
77. The present software system is not interconnected with the Head Office, that is, MIS of branch offices are separate. Any future upgrading should involve connecting all branches and producing consolidated reports. The present system needs manual consolidation of all reports.

## **4. STRATEGY OF NORWEGIAN MISSION ALLIANCE -VIETNAM**

### **Role and contribution of NMA**

78. A number of questions regarding the roles and strategy of NMA have been investigated. The most relevant questions are: a) Are the roles of the implementing partner and NMA in the project the most appropriate way possible? b) Has NMA added value to the project? c) Are the relevant parties and authorities in the partner country involved in preparation and implementation of activities of CWED? d) What would the future roles of NMA? e) Is there an exit strategy? The following discussions answer these questions.
79. NMA has been the original sponsor or funding agency for the microfinance project when back in 2002 it came up with capital for loan, operation cost and system development cost for a small microfinance project. As per the law of Vietnam, any foreign donor agency has to partner with a Vietnamese governmental agency to implement development project. NMA very logically partnered with the Women Union since its (NMA) objective was to reach the poor women for social and economic development. The Women Union of Tien Giang province being a mass organization with organizational network spread up to the commune/villages provided an opportunity to quickly reach the poor women. The WU

could easily organize the poor women in the villages, the most critical foundation of microfinance program, and the former project took advantage of that network. From the hindsight the decision has been proven to be correct and successful. At the beginning, NMA provided all financial and capacity development support for all project staff members and WU implemented the project by organizing the poor women.

80. The project has now been converted into an organization where NMA-Norway is a lender and part owner of CWED/MOM. The WU is also part owner and acts a 'service provider' where commune-level staff members organize the poor women into microfinance groups/centers. This arrangement is cost-effective.
81. In addition to financial resources, NMA has assisted the project and now CWED in many different ways: a) it continues to assist capacity building of staff members and beneficiaries through training; b) acts as mentor for branch managers and senior officials; c) acts as supervisor of CWED programs; d) NMA constantly promotes CWED and consequently has been recognized by the Peoples' Committee and the SBV as a significant contributor in the TG province. Other donors and agencies have also recognizes CWED and working with it as lender (Belgian Project, Hasveltas??) as well as capacity building partner (ADB).
82. NMA has been searching for resources for CWED/MOM and plans to continue as lender and part owner. In addition, it is implementing complementary project for capacity building of clients and staff members. This strategy will enable its influence on the direction of as well as continued support for CWED. A strong mentor and sponsor will be important for CWED/MOM to receive the microfinance license as well as mobilize resources.

### **Exit Strategy**

83. It is not uncommon experience that many development projects leave no trace of impacts or continuity of service, even microfinance projects, after the end of the project period or donor support. CWED appears to be a sustainable program (see Section 8 for detailed discussion on sustainability) to continue to grow even after the end of 'project' because the 'project' has been successfully converted into a permanent organizations with appropriate management system, demand-driven services (i.e. microfinance) and clear ownership and governance system. In the changed organization NMA remains as part owner to provide strategic direction and transformed its role as wholesale lender not as donor that gives grants. This has reduced cost to NMA since CWED is financially viable, that is, there is no need for subsidizing management expenses. Even if NMA does not provide additional loan CWED is expected to continue its services at the present scale. Therefore, the exit is clear, which in this case is transforming role from project financier to part owner to lender. If NMA could bring enough resources the 'wholesale' fund can also be financially viable as found in other countries (see Section 11 on future direction for NMA). That means the

future role of NMA will be lender, promoter and mentor which appears to have worked very well in case of CWED.

84. Besides, NMA can implement additional occasional projects, as it is doing now, to directly benefit the clients without burdening the cost of CWED. In this case also the exit will be the end of the additional non-finance type project activities but financial service will continue.

## 5. IMPACTS OF CWED'S MICROFINANCE PROGRAM

85. The discussions on achievements of CWED have been divided into two categories: a) effects of CWED, that means, the changes induced or opportunities created in the financial system and business environment due to its services; and b) impacts on income and standard of living of the beneficiaries or clients. Note that no large-scale quantitative impact assessment survey taking statistically valid sample has been carried out. The observations made in this section are based on FGDs (discussions with the clients at the center meetings) and interviews conducted with individual clients of three branches.

### Effects of CWED

86. Savings opportunities: The poor women in the rural Vietnam want to save but absence of convenient deposit making system deprives them of the opportunity because either commercial bank branches are absent or not interested to accept small deposits, as small as VND10-20,000. For the poor women it is expensive to travel to distant semi-urban places to just deposit small savings. CWED's network of centers has created that opportunities for the poor women to save at with CWED at not extra cost who so far saved VND 11.82 billion. CWED has opened up a permanent system of savings collection and withdrawal and the poor women valued very much the convenience of such collection system.
87. Access to finance: Less than 10% of the clients had ever borrowed from any financial institution before joining CWED and even lesser percent have now outstanding loans, especially with VSPB. The clients appreciated three features of the credit program: a) no collateral or poverty certificate needed; b) reasonable cost (1.5% per month compared to 3-5% per month of shop owners); and c) convenience of the process and monthly installment payment near their homes. More importantly the access to finance is sustainable as long as the clients repay their earlier loans. The clients overwhelmingly expressed their interest to continue accessing loan from CWED.
88. Less dependence on informal source: In absence any formal sources the poor women inevitable end up borrowing from the local loan sharks at the rate of 8-10% per month. Although the loan sharks are not eliminated but the dependence has definitely been reduced. Another very common source of credit is the local fertilizer shop owners who sell

agricultural inputs at an estimated rate of 3-5% per month. The clients still partly depend on them but reported less dependence due to loan from CWED because they can buy inputs on cash. This has reduced their cost of production and the dependence could further be reduced if CWED provided 'seasonal loans'.

89. Expansion of business: The small business clients reported increase in sale due increase of inventory and the farmers reported increased farm production (crops and livestock) due to regular and hassle-free access to credit. The clients from old areas where CWED has been working since 2002 reported significantly increase in production of crops and livestock thanks to sustainable long-term access to credit.
90. Linkage with local government: Since the microfinance program is implemented in collaboration with the WU it has strengthened collaboration with local government. The local WU uses the network of centers to disseminate its social messages. Besides the provincial government (People's Committee) has been found to be a strong supporter of CWED's program. The commune-level People's Committee officials expressed their strong demand and support for financial services for the poor because of its direct contribution to increasing income and reducing poverty. Besides, capacity of CWED and WU staff members has greatly enhanced in managing microfinance program which will be the basis for further expansion of the program.
91. New project delivery: NMA can deliver their new/separate programs more effectively because of the CWED's centers.
92. Sustainable operations of CWED: Due to NMA's financial and capacity building assistance CWED is now a sustainable organization for the poor (see Section 8 on sustainability of CWED).

### **Impacts of microfinance**

93. Increase in income: The single most immediate impact of microfinance as reported by the clients is the increase in income from agriculture and small business. The clients reported increased profit due to increase in sale of farm and non-farm goods as well as reduction of cost. But it should be noted that loan from CWED is small and it constitutes a part not full capital of a client. Therefore, the quantitative increase of income from loan is still small but sustained access is making a big difference. The clients who borrowed several times reported lot more income than new clients who are still borrowing small amount. The clients have emphasized the sustainable presence of CWED.
94. Improved food security: The poorer families reported immediate improvement in food security. No client mentioned that they suffered from hunger. In fact, the clients mentioned increase in family expenditure for food and related items after joining the microfinance program.

