

QUANG NGAI RURAL DEVELOPMENT
PROGRAM (RUDEP) - PHASE 2

Village Savings & Credit Facilities Support
Mission



VIETNAM-AUSTRALIA

Prepared for

AusAID

Australian Embassy
8 Dao Tan Street
Ba Dinh District,
Hanoi, VIET NAM

22 September 2004

42443858

Prepared by

URS Sustainable Development
in association with Kellogg Brown & Root and
World Wide Project Management Services
Project Managers and Consultants
Adelaide Australia

DONOR AGENCY

AusAID

Australian Embassy

8 Dao Tan Street, Ba Dinh District, Hanoi, Viet Nam

Ph: +84 4 8317754/Ext 175 (Project Officer), Fax: +84 4 8317711

LEAD COUNTERPART AGENCY

Department of Planning and Investment

96 Nguyen Nghiem Street, Quang Ngai Town

Quang Ngai Province, Viet Nam

Ph: +84 55 825701

PROGRAM MANAGEMENT UNIT

No 4 Pham Van Dong Street, Quang Ngai Town

Quang Ngai Province, Viet Nam

Ph: +84 55 816261-6, Fax: +84 55 816260

AUSTRALIAN MANAGING CONTRACTOR

URS Sustainable Development

25 North Terrace

Hackney SA 5069

Ph: +61 8 8366 1000, Fax: +61 8 8366 1001

Program URS Australia Pty Ltd
Manager: Dee Hartvigsen 25 North Terrace, Hackney
International Projects Manager South Australia 5069 Australia
Tel: 61 8 8366 1000
Program
Director: Ted A' Bear
Vice President
Sustainable Development
Fax: 61 8 8366 1001

Date: 22 September 2004
Reference: 42443858
Status: Final

CONTENTS

Acronyms	ii
1 Introduction	1
2 Monitoring the Performance of the VSCF Program	2
3 Review Progress of VSCF's	3
3.1 Introduction.....	3
3.2 Overall Performance.....	3
3.3 Operational Guidelines.....	4
3.4 Role of Village Savings & Credit Facility Management Board (MB).....	4
3.5 Loan Application Process.....	5
3.6 Monitoring of Village Savings & Credit Facility Program.....	6
3.7 Delinquency.....	6
3.8 Targeting.....	7
3.9 Interest on Savings.....	9
3.10 Progress on Recommendation from Previous Report.....	10
4 Issues Identified by FCO	11
5 Exit Strategy Options	13
5.1 Introduction and Background.....	13
5.2 Strategic Option 1: Establish a Microfinance Institution.....	14
5.3 Strategic Option 2: Convert into People's Credit Funds.....	15
6 Impact of VSCFs on Participating Members	16

ANNEXES

Annex 1: Terms of Reference	
Annex 2: Mission Schedule	
Annex 3: Internal Memorandum of VSCF Issues from FCO	
Annex 4: Operational Procedure Regarding Interest on Savings	
Annex 5: Interest Rate Review	
Annex 6: Revised Consolidated Monitoring Report ("Form 5") for QNRDP/RUDEP	
Annex 7: Revised Consolidated Monitoring Report ("Form 5") for VSCF	
Annex 8: Revised Consolidated Monitoring Report ("Form 5") for Commune Accountant	

Acronyms

AFCO	Assistant Finance and Credit Officer
AusAID	Australian Agency for International Development
CCG	Commune Contact Group
CPC	Commune People's Committee
DARD	Department of Agriculture and Rural Development
DCG	District Contact Group
DDO	District Development Officer
DOLISA	Department of Labour, Invalids and Social Affairs
DOSTE	Department of Science, Technology and Environment
DPC	District People's Committee
DPI	Department of Planning and Investment
FA	Farmers' Association
FCO	Finance and Credit Officer
GOA	Government of Australia
GOV	Government of (the Socialist Republic of) Vietnam
M&E	Monitoring and Evaluation
MF	Microfinance
MFA	Microfinance Advisor (A for Australian and V for Vietnamese)
MFI	Microfinance Institution
MPI	Ministry of Planning and Investment
NGO	Non Government Organisation
PAR	Portfolio at Risk over 30 days
PCF	People's Credit Funds
PDA	Participatory Development Adviser. Prefix 'V' Vietnamese
PDD	Program Design Document
PFI	Participating Financial Institution
PMB	Project Management Board
PMU	Project Management Unit
PO	Project Officer
PPC	Provincial People's Committee
PPO	Participatory Planning Officer
PPP	Participatory Planning Process
RUDEP	Quang Ngai Rural Development Program
SBV	State Bank of Vietnam
SEL	Small Enterprise Loans
TAG	Technical Advisory Group
TL	Australian Team Leader
TNA	Training Needs Assessment
ToR	Terms of Reference
URS	URS Sustainable Development (incorporating AACM International)