95. Increase in asset: Although it can not be fully attributed to the microfinance program about 25% of the clients mentioned improving family and personal asset over the last one to two years in the form of cash, improved house, and livestock.
96. Empowerment: The participating women reported enhanced roles in the family as well as production system because they now bring ‘cash’ to the family. Besides, interaction with the WU staff, credit officers, discussions at the center meeting, dealing with money and market the participating women feel more knowledgeable and confident in day to day life.

## 6. RELEVANCE OF CWED’S MICROFINANCE PROGRAM

97. Support to GOV strategy: The reduction of poverty and hunger is a top priority for GOV as expressed in poverty reduction strategy document. One of the important strategies is to promote agricultural and rural development. And access to finance is crucial for farmers and agricultural production. In fact, VBARD and VSPB and numerous PCFs provide loans to farmers. Microfinance provides critical input for agricultural production and therefore, is directly supporting GOV’s policy and development agenda. About two third of CWED’s loans are disbursed for agricultural activities. Microfinance in general and CWED in Tien Giang province in particular is contributing directly to GOV’s priority areas.
98. Contribution to poverty reduction: CWED’s activities aim at *“increasing income for poor family in order to improve their living situation so that they may take responsibility for their own life”*. As discussed in Section 5 that microfinance from CWED has increased income and reduced poverty through financing various income generating activities in farm and non-farm sectors. It is important to have sustainable access to finance to ?sustainable increase in income.
99. Besides, CWED has helped to creates capital of the poor women/households and increased asset. The poor women overwhelmingly expressed interest and excellent use of microfinance and wanted to continue to receive the service. Since it has great relevance for the poor, and therefore, has relevance for GOV.
100. Support by the regulations: The importance of microfinance has been reflected in the GOV’s laws and regulations. The project (CWED) design, including project’s objectives is relevant to the current regulatory framework and policies for microfinance sector in Vietnam. CWED’s target clients are *“poor women in rural area who have demand for capital for production or business activities but have no access to formal credit services.”*
101. According to the Vietnam Government’s regulations on market segmentation for banks, the Vietnam Bank for Social Policies (VBSP) serves poor people based on poverty standard, which is proposed by the Ministry of Labor-Invalids and Social Affairs (MOLISA) and approved by the Prime Minister. VBSP also lends enterprises for job creation, students, policy beneficiaries and people in mountainous regions.. However,

VBSP does not have enough financial resources and makes mass disbursement once in a long period; thus, the poor cannot borrow anytime between two disbursements. VBARD makes rural uncollateralized loans under VND 30 million and bigger loans with business proposal. It focuses on big loans, and its complicated procedures drive out smaller borrowers. Consequently, the poor people without 'poor certificate' and low income group which makes up majority of rural area are left out of formal banking system.

102. CWED, on the other hand, is able to reach these groups. Currently, CWED is serving poor women because they are normally the poorest among the poor. They also play a crucial role in taking care of their family, nutrition, and education for their children. Moreover, women are highly responsible in using and repaying debts. Empowering women to manage family budget and finance is a way to help them enhance their position within the household. This is relevant to the Vietnam Law of Gender Equality. CWED's objectives and activities are also in line with the national strategy for sustainable economic development and poverty reduction.
103. In recent years, especially after the introduction of Decision No.28 – 2005/ND-CP and Decision No.165 - 2007 ND-CP on Organization and Operation of Small-sized Financial Institutions, the Vietnam microfinance sector has enjoyed more favorable conditions to grow in a more professional way to better serve the poor and low income households, ethnic minority groups, equip them with new knowledge and skills to develop their income-generating activities, improve their living standard and social status, contributing to national program on poverty reduction. In order to stimulate microfinance sector, the Prime Minister has set up a Microfinance Working Committee (by Decision No. 1450/QĐ-TTg) and also directed SBV to make a Microfinance sector development strategy for 2011-2015. The strategy clarifies clearly the duties of each ministry and government agency at central level and local level, of mass organizations as well as business corporations in facilitating microfinance activities. These steps illustrate strong support from the state.
104. Appropriateness of financial products: *The financial products and services of the project are suitable to the clients.* CWED presently offers two savings products and one credit product. Savings enable the poor to accumulate assets and also a source of fund for operation. There are compulsory savings of VND 20,000 per month and voluntary savings. The loan size increases by cycle and depends on repayment capacity of the borrower. The clients now can borrow for 12 months or 18 months and repay in monthly installments. Although products are not so diversified the clients are quite satisfied. Some of the members ask for bigger loan. The current loan policy also complies with current regulatory framework.

105. However, since loan amount is small, its contribution to total income generated is relatively limited. Besides, CWED has not focused on mobilizing voluntary savings. It can be observed from the field that voluntary savings is very small (VND7,000-8,000 per month). The ‘voluntary savings’, which now makes up only 4% of total savings balance, therefore, should be further encouraged to increase loanable fund.
106. Achieving project objectives: The project activities meet its aim of setting up a collaborative network between CWED and WU at different levels in Tien Giang Province. The WU staff members are in charge of selecting potential clients as per CWED’s criteria, forming groups and collecting installments at centers. CWED’s credit officers are responsible for introducing credit policies and procedures, appraising, disbursing and collecting repayment. In addition, NMA supports trainings and capacity building for CWED’s staff, WU staff and clients. Over the last few years, this system has successfully widened CWED’s outreach to nearly 20,000 clients in the whole province, increased total loan disbursement to approximately VND 149 billion and savings balance up to VND 11.8 billion.
107. Overall it may be safely concluded that CWED supported by NMA has complemented GOV’s development strategy and objective of reducing poverty. CWED can potentially become a large organization in the Mekong region to provide sustainable financial services to the poor and therefore, NMA needs to continue its involvement in the microfinance sector.

## 7. EFFICIENCY OF NMA APPROACH

108. The discussions on efficiency have been divided at two levels: a) efficiency of the approach followed by NMA as donor when financing CWED, and b) efficiency and sustainability of microfinance program of CWED. We have discussed the later issue in Section 8. The efficiency of NMA-funded program of CWED comes from the following three sources:
- Partnership with CWED: The commune-level staff members of the WU are organizing the poor women at much lower cost than that would have to be incurred if directly-hired staff of CWED are employed to do the same job. This partnership has also the benefit of using the same clients and centers to deliver additional development services without the need for mobilization cost.
  - Capital fund only: Unlike the introductory phase (2002-5) of the project, NMA now provides only capital as loan to CWED that does not require any subsidy for management cost since CWED operationally sustainable, i.e. cover management cost from interest income.

- Sustainable capital fund: The above arrangement of loan keeps NMA capital intact in VND. If the fund is built large enough the interest income can cover the management cost of managing such ‘wholesale’ fund.
- Strategic ownership: Since NMA is also part owner of CWED/MOM it is in position to assist expansion as well as influence strategic direction of CWED.

## 8. SUSTAINABILITY OF MICROFINANCE PROGRAM

### Sustainability defined

109. A microfinance program is considered sustainable if its three parts together are simultaneously sustainable, i.e. a) clients are sustainable (sustainability of clients), b) the microfinance institution is sustainable (institutional sustainability), and c) the microfinance institution is financially viable (financial viability). The overall objective is to offer demand driven financial services for economic development of the clients or beneficiaries.

### Sustainability of clients

110. The clients should be improving their economic situation and social status by participating in microfinance program. This only happens if they make good profit from their investments that lead to enhanced income. The interviews conducted by the team show that the clients in all three categories of investments – crop production, livestock, and small business – do make good profits. This has been more prominent for the old clients who borrowed 4-5 cycles. That is also reflected in their eagerness to continue borrowing larger amounts for investments. The issue of profitability has been discussed in later in this section.

### Institutional sustainability

111. The institutional sustainability includes strong legal basis, ownership structure and presence of well established rules and regulations, systems and process, and skilled human resources to run the organization. As seen in Section 3, CWED has clear ownership structure, and various management systems, policies and processes that it adheres to implement its program by a group of skilled staff members. We will not repeat these issues again here.

112. Legal aspect: We will rather limit us to the legal aspects of CWED. From a legal perspective, before the Credit for Poor Women Project funded by NMA came into



operation, the sponsor (NMA) had been approved to set up a representative office in Tien Giang Province. The People's Committee of Tien Giang also signed a MOU with NMA to create cooperation between NMA and Tien Giang WU. In 2010, the Credit fund for Women's Economic Development (CWED) was established in accordance to Decree No. 148-2007/NDD-CP on Organization and Operation of Social Fund, which is a stepping stone to become a licensed MFI. Three organizations - Tien Giang Lottery Company, NMA and CWED - have joined together and applied to set up a licensed MFI in the name of MOM with initial expiration in 50 years. The Mekong Organization of Microfinance (MOM) will be a 2-member joint venture with one foreign shareholder, which is allowed by Law on Credit Institutions (dated 29 June 2010). The MOM, as a licensed MFI, will be supervised by SBV and must abide by regulations on operations network, standards, provisions and capital adequacy, accounting principles, reporting, MIS as well as management's qualification. This change, in turn, will ensure more effective and secure financial operation. Therefore, it is evident that MOM is sustainable in terms of its organization and operation.

113. Support from Stakeholders: In addition to strong legal basis, CWED enjoys strong support from commune-level WU and Peoples' committees who demand expanded financial services for the poor. It also gains strong support from the Provincial People's committee and SBV. Since WU, a mass organization is the main shareholder of CWED and WU is also an important service provider we expect continued state support for MOM. Besides, NMA being part owner and financier MOM is on the solid legal, financial and social footings.

### **Financial viability of microfinance program**

114. The financial sustainability in its simplest definition would mean that CWED/MOM is profitable, that is, its income is more than expenses year after year. The viability issue has two sides: a) income side which depends on portfolio size and growth, and rate of interest on loan; and b) expense side where two factors influence the outcome: operating expenses and financial expenses. The operating expenses in turn mainly depend on salary expenses of field staff member. We therefore would like to see efficiency/productivity of field staff members as proxy indicator. For the time being the financial expenses is low because of low interest paid on savings and very low cost of capital. We, therefore, would like to see whether CWED is profitable using measures like operating self-sufficiency, Return on Asset and Return on Equity and factors that are influencing profitability.
115. Assessment of Efficiency: The Operational efficiency of an MFI measures its ability to serve a great number of clients at minimal cost. In other words, efficiency means (=) high productivity and low cost. In order to measure resources utilization, particularly assets and personnel utilization of an MFI, following set of ratios are often used: (1) employee

productivity that includes number of active borrowers per credit officer, number of active borrowers per staff and outstanding loan per credit officer; (2) Financial productivity: yield on gross loan portfolio; and (3) Cost efficiency includes operating expense ratio, personnel cost ratio and financing cost ratio. The efficiency ratios alone cannot capture the overall picture of the fund's financial health; thus, they must be considered together with sustainability/profitability ratios, portfolio quality ratios and finance management ratios, etc.

116. In the case of CWED, it may be too soon to analyze productivity ratios because it is newly established from a project managed by TGWU with an organizational structure mainly based on WU system in provincial, district and communal level. And, since the project focused on poor and poorest women the WU chose communes in remote areas of the province without considering cost effectiveness. The WU officials are also in charge of group formation and management, hence, employee productivity ratios are only meaningful to compare internally over time, not to compare with other MFIs. Nevertheless, productivity/efficiency ratios give the management in-depth insights into their organization's operation and ideas to sketch out strategy for future (Table 4).

**Table 4: Efficiency ratios**

	<b>Indicators</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1	Loan officer productivity		478	593	883
2	Personnel productivity				564
3	Outstanding Loan per Loan Officer (million VND)		745.2	1,095.1	1,580.47
4	Average outstanding loan size (million VND)	1.57	1.873	2.075	1.969
5	Average loan size (million VND)	2.183	2.102	2.585	2.589
6	Operating Expense Ratio (%)	6.79	9.50	11.04	11.70
7	Cost per Borrower (VND)	182,631	273,105	297,571	309,697

117. Employee productivity ratios: The most important productivity ratios are:

- Personnel productivity measures client management productivity, quality of human resource and appropriateness of recruitment and personnel allocation of an MFI. However, at CWED, this ratio has not been adequately calculated because it did not take into account the number of WU officials involved in carrying out the project. Nonetheless, in 2010, personnel productivity is much lower than loan officer productivity, which can be implied that there are many back-office employees.
- Loan officer productivity reflects quality of credit officers, number of client per credit officer, and also income prospect of the organization. Over the years, this ratio gradually increased and reached 883 clients/CO in 2010. This can be considered a

good signal if portfolio quality and outstanding loan per loan officer also improved in the same period.

- Outstanding loan per loan officer is another important indicator that indicates financial management productivity of a credit officer. It is a good sign that this ratio of CWED together with Average Outstanding Loan size and Average loan size show an increasing trend. Average loan size is still small (ranging from VND 2.1 million – 2.5 million); and average outstanding loan is similarly modest (about VND 2 million). The small loan size reflects that CWED is correctly approaching poor clients. But if members who have joined for a long time did not raise their loan amount much, it is advisable that the fund reconsider their loan utilization capacity and revise whether its credit policy is too rigid in terms of loan size and loan cycle or not. In fact, low loan size push up costs, undermine profit and lengthen the time to archive sustainability. Recently, CWED has rightly increased loan ceiling to VND 6 million and is expected to revise with demand. However, such upward revision also depends on availability of loan fund, which is of short supply now.

#### Financial productivity ratios:

118. The Yield on Gross loan portfolio calculates the rate of return on the average equity for the period. In other words, it measures how much the MFI earns after making disbursement and managing a borrowing unit. This ratio mirrors yield on financial investment: with the same amount of outstanding loan, the higher revenue is, the higher profit is and vice versa. As already analyzed in Sustainability and Profitability section, it is a positive indication that this figure has been increasing over time.

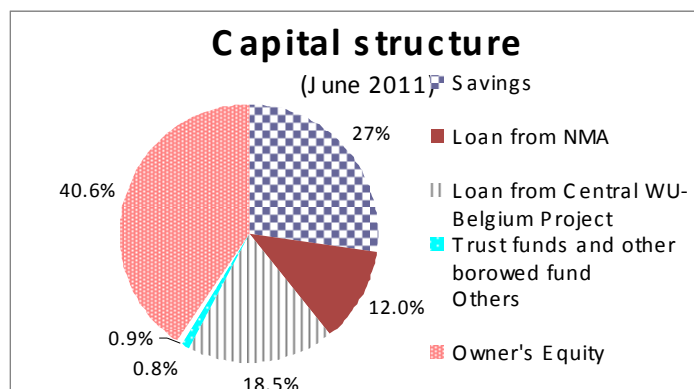
#### Cost efficiency ratios:

119. These ratios measure how well an organization manages costs and expenses. Two indicators are picked out to be analyzed:
- Operating expense ratio: Operating expenses is composed of human resource expense, other administration costs excluding funding cost and provisions. It points out what the proportion of operating cost is out of total profit. The benchmark is 15%, which means MFIs should maintain their own ratio equal or lower than this high-water mark. But it does not equally mean that the lower is the better because it links to other indicators such as staff turnover rate, low quality service, lack of trainings for employees, etc. In recent years, CWED has successfully kept the ratio low. Although, the operating expense ratio has gone up to above 11% in the last two years, it is still in safe zone.
  - Cost per borrower provides a meaningful measure of efficiency for an MFI, by determining the average cost of maintaining an active borrower or client. It can be seen from the table that cost per borrower has been increasing. This requires close

attention because if cost per borrower rises when in fact, financial and non-financial services and products are undiversified and limited, the increase only signals problems in income structure and cost structure, at the same time, reduces profit and obstruct the organization’s development.