VBARD	Vietnam Bank for Agriculture and Rural Development
VND	Vietnam Dong (VND10,900 = AUD1 approx)
VPD	Vietnamese Project Director
VSB	State Bank of Vietnam
VSCF	Village Savings and Credit Facility
VTL	Vietnamese Team Leader
VWU	Vietnam Women's Union

1 Introduction

The Village Savings and Credit Facility (VSCF) aims to provide the vehicle for the provision of much needed financial services to selected poor households in Quang Ngai, and as such is a core component of the Quang Ngai Rural Development Program (RUDEP). RUDEP provides a seed capital¹ grant to each VSCF aimed at capitalising these groups as well as awareness and capacity-building training aimed at ensuring the VSCF is able to manage its own affairs increasing over a two year period, after which no further support is generally offered. Preceding and during the formation of VSCF groups the RUDEP provides related livelihood training and on-going support, focussed on providing technical and marketing knowledge and skills to the targeted poor households. An integrated methodology is therefore pursued on the VSCF program.

This report derives from a one week mission by the Quang Ngai Rural Development Programs' two short-term Microfinance Technical Advisors² over the period 23rd to 27th August 2004. The purpose of the mission was to provide generic and specific support in the projects' provision of financial services to low income households in Quang Ngai. The objectives of the mission are outlined in the terms of reference (see Annex 1). Comments on the draft TAG report following their annual review mission in April 2004 were made previously to the TL, and consequently are not discussed here. The schedule of the field trip mission is attached as Annex 2. This report was written jointly by the Australian and Vietnamese Microfinance Advisors.

¹ Based on VND 3 million per household member of each VSCF as a once-off grant.

² Guy Winship of World Education Australia Limited and Dao Van Hung of the Banking and Finance Resource Centre of the National Economics University were the short-term Technical Advisors contracted. Annex 1 provides the short-term Microfinance Advisor's ToR.

2 Monitoring the Performance of the VSCF Program

The Village Savings & Credit Facility in RUDEP seeks to overcome the problems which poor households face in terms of securing loans from semi-formal and formal credit agencies. The stated objective is “to establish a simple, locally self-managed credit base which will assist income generation activities by householder/groups, and progressively build financial resources and management skills at village and commune levels”³. In order to monitor progress of the VSCF program a set of indicators that relate to this objective have been incorporated into the monitoring of the VSCF program. These include tracking:

- Loan repayment rate⁴, both by the portfolio at risk ratio (PAR) and by the on-time repayment rate⁵;
- The capital base of VSCF groups⁶ (both equity and assets are tracked by group);
- The level of participation by women in the VSCF component of the program;
- The productive activity for which the loan is used;
- Membership retention and meeting attendance rates as proxy indicators of client satisfaction; and
- The management by the groups’ management board as indicated by the timely and accurate submission of their monthly reports.

Performance of these indicators should be compared with benchmarked performance standards, which are recommended as follows:

- A PAR over 30 days of under 5%;
- An on-time repayment rate of 90%;
- Growth in both the equity and assets of groups;
- A level of participation by women above that set by the program (currently 40%);
- Membership retention ratio⁷ of over 80%; and
- Meeting attendance rate⁸ of over 90%.

The main monitoring mechanism in place is based on the “form 5” which has incorporated all the information necessary to track this set of indicators. Assuming these (sub-) indicators of success are appropriate and acceptable to the program team, it is recommended that these performance indicators (possibly in the form of a logframe) should be established and monitored on a regular monthly basis.

³ From Final Quang Ngai Rural Development Program PDD Annex 2.

⁴ This is the first of two indicators in the logframe relating to the performance of the VSCF component of the program; see final Quang Ngai Rural Development Program PDD Annex 3.

⁵ This is the ratio of actual to expected repayments.

⁶ This is the second indicator in the logframe relating to the performance of the VSCF component of the program.