120. In general, efficiency and productivity ratios reflects the fact that CWED is in transformation process to be a more effective and professional organization. The increases of some ratios are reasonable and positive, but of some others need to be closely watched to make suitable adjustment. It should also be kept in mind that these ratios should be consider in the context of the whole set of financial ratios.
121. Assessment of financial sustainability: The analysis will look at two levels: self-sufficiency and sustainability. (1) Financial self-sufficiency means income from financial activities must cover all financial costs. (2) Financial sustainability means income from financial activities must not only cover all financial costs but also inflation, subsidy, and still show a trend of growth.
122. Financial sustainability hinges on interest rate. CWED currently applies flat lending interest rate of 1.2% per month<sup>9</sup>. Maybe due to limitation in capital turnover and lower rate of interest, yields on gross loan portfolio were modest. In 2006 and 2007, this ratio was around 14%/year, and was only raised to 17% during 2008-2010.
123. Portfolio quality and capital capacity are other factors that have great impact on financial sustainability. In general, if loan quality is good, profit will depend on capital capacity. In recent years, PaR ratio has been well-maintained under 0.5%, and even got as low as 0.13%. Thus, CWED’s portfolio quality has been sufficiently good and capital capacity is decisive to profit.

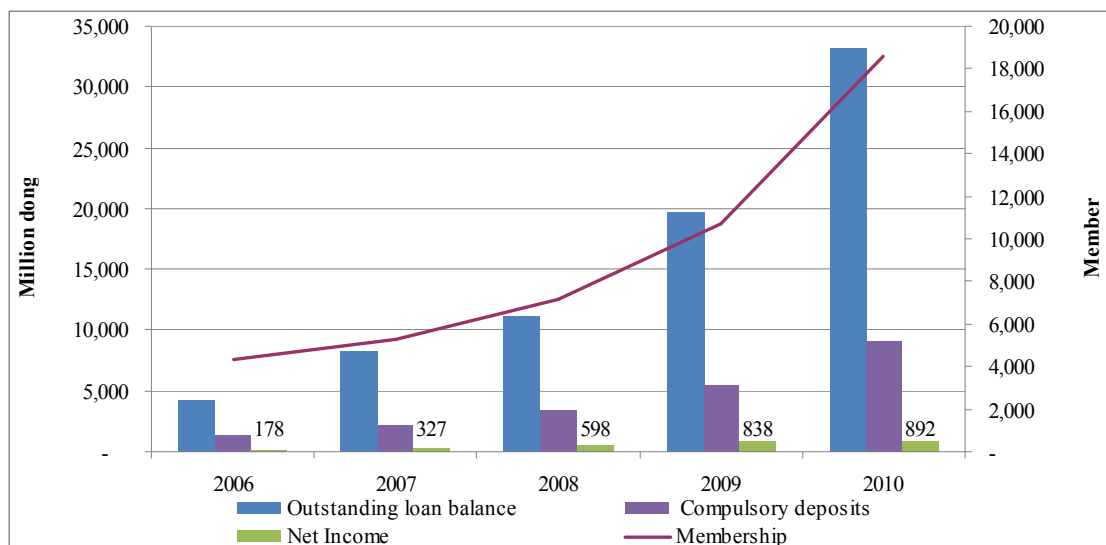
**Figure 4: Capital structure**



<sup>9</sup> Note that this interest rate of 1.2% was introduced in early 2011, therefore, did not have any effect of financial performance up to 2010, which is presented in Table 5. The performance of 2011 is expected to better.

124. As can be seen from Chart 1, owner’s equity accounts for the largest proportion of CWED’s capital structure demonstrating capital capacity of MOM.
125. Savings is a low-cost and sustainable source of fund. However, it is regulated by SBV that for any microfinance organization which has more than 50,000 members, total savings balance must not exist 50% of total owner’s equity. That of CWED is now slightly higher than 50% of owner’s equity, which it is acceptable. In order to build up its capital to meet demand of more clients, CWED have to further raise fund from this source. Only by becoming a licensed MFI, can CWED mobilize voluntary savings; otherwise it is limited by law. Hence, the rest must be funded by external borrowings.
126. In the context that CWED remains unlicensed NMA is expected to continue as the main low-cost financier denominated in Vietnam Dong to expand its outreach to more poor people and at the same time, achieve financial self-sufficiency.
127. Profitability is a crucial aspect of sustainability of a MFI. Profitability ratios capture performance of an organization, its ability to maintain its operation and grow over time.
- ROA measures overall profitability of the organization, reflects profit margin, effectiveness and capital utilization, and implies managerial factors. The higher ROA is, the better the organization’s financial health is.
  - ROE points out how much a shareholder earns on one dollar of investment. In case of a non-profit organization, ROE, however, indicates ability to build up owner’s equity by retained earnings and ability to increase outstanding loan balance, which means commercial sustainability. ROE must be a positive number. It is also expected to be close to or higher than that of competitors operating in a same region. In a saturated or fiercely competitive market, ROE is normally stable.

**Figure 5: Membership, Savings, and Loan Outstanding balance growth (2006 – 2010)**



- c) Positive AROA and AROE show that the MFI is financially self-sufficient, does not rely on donation and well-preserve itself against inflation.
- d) OSS measures how well an MFI covers its costs through operating revenues.
- e) FSS measures financial self-sufficiency. A reading above 100% indicates financial growth and self-sufficiency.

128. Analysis of those ratios of CWED over the last five years shows that (Table 5):

**Table 5: Sustainability and Profitability (as of December)**

	Indicators	2006	2007	2008 <sup>10</sup>	2009	2010
1	Yield on Gross Loan Portfolio (%)	14	14	17	17	17
2	Operational Self-Sufficiency (OSS) (%)	154	157	154	132	124
3	Return on Assets (ROA) (%)	5	5	6	4	3
4	Return on Equity (ROE) (%)	6	7	8	5	5
5	Adjusted Return on Assets <sup>11</sup> (AROA) (%)	-1	-1	-11	-2	-5
6	Adjusted Return on Equity (AROE) (%)	-1	-1	-15	-4	-9
7	Adjusted Financial Self-Sufficiency (AFSS) <sup>12</sup> (%)	94	93	61	94	88

129. It can be seen that CWED has achieved operational self-sufficiency. However, OSS shows a declining trend in the last three years. The reason is that over the period, the fund has been transforming, thus, even though the yield on gross loan portfolio has been improved but OSS was undermined due to higher operational cost, which is expected of a growing organization. After adjusting inflation, AROA and AROE turn negative. It means that after covering high inflation by income from financial activities, CWED has not achieved financial self-sufficiency yet<sup>13</sup>. High inflation in Vietnam has a profound impact on financial sustainability of MFIs including CWED. Although the nominal values of FSS are more than 100% due to low interest rate on savings and borrowings, and portfolio quality is high but AFSS ratio nearly reached self-sufficiency level in 2006-2007, yet, dropped dramatically to 62% in 2008 due to a high CPI growth (22.97%), just

<sup>10</sup> The inflation rate used for calculation based on official announcement of General Statistics Office of Vietnam. It was so high in 2008 (22.97% on average) that AROA, AROE and FSS were dragged down

<sup>11</sup> There is no data on NMA's subsidy and soft loans. Therefore, only inflation is used for adjustment

<sup>12</sup> Financial Self-Sufficiency = (Adjusted Operating Revenue)/(Financial expenses + Loan loss provision + Operating expense + Expense adjustments)

<sup>13</sup> Even with high inflation the financial results of 2011 is expect to improve due to higher interest rate introduced in early 2011.

to recover in the next two years. The high inflation is a great hindrance to CWED on the way to financial sustainability.

130. Overall, CWED's microfinance program is sustainable and on the path of fully financially viable. Note that the evaluators could not assess the impact of higher interest rate of 1.2% per month introduced in early 2011 on financial performance because the financial data will be available at the end of 2011. But it is expected to be lot improved than 2010.
131. CWED has developed projected financial plans that have been used to calculate various indicators as given in Table 6. Looking at these figures in MOM's five-year plan (2011-2015), the financial performance is expected to gradually improve to achieve financial self-sufficiency from 2013. However, as mentioned earlier, this plan is ambitious and only viable if CWED has enough capital, execute restructuring and enhance its management capacity.

**Table 6: Sustainability and Profitability (2011- 2015)**<sup>14</sup>

	Indicators	2011	2012	2013	2014	2015
1	Yield on Gross Loan Portfolio (%)	15	20	21	21	22
2	Operational Self-Sufficiency (OSS) (%)	117	135	142	161	171
3	Return on Assets (ROA) (%)	2	5	6	8	9
4	Return on Equity (ROE) (%)	5	14	19	25	29
5	Adjusted Return on Assets (ARO) (%)	-5	-1	2	3	5
6	Adjusted Return on Equity (AROE) (%)	-11	-3	5	10	17
7	Financial Self-Sufficiency (FSS) (%)	74	95	109	119	134

## 9. LESSONS LEARNED

### Impact of Microfinance

132. The well known impacts of microfinance have been proven here as well. The clients reported increase in production and sales of business and increase in profit due to additional capital at reasonable cost. That led to increase in income and consequently, consumption in food and other essential items, and in some cases, increase in asset. The financial services from CWED, as in other places, helped the clients to reduce dependency on costly informal sources.

<sup>14</sup> Financial ratios are calculated based on forecasted financial statements in the 5-year plan of MOM

**Repeat loans for clients**

133. However, the above mentioned impacts will be only sustainable if long-term sustainable access to finance is ensured. That is, the clients will need successive loans every year and demand driven services as and when necessary. That will require CWED to continue its operations as permanent organization responsive to the financial demand of the poor.

**Network of groups/centers**

134. The very necessary of institutional arrangement – groups/centers at the villages, that is, at the clients' doorstep – allows delivery of other social or economic development services. Examples of such are WU's use of centers as delivery points for social services and NMA's new project for training for the clients. It is not only important to strengthen this structure for microfinance services but also for other future delivery of services.

**Continued financing for CWED**

135. Unlike other development projects there is no end date for microfinance program; it must be recognized as permanent services for the poor. For that to happen, as has been done in case of CWED, the project has been converted into an organizational with clear ownership and management system. However, since the clients will be asking increasing amount of loans and CWED will be expanding it (CWED) will need increasing amount of capital. One source is of course clients' savings, which could be about 30-40% of total loan outstanding. That would mean CWED will always be in need of additional resources to refinance its current clients and expansion of program, which is inherent in microfinance. CWED will need to raise long-term and reliable sources of fund. So far NMA is the largest and most reliable source of fund that must be continued. Other sources such Belgian project and Halvastes are small and tentative. One of the main structural limitations of the Vietnam microfinance sector is absence of a wholesale lending agency to finance local MFIs (see Section 11 for further discussion).

**Cooperation with WU**

136. The cooperation and institutional arrangement is clearly strength for CWED in terms of lower cost of operation, support from the governmental system, and accessing rural communities. But it needs to be strengthened and CWED's own staff members should be involved at the grass-root organization of its clients for institutional and financial sustainability.

**Institutional and financial sustainability**

137. As always, institutional and financial viability are key to sustainable financial services for the poor. The Board and management of CWED, and NMA as the man donor are aware of this critical issue. CWED is operationally sustainable and approaching financial sustainability. The financial sustainability will however depend on increased income,



consequently, on size of the loan portfolio. That ultimately depends on availability of capital fund to meet loan demand. Therefore, resource mobilization is the priority for CWED.

#### **Support from stakeholders**

138. CWED has enjoyed continued strong support from all stakeholders: NMA as the donor and main sponsor, WU and People's Committee, which has been crucial for its high profile presence in TG province. This will also be crucial for future expansion as well as continued association with WU and its involvement in organizing the poor. The association with WU should be strengthened by enhancing the capacity of WU's local staff members through training and collaborative selection of clients, and formation and management of centers.

#### **Legal and regulatory support**

139. CWED is currently a Social Fund implementing a microfinance program, which is allowed to mobilize savings from the clients only. If the license is issued it will allow mobilizing more savings, which then can be a bigger source of capital. However, the decision of issuing license rests with the SBV and the timing of the decision remains uncertain. Like all other MFIs this is a structural limitation common for all. Therefore, CWED's priority should be a) mobilization of savings from within clients by linking mandatory savings with loan amount and encouraging members to increase voluntary savings, and b) raising funds from NMA and other donors.

## **10. SWOT ANALYSIS**

140. The following SWOT analysis reflects the views of the evaluators as well as summary of workshop proceedings held on August 11-12, 2011.

#### **141. Strengths**

- a) CWED has developed strong internal policies, management process and system for implementing microfinance program. The system is by and large adequate and appropriate for an MFI.
- b) CWED has more than eight years of experience in microfinance, which will be a strong basis for future expansion.
- c) It has skilled and experienced staff members to manage the program.
- d) The portfolio quality and repayment is very good. Overall it has already achieved operational sustainability and on the way to achieving financial sustainability.

- e) CWED has mobilized strong support from local authorities and NMA, which will be important for continuation as an important organization in TG province.
- f) CWED has made important contribution in poverty reduction and enhancing quality of life and ensured easy access to savings and credit services for a large number of poor families.
- g) CWED with the help from NMA is offering additional capacity building programs for the poor women and its network can be used for further development of the poor communities.

#### **142. Weaknesses**

- a) CWED needs to strengthened capacity of its staff members as well as improve some specific internal system such as internal audit, MIS, and introduce passbook for the clients etc.
- b) The main weakness of CWED is limited resource base to expand its financial services within the province.
- c) Savings and credit products of CWED are limited
- d) It is yet to receive license to operate as a formal MFI that limits its opportunity to offer additional savings products and mobilize savings.
- e) Incomplete website
- f) CWED's focus is mainly on financial service but it needs to offer or facilitate non-financial services to strengthen the clients' capacity to expand and improve their businesses.

#### **143. Opportunities**

- a) The demand for its financial services is high among the poor. CWED can expand in the whole of TG province to reach about 100,000 clients and subject to availability of resources and government permission, may even expand in the whole Mekong region.
- b) CWED can develop more demand driven financial products. If it receives license it can even offer micro-insurance to the clients and mobilize savings from the public.

#### **144. Threats**

- a) Unstable macroeconomic situation such as a) high inflation that erodes capital base of CWED and income base of the clients and creates extra-demand for loan, and b) fluctuating interest rate. The high inflation is adversely affecting wellbeing of the clients as well as increasing operating cost of CWED.
- b) CWED will be increasing facing competitors such as other MFIs and VSPB.

- c) Absence of sources of capital to meet credit demands
- d) Receive less grants from NMA
- e) Delay in receiving license to operate as a formal MFI.