⁷ The ratio of members leaving the VSCF program as a percentage of all members, annualised.

⁸ The number of members attending VSCF meetings as a percentage of all members.

3 Review Progress of VSCF's

3.1 Introduction

This section provides a brief review of progress of the Village Savings & Credit Facility program and makes relevant recommendations in line with issues raised. The discussion is generally additional to the February Review report, and is based on personal observations, including site visits to two VSCF groups during the mission, and to other documents, memorandums and reports provided. It is specifically noted that information is gathered largely from secondary sources and has not, for example, derived from an audit of VSCF business processes. The analysis is consequently largely anecdotal in nature.

3.2 Overall Performance

Overall the operational performance of the current 44 VSCFs has improved since February 2004, when a previous and fuller review exercise was undertaken. The reported⁹ performance as at the end of July 2004 is as follows:

Number of VSCFs	44
Total membership	1,057
% female members	66 %
% poor members (DOLISA ¹⁰)	16-20 % ¹¹
Number of borrowers	520
Borrowers as % of membership	49 %
Delinquent loans	17
Delinquency as % of all loans	3 %
Rate of savings deposited	91 %
Value of Savings deposited	VND 177,374,720
Rate of attendance in July	90 %
Outstanding portfolio	VND 1,876,900,000
Seed/grant capital transferred	VND 3,192,000,000
Portfolio as % of seed capital	59 %
Portfolio at risk over 30 days	0.82 %

The results are encouraging, particularly given the increased size of the VSCF program. With VSCF membership now 1,057, it is can be assumed that 6,000 or more individual household members are now able to access financial services, and this is a commendable achievement. The Microfinance Advisors wish to stress that the focus on further improvements in the recommendations below should not detract from the success of the program over the previous six months.

⁹ Note that the integrity of the reported results has not been corroborated.

¹⁰ DOLISA is the Department of Labour, Invalids and Social Affairs.

¹¹ From Quang Ngai Rural Development Program monitoring data base.

3.3 Operational Guidelines

The approved Operational Guidelines provide the rules, procedures, processes and systems for the disbursement of loans, management of savings, risk management and reporting. These guidelines were revised during May 2004, in part as a result of the Review Report of February 2004, and were provided to the Microfinance Advisors during the current mission. The revised guidelines are in the process of being implemented, and it appears that good progress is being made in this regard. While the guidelines may need to be further adjusted based on the recommendations in this report such changes are likely to be fairly minor.

Key in the success of the VSCF program is the need for RUDEP – especially the FCO – and every Village Savings & Credit Facility to understand the importance of adherence to the guidelines. An important need then is for VSCF groups to be compliant with the approved Operational Guidelines. It is recognised both that the human resource of the project are limited and that practical censure mechanisms of VSCFs by RUDEP are not yet in place.

Recommendations:

- 1. The FCO should develop a set of practical steps for censure of VSCFs who are found to be non-compliant with the approved Operational Guidelines¹². These should be sent to the Microfinance Technical Advisors for comment.**
- 2. Consideration should be given to transferring seed capital in two tranches, with the second tranche only being provided on good performance (as defined previously). The indicators used to trigger the payment of the second could simply be full disbursement of seed capital, good repayment, and good administrative performance.**

3.4 Role of Village Savings & Credit Facility Management Board (MB)

The central function of the VSCF MB is to ensure adherence to the approved Operational Guidelines. It is believed that adherence to the regulations by VSCF groups has generally improved, although continued attention in this area should be sustained. Examples of such issues include not meeting the conditions for obtaining loans (such as not participating in all group meeting; approving loans of over VND6 million; not applying penalty interest on late repayment; and not reporting to the project on a monthly basis). It is noted that assessing the success or otherwise of the VSCF design will be difficult until the approved guidelines have been fully implemented.

Another central function of the FCO VSCF MB is to ensure transparency and accountability, which in turn is based to a significant degree on tracking, maintaining and circulating information on group progress. This has been designed in turn to rest upon a set of forms comprising the information required to track the relevant aspects of the groups progress, culminating in a monthly VSCF Report given to both QNRP and shared amongst group members¹³. A cross-check of the collection of data has confirmed that the necessary information would be available to ensure all sections of the Monthly Report

¹² The FCO has already initiated this process.

¹³ See Form 5 in the revised Operational Guidelines.