## **11. FUTURE DIRECTION**

### **Conclusions**

145. The following broad conclusions are made from on the basis of the evaluation:

#### *Reaching the poor*

- a) CWED has successfully reached the poor women with microfinance services (savings and loan). The service of WU in organizing the poor women has been found to be effective.
- b) The clients are using loan for crop production, raising livestock and running small business. The present loan size seems to be OK although a small percent of clients asked for larger loans, which may be done subject to availability of resources.
- c) The impacts of the program are as follows: increase in income and assets, improved food security, and reduced dependence on money lenders. CWED has also helped clients to save money and receive sustainable access to credit.

#### *Management System*

- d) CWED has developed internal policies, management process and system for implementing microfinance program. The system is by and large adequate and appropriate for an MFI but some improvement needs to be made.
- e) It has skilled and experienced staff members to manage the program but capacity of WU's local staff members needs to be enhanced.
- f) CWED's field operations depend on the WU staff members for selection of clients, which should be jointly done.

#### *Sustainability*

- g) The portfolio quality and repayment is very good. Overall it has already achieved operational sustainability and on the way of achieving financial sustainability.
- h) The cooperation and support for CWED have been strong from WU, People Committees and the provincial SBV, which provides strong social and institutional support from CWED.

#### *Relevance of microfinance and Effectiveness of NMA*

- i) Microfinance is recognized by the central government as well as local governments as an effective tool for poverty alleviation. The government provides legal and regulatory support although the decisions on issuing licenses are being delayed. The poor clients find microfinance very necessary to investment purposes.
- j) NMA's role as donor and capacity builder has been very effective in transforming a microfinance project into a sustainable organization. A similar strategy needs to be continued.

### **Structural Challenge in Vietnam Microfinance Sector**

146. The mobilization of resources to run microfinance program, especially credit component, is probably the most important challenge not only for CWED but also for any MFI. Unlike commercial banks all clients of an MFI are borrowers who deposit only a small amount but tend borrow several times their savings deposits. Collectively for an old program about 40% of resources may be mobilized from clients' savings but the remaining 60% must come from outside sources such as grants and (sometimes) loan from donors, commercial banks, accumulative profits and from wholesale lending agencies. However, the grants and profits are always small compared to demand for resources. Any loan from commercial banks is expensive and not always available, and it is very difficult to run a viable microfinance program by heavily borrowing from commercial banks. Bangladesh, arguably the home of the largest microfinance program of the world, has created (by government) a wholesale lending agency that lends at subsidized rate to the MFIs which in turn lend to the poor. The most famous such agency the Palli karma Sahayak Foundation (PKSF) (Rural Employment Support Foundation) founded in 1990 now regularly lends to more than 200 MFIs in Bangladesh that reached to more than 10 million clients.
147. A number of international non-governmental organizations (INGO) have also created small wholesale lending programs, in Bangladesh, for example, by Stromme Foundation and CARE Bangladesh and in Sri Lanka by Stromme Foundation. These wholesale lending programs or agencies have practically solved financing needs of MFIs. Such source is absent in Vietnam that is keeping MFIs capital starved and hindering expansion of the programs. It is important that the GOV and/or donor agencies create one or more such sources to finance expansion of microfinance program otherwise the sector is destined to remain as dwarf as now. Too much hope on receiving licenses and mobilization of public deposits seems to be misplaced.

### **Recommendations**

148. *For CWED:*

- a) System changes: Introduce passbook for clients and centers.
- b) Staff capacity building: Develop training policies and courses linking them with functions of respective positions and career of staff members.

- c) Strengthen client selection, supervision and monitoring by involving the branch manager and credit officers in collaboration with WU (e.g. joint selection of clients, regular client visits, and smaller branches near the clients).
- d) Develop management structure of a model branch and replicate that in future expansion. The branches should be smaller and located closer to the clients.
- e) Strengthen management capacity of WU staff members by providing training on poverty issues, microfinance management, group management and leadership. Train group leaders on center management and social issues.
- f) Mobilize capital fund from NMA and savings by changing policies on mandatory savings and encouraging more voluntary savings from the clients.
- g) Expand microfinance program with the TG province subject to availability of funds. The strategy should be to expand to same clients (i.e. by increasing loan size), existing villages, existing communes, communes near branches, and so on.
- h) Lobby for license with the help from ADB, NMA, WU and other stakeholders

*149. For NMA*

- a) NMA's role as capacity builder and provider of funds has been very effective. NMA should continue providing capital funds as loan.

**Future Support Mechanism (for NMA)**

150. Three options may be considered as follows:

- a) Option 1: Become a fully functional wholesale lender to lend in VND at subsidized rate (similar to present role).
- b) Option 2: Set up a wholesale lending agency to lend to MFIs in collaboration with other potential donors (loan in VND)
- c) Option 3: Continue Option 1 and lobby with GOV to set-up wholesale lending agency to lend to MFIs.

## ANNEX 1: TERMS OF REFERENCE

### Evaluation of NMA supported work to the Microfinance project for poor Women in Tien Giang province - Vietnam

#### 1. BACKGROUND

The Norwegian Mission Alliance (NMA) is an International Non-governmental Organization who has been supporting many development projects in Vietnam since 1996. Micro Finance (MF) program for Tien Giang Women's Union is one of these activities. It has operated since 2002 with the purpose of disbursing small loan sizes to poor women who are in need of capital for production activities to increase their income and improve their livelihood. Initially, the Project has been implemented in 8 Communes in Tien Giang Province, including 2 Communes in Cai Be District, 3 Communes in Chau Thanh, 2 Communes in Cho Gao, and 1 Commune in Cai Lay District. After more than 8 years operation, the project is now in the transformational process to establish the licensed MFI (named MOM). It is now already a Social Fund (named CWED) with activities operated in 10/10 districts and city of Tien Giang province and having 18,600 clients. This is also a time to have an evaluation on the whole program to access the achievements and to have future orientations.

NMA has supported the program from 2002 up to 2009 with the following amounts:

Sources	2002-2008	2009	Total
NMA	6,399,600,000	765,000,000	7,164,600,000
TGWU	1,000,000,000	2,932,554,991	3,932,554,991
TG Lottery Co.	0	3,000,000,000	3,000,000,000
<i>Saving</i>	3,435,113,900	1,900,000,000	5,335,113,900
Total	<u>11,996,957,760</u>	<u>8,597,554,991</u>	<u>20,594,512,751</u>

In 2010, all funding sources from NMA have been converted into long term subordinated loan to CWED with the total amount of 5,190,000,000VND. **CWED also accessed to a Vietnam Belgium project funding in 2010 with the amount of 4 billion dong.**

#### 2. OBJECTIVES FOR THE EVALUATION

- a) Identify strengths and weaknesses of the CWED fund.
- b) Identify potentials, opportunities and measures for improvement of the continuous program and to propose recommendations related to future support of the project.

### 3. ISSUES

#### 3.1. Relevance:

- Are the activities relevant to the needs and priorities of the partner country?
- Are the activities relevant to the issues it aims to solve?

#### 3.2. Achievement of objectives:

- Have the primary objectives for the activities been achieved:
  - o Has the microfinance contributed to improved living conditions for the target group in the project area?
  - o Has the project contributed to improve the implementation of the local staff and made it sustainable through coordination and capacity building?
  - o Has the project contributed to poverty reduction?
  - o Has the project contributed to view credit as a tool to improve the socio-economic situation for the poor?
  - o Has the project contributed to build a local institution which is sustainable operation?
- Have the specific results planned been achieved?
- What is the impact of the project?

#### 3.3. Sustainability:

- Can the activity be continued when NMA support is terminated?
- Is local ownership established?

#### 3.4. Efficiency:

- Are the recurrent costs justified and used the most appropriate way possible?
- Are the recurrent costs spent according to plans and agreements?