(the “form 5”) can be compiled. The monthly VSCF Progress Report is a critical and central component of the monitoring of the performance of VSCF’s by the members of the VSCF’s, by the CPC, and by the RUDEP. Inaccuracies or lack of completeness in this report, or late submission of this report, will negatively affect the ability of members and of the RUDEP to identify potential problems. Feedback from the FCO and from the VSCF groups visited, the VWU and DDOs’ indicated that the forms generally are straight-forward, but that the Income Statement and Balance Sheet in the “form 5” is difficult and timely to complete.

The added advantages are anticipated to include the following:

- a. that the CPC would be more involved in the VSCF program;
- b. this is likely to improve the accuracy of VSCF reporting;
- c. encourage collaboration and possibly aggregation of VSCFs at the commune level; and
- d. improve the timeliness of reporting, both as the CPC can apply greater and more immediate pressure and because the FCO simply cannot follow-up on all VSCFs every month.

Recommendations:

- 1. That the “form 5” be separated at row 55 (viz the Income Statement and Balance Sheet are excised) and that in future VSCFs only complete and submit up to row 55. The revised VSCF form 5 is provided in Annex 7.**
- 2. An appropriately skilled accountant receives the revised “form 5” (viz to row 55) and the other forms from the relevant VSCFs, and s/he would be responsible for the completion of the Income Statement and Balance Sheet, from whom the FCO would collect these. Using the CPC commune accountant is suggested, or this accountant may alternatively be drawn from amongst the ranks of the VSCFs MB accountants in the commune, with the “best” accountant being used in this regard. It is expected that an appropriate level of payment would initially be made on an outputs basis by RUDEP to this accountant. It would be preferable if the VSCFs could cover these costs after an initial period for sustainability. The new form 5 here has been provided in Annex 8.**
- 3. The FCO would then arrange to collect all “form 5s” from the CCG accountants (viz the total form 5 with the income statement and balance sheet), and aggregated into the data base as has been happening to date.**

3.5 Loan Application Process

The requirement that a business plan be submitted to the CPC and that the CPC approves every loan applicant appears onerous and unnecessary. The ability of CPC members to add value or assess the appropriateness of the business plan submitted, or to use this as a tool in reviewing credit risk is considered minimal. It is understood that the current business plan format requires projected income statements, balance sheets and cash-flow projections. The compilation of such a business plan appears difficult for many beneficiaries, especially for the poor and functional illiterate. Even for the more educated and numerate beneficiaries it is suggested that the tabling of a business plan is a difficult and fairly time-consuming exercise. One un-intended consequence of this may well be an increase in barriers to access of micro-loans by the poor. The cost effectiveness of a business plan with cash-flow projections for assessing the risk of a micro-loan appears inappropriate. In practise it appears that few business plans are completed – in fact not a

single one was fully completed at the VSCFs visited. Moreover the extent to which members would refer to the business plan projections once the loan has been disbursed is at best questionable. The ability of group members to diversify into income generating activities that are not covered by project activities may also be discouraged as a result; members wishing to invest in other productive activities should be supported as long as the VSCF group approves the loan.

Recommendations:

- 1. The format of the business plan should be simplified. Consideration should also be given to doing away with such requirement for smaller loans, say of under VND2 million.**
- 2. Loan applicants should not be given to CPCs for approval, but should be approved by the VSCF at group meetings only.**

Related to this is the need for the project to provide greater support to members wishing to access larger and longer term loans that fall outside the ambit of the VSCF program. This is discussed under point 3.7. on Targeting below.

3.6 Monitoring of Village Savings & Credit Facility Program

Central in monitoring the VSCF program is a monthly aggregated management report – the so-called “Form 5” – that must be tabled by the FCO and discussed with the TL and PDAs/Counterparts monthly. It is only with such accurate reporting that “management by exception” of VSCFs can occur, which is clearly necessary given the projects’ limited human resources. The FCO, PDA, TL and Microfinance Advisors have reviewed the VSCF data flow and consider that the current forms and data flow all do need to be collected. The aggregated report is still not accurate, in part due to the complexity of the form, which consideration should be given to simplifying.

Recommendations:

- 1. Renewed efforts to ensure the accuracy of the aggregated management report must be made. This will require confirmation of the report by project management until accuracy has been confirmed.**
- 2. The “form 5” should be sent to the Microfinance Advisor every month for comment.**
- 3. Some small revisions have been made to the RUDEPs Form 5 (viz the softcopy), primarily in cross-checking the accuracy of the formulas in the spreadsheet. Annex 6 provides the pro forma spreadsheet with relevant formulas in this regard.**

3.7 Delinquency

The delinquency rate as measured by the PAR over 30 days is reported as being 0.82%. While the source of this information has not been cross-checked, this is an excellent result and is certainly not cause for concern. The repayment rate is high - an impressive figure for a microfinance program and also proves that group lending and monitoring is an important factor ensuring the high repayment rate under the VSCFs. Delinquency nevertheless always needs to be carefully managed and immediately followed-up on, and this is discussed further in section 4 of the report.

The repayment rate may be higher than reported should VSCF accountants not be recording delinquency accurately¹⁴. It can be noted that the experiences of savings and credit programs elsewhere in Vietnam, and internationally, show that when expanding the loan program, delinquency rates will increase unless management tracks trends and monitors risk, provides full and on-going program supervision, and follows-up immediately on delinquency.

According to project regulation the borrowers can choose one of the following options of principle repayment: monthly; two equal instalments and at the end of the loan term. This calculation method should be easy to understand and easy for borrowers to remember. However, most of the borrowers repay at the end of the loan term. Such lump-sum repayment does not help create a habit for customers, especially the poorer households. This could be a burden for poor households in the case that they do not have any savings. Experience drawn from credit programs by NGOs in other developing countries, and in Vietnam, has proved that instalment repayment is more appropriate than lump-sum repayment for poor farm households. With the targeting of increasingly poorer VSCFs, instalment repayment is consequently likely to greatly reduce delinquency risk. RUDEP accordingly should continue to very carefully monitor repayment rates and to immediately follow-up on delinquency should it arise.

Recommendation:

- 1. The FCO or AFCO should have a list of the borrowers who have not repaid on time, and these clients must be checked upon weekly until they repay to the VSCF.**
- 2. Consideration should be given to encouraging borrowers to repay loans on a monthly basis.**

3.8 Targeting

The design of the VSCF program was aimed at increasing access amongst poor households to credit and savings services. The design of the VSCF program assumes a poor clientele requiring small “micro” loans, with limited if any access to the formal banking system. The methodology is centred on such a target market, with the establishment of groups critically being self-forming, and the use of peer pressure in the place of formal collateral mechanisms and related factors being incorporated into the program design. Annex 9 offers the Quang Ngai Rural Development Program team a discussion on the formation processes for Village Savings & Credit Facility groups.

Collateral is based on group guarantee, with risk management being based almost entirely on peer pressure within the group. The VSCF accordingly is *not* the appropriate vehicle for facilitating access to larger loans, and the inclusion of relatively wealthier members has led in part to repeated requests for larger loans, for longer loan terms, and for infrequent repayment conditions¹⁵. A likely consequence of this has also been the exclusion of many poorer households and women from accessing loans, or from being included in group decision-making processes.

¹⁴ VSCF Tho Dong 1 has one borrower who did not repay on time, but the accountant did not record this in the form 5.

¹⁵ VSCF Tho Dong 1 borrowers suggested a 10year repayment period, with lump-sum repayment at the end of the term!

According to the approved Operational Guidelines, the focus of VSCFs is on low income households in the communes, who invariably would not be able to have access to other official and semi-official financial systems. However, the rate of pro-poor households attending in the VSCFs is relatively low at between 16 and 20%, and it appears from responses to questions during field visits that a number of the borrowers who have accessed VSCF loan also get loans from other financial institution such as Vietnam Bank for Agricultural and Rural Development (VBARD). Having offered land and cattle as loan collateral to VBARD, these members should not be considered poor in the context of the project. This problem is usual amongst micro-credit programs for the poor in Vietnam, especially during the early stages of implementation.

The reasons for this include:

- i) the members of VSCF do not have confidence in the repayment capacity of the poor;
- ii) groups want to recruit active members in an attempt to build a “nucleus” for the VSCF activity;
- iii) being concerned about repayment pressure, VSCFs prefer to select those who, they think, are better able to repay; and
- iv) the poor themselves, are often not confident of joining at the start, are afraid of failing to repay, and they initially observe other borrowers and only then join in after they have seen that indeed they have the capacity to repay.

It needs to be understood that the nature of microcredit is that poorer households are often perceived even by their neighbours and fellow villagers as not being able to access credit services. Exclusion by poor