#### 3.5. Process:

- Are the roles of the implementing partner and NMA in the project the most appropriate way possible? If no, how could they be improved?
- Has NMA given added value to the project? If yes, how?
- Are the relevant parties and authorities in the partner country involved in preparation and implementation?
- Are the project activities carried out in the most appropriate way possible? If no, how could this be improved?

#### 3.6. Experience:

- Can specific or general experience be gained that is relevant for the preparation and implementation of aid?
- What are the most relevant lessons learnt for future activities, support and co-operation?

## 4. IMPLEMENTATION

### 4.1. Methodology

Relevant parties in Norway and Vietnam (Tien Giang WU, Tien Giang PC, NMA, CWED) have participated in preparation of the evaluation and formulation of ToR with view to focusing the evaluation on relevant studies. The relevant parties should be involved in the implementation of evaluations to the greatest possible degree

The evaluation should be carried out in three phases. As members of the evaluation team may be based abroad, it is assumed that phase 1 and 3 could be carried out long distance, through e-mail and/or other communication tools, and not necessarily with presence in Vietnam.

- a) CLARIFICATION AND PREPARATION:** In the first phase, the evaluation team will clarify Terms of Reference, methodology and how the evaluation should be carried out together with TGWU, NMA, and CWED. The evaluation team will further prepare the work for the second phase.
- b) PRIMARY DATA COLLECTION AND PRELIMINARY CONCLUSIONS:** The second phase is scheduled to take place in July. In this phase, the evaluation team will make interviews, primary data collection, field observations etc. to get sufficient information to make a preliminary final report. The findings and preliminary conclusions should be discussed with TGWU, TGPC, CWED and NMA. Assessments must be based on reliable data or observations, give a balanced presentation of strengths and weaknesses and be impartial.
- c) FINAL REPORT:** The third phase is to make the final report with conclusions and recommendations. The drafted final report, based on preliminary conclusions presented and discussed at the end of the second phase, should be presented to TGWU, TGPC and NMA for comments and corrections of obvious errors if any. The evaluation team has the final responsibility for the contents of the report. Any differences of views among the evaluation team, authorities in the partner country or NMA must be included in the report. The evaluation report must be brief and concise and be presented in English and Vietnamese.

NMA representative in Vietnam will serve as a coordinator and facilitator for the evaluation team.

### 4.2 Composition of evaluation team

The criteria for the selection of the evaluation team are:

- Professional competence from the area of microfinance work in Vietnam
- Experience in relation to the task and consistence of evaluation competence
- The team must constitute a representation of the relevant professional skills
- Professional expertise from the partner country
- Members of the evaluation team must not in person have been engaged in the activities to be evaluated.



The evaluation team will consist of two independent consultants with required skills and experience. In addition, representatives from TGWU and authorities in the provinces to be visited, will participate in preparation of the evaluation, accompany the evaluation team during the field trips and discuss and comment upon conclusions presented by the team members.

#### 4.3 Timing

The evaluation is planned to take place from May 2011 to August 2011.

Phase 1: May: phase 1 should be finished before the end of May

Phase 2: July: the evaluation should be conducted

Final report: Before August 15

#### 4.4 Documents to be provided

- Project documents, agreements and reports
- Previous evaluations
- Audited financial reports from CWED

## Annex 2: Details field visit schedule and activities for the evaluation

Date	Hrs.	Location	Program	Responsible
August 2 (Tuesday)		Arrive HCMC	Stay in HCMC Spring hotel, Le Thanh Ton Street	NMA-V
August 3 (Wednesday)	07h00-09h00	My Tho city, Guest house	Go to My Tho city, Tien Giang	Lan
	09h00-11h30	<b>CWED office (My Tho City, TG)</b>	<p><b><u>Institutional Assessment of CWED</u></b></p> <ul style="list-style-type: none"> <li>• Presentation by CWED officials on Historical development and present status of the program including program and financial information; Q&amp;A</li> <li>• Details discussion with relevant officials on microfinance policies (savings and credit) and field management;</li> </ul>	Lan, Ms. Thuy
	13h30-17h00	<b>CWED office (My Tho City, TG)</b>	<ul style="list-style-type: none"> <li>• Discussion on accounting system, financial reporting, various important policies such as classification rules, internal controls, budget and planning, internal and external audit, internal monitoring etc.</li> </ul>	Lan, Ms. Thuy or respective departments
August 4 (Thursday)		CWED Office?	<p><b><u>Institutional Assessment of CWED</u></b></p> <ul style="list-style-type: none"> <li>• Monitoring and evaluation of microfinance program</li> <li>• Organizational structure</li> <li>• Personnel management</li> <li>• Human resources development</li> <li>• Governance structure</li> <li>• Status of becoming licensed MFI and relevant rules and regulation</li> <li>• Present and future financing plan</li> </ul>	Respect officials
August 5 (Friday)	07h00-11h30	Cai Be district	<p><b><u>Clients/Groups/Branch Visits</u></b></p> <p>Visit clients that have been with the project since 2002, interview</p> <p>Visit 2<sup>nd</sup> branch office (check management system of each branch)</p> <p>Interview staff of the branch</p> <p>Visit local authorities and relevant stakeholders</p>	NMA, CWED staff Evaluators
	13h30-17h30	Cai Lay District	<p>Visit clients, interview</p> <p>Visit local authorities and relevant stakeholders</p>	NMA, CWED staff Evaluators
August 6 (Saturday)		Ho Chi Minh	Team meeting, preliminary draft reporting writing	Evaluators

Date	Hrs.	Location	Program	Responsible
August 7 (Sunday)		Ho Chi Minh	Team meeting, preliminary draft reporting writing	Evaluators
August 8 (Monday)	07h00-11h30	Cho Gao district	<b><u>Clients/Groups/Branch Visits</u></b> Visit clients, interview Visit local authorities and relevant stakeholders	NMA, CWED staff Evaluators
	13h30-17h30	Go Cong town	Visit clients/groups, interview Visit local authorities and relevant stakeholders Visit 1 <sup>st</sup> branch office Interview staff of the branch	NMA, CWED staff Evaluators
August 9 (Tuesday)	07h00-11h30	??	<b><u>Clients/Groups/Branch Visits</u></b> Visit another branch may be new places where CWED is expanding now	NMA, CWED staff Evaluators
	13h30-17h30	My Tho City	Meeting with Ministry of Foreign Affairs, State Bank of Vietnam (TG Province), and Chairperson, TG Women's Union.	NMA, Evaluators
August 10 (Wednesday)	07h00-11h30	Tien Giang	Preparation for Debriefing workshop (preliminary findings and presentation)	Evaluators
	13h30-17h30	Tien Giang	Visit Habitat for Humanity	CWED staff Evaluators
August 11 (Thursday)	08h00-17h00	My Tho	Debriefing workshop (staff members of CWED, W.U, People's Committees, Ministry of Foreign Affairs, State Bank of Vietnam) Meeting with Director, CWED	CWED staff Evaluators
August 12 (Friday)	08h00-13h00	My Tho	Debriefing workshop (cont.) (Staff members and W.U)	CWED staff Evaluators
August 13 (Saturday)			Team leaves	

### **Annex 3: Proceedings of Debriefing Workshop [August 11-12, 2011]**

#### **Day 1: Debriefing Workshop for Impact of CWED's Microfinance Program**

**Time:** 8am – 2.30pm, 11 August 2011

**Venue:** Meeting room, Tien Giang Women Union, My Tho City, Tien Giang Province

**Participants:**

- NMA Director
- CWED Director
- Evaluation team
- Tien Giang Women Union
- Tien Giang Lottery Co.
- PACOM Tien Giang
- Foreign Affair Department, Tien Giang People's Committee
- Tien Giang Provincial State Bank
- CWED's staff members

**Workshop Agenda**

8am – 8.15 am	:	Opening and Introduction
8.15am – 9.30 am	:	Presentation on Preliminary Findings Q&A
10am – 11am	:	Group Discussion
1pm – 2.20pm	:	Group Presentation Q&A
2.20pm – 2.30pm	:	Closing

**Group Discussion Results**

***Q.1 How to improve selection of clients and formation of centers by more involvement of COs?***

- COs should attend monthly meeting with local WU to keep informed of clients' needs as well as announce and guide local WU staff to new policies of CWED.
- Set up branches that are closer to distant area

- Maintain center meetings and close supervision to make sure full attendance
- Organize more center activities such as visit to sick member
- NMA should support training courses for center chief, group leader which involve COs

***Q.2 How can COs be more familiar with local economy and clients?***

- COs should be trained on rural development
- COs should actively learn and enhance their ability
- COs should understand socio-economic situation of the locality as well as local authorities' policies.
- To set up an external relations or PR division, promote CWED's activities through mass media channels. For example, sharing successful stories to make project's impacts widely known.

***Q.3 What improvements should be made to improve transparency and tracking credit program better?***

- Build a professional internal control system
- Set up a control board to overlook overall operation
- Transparent financial management. For instance, public financial statements on website
- Have a division to receive and process feedbacks from clients
- Have policies to reward good employees and punish poor performers
- Issue passbook for every client

***Q.4 Identify the strengths and weaknesses, and opportunities and threats of CWED's program and suggest solutions***

<p><b><u>Strength</u></b></p> <ul style="list-style-type: none"> <li>• Strong support from local authorities</li> <li>• Enthusiastic staff</li> <li>• Widespread outreach within TG</li> <li>• Integrated programs to provide more knowledge to members</li> <li>• Succeed in shaping saving habit for members</li> <li>• High repayment rate</li> <li>• Contribute to poverty reduction</li> </ul>	<p><b><u>Weakness</u></b></p> <ul style="list-style-type: none"> <li>• In short of financial resource to expand</li> <li>• Incomplete website</li> <li>• Undiversified products</li> <li>• Limited client support program</li> <li>• Unprofessional internal audit system</li> </ul>
<p><b><u>Opportunity</u></b></p> <ul style="list-style-type: none"> <li>• To mobilize capital from other potential</li> </ul>	<p><b><u>Threat</u></b></p> <ul style="list-style-type: none"> <li>• Competitors</li> </ul>

<p>shareholders or partners (e.g. Habitat for Humanity)</p> <ul style="list-style-type: none"> <li>• High and diversified demands → opportunity to develop more products and more clients</li> <li>• Being a licensed MFI allows new products to be developed such as microinsurance, or public voluntary savings, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Finding capital sources to meet credit demands</li> <li>• Receive less grants from NMA</li> <li>• Unstable macroeconomic situation (inflation, market interest rate fluctuation...)</li> </ul>
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***Q.5 What are the main impacts of microfinance?***

- Build a mutual relationship among members to exchange experiences
- Base on groups and centers, sponsors can conveniently carry out aid programs
- Reduce hired labor, encourage self-employment
- Shape saving habit
- Government policies can be announced directly to women in centers
- Form new culture
- Some clients grow up from centers and become local women officials
- Reduce school drop-out rates. Increase education level of members' children

***Q.6 What types of programs of WU and Peoples' committee will benefit the poor clients?***

- Home construction support according to Decision No. 167
- Monthly social subsidy
- Discount on Health Insurance purchase
- Tuition fee discount or exemption
- Uncollateralized loan from Vietnam Bank for Social Policies
- Electricity price aid and other aids
- Free vocational trainings

***Q.7 What types of training will be effective for clients, WU staff and Center leaders?***

For clients:

- Technical training (livestock raising, crop production...)
- Business development, capital use

For center leaders and WU staff:

- Group and center management skills

- Communication skills
- Capital management skills
- Problem solving skills
- Information processing skills

\*\* Trainings must be tailored to specific needs and features of each region

***Q.8 What are new financial products can be promoted?***

- Credit products: loans that allow weekly, quarterly, annually or seasonal repayment
- Savings products
- Business development services
- Insurance: capital loss insurance, crop loss insurance, natural disaster insurance...

❖ **Other opinions**

➤ **Tien Giang State Bank representative:**

- CWED has done a good job in transforming from a small project into a social fund, and now applying for MFI license. TGSB can somehow help CWED in license application process
- Currently, there are 2 social funds, 18 commercial banks, VBSP, and 14 People's Credit Fund operating in Tien Giang Province. Nonetheless, low income residents have difficulties in borrowing from the formal system because they do not have collateral. Only poor people who have poor certificate can get loans from VBSP. Moreover, commercial banks do not welcome small savings as CWED does. Therefore, CWED really meet the needs for financial services of the poor.
- Regarding interest rates, 6%/year on savings is relatively low. However, it illustrates the meaning of mutual assistance. Lending rates of 14.4%/year is acceptable for the poor compared to 19%-22%/year of commercial banks.
- As we can see from the report, there is a small number of clients demanding higher loan. When CWED has enough financial capital, it can consider to raise ceiling loan size.
- Credit officers are of extreme importance to microfinance operation
- Current operation may be more convenient than MFI model because a MFI has to follow stringent financial regulations, pay income tax (28% according to Enterprise Law)... Current operation may be smooth but CWED may encounter many difficulties once it becomes an MFI

- Admit male members

➤ **Others:**

- From 2004 – 2006, there were some training classes for center chiefs and group leaders but recently there has been no such class. This activity should be done regularly, especially for new officials.
- Annual operation review meeting should be organized



## Day 2: Debriefing Workshop for Impact of CWED's Microfinance Program

**Time:** 8am – 11.30am, 12 August 2011

**Venue:** Meeting room, Tien Giang Women Union, My Tho City, Tien Giang Province

### Participants:

- NMA Director
- CWED Director
- Evaluation team
- Tien Giang Women Union
- CWED's staff

### Workshop Agenda

8am – 8.05 am	:	Opening and Introduction
8.05am – 9.30 am	:	Presentation on Preliminary Findings Q&A
9.30am – 10am	:	Group Discussion
10pm – 11.30pm	:	Group Presentation Q&A
11.30pm	:	Closing

### Group Discussion Results

#### ***Q.1 What process in management of microfinance needed to be changed and improved?***

- When loan size is lifted, 100% applications must be appraised.
- Revamp loan policy to make it more complete
- Set up a full-time Control Board
- Build a more thorough internal control procedure
- Improve transparency by various methods such as uploading financial statements on websites

#### ***Q.2 What changes are needed in MIS?***

- Equip one more server to connect and consolidate the entire MIS in branches and head office

- Upgrade software to consolidate data of branches and head office, accounting department and credit department; make it more flexible to allow generating different report forms and printing passbook, etc.

***Q.3 Can mandatory savings be increased and made variable by center? If yes, what amount?***

- Accelerating savings amount according to loan size  
For example: Loan of VND 1-3 mil: VND 20,000/month  
VND 3-5 mil: VND 30,000/month  
VND 5-7mil: VND 40,000/month

***Q. 4 Can we think of a model branch? What would be the main parameters?***

- Operation area within diameter of 25 km
- Productivity: 600-800 members/credit officer
- 7 – 10 credit officers/branch
- How along to be operationally and financially self-sufficient?
- Transaction offices under each branch or not?

***❖ Other points***

- Profit pressure from Tien Giang Lottery Co. creates lots of difficulties to management. Stakeholders should share a similar point of view that MFI is not a profit-making business; all profits should be retained and used for benefits of poor members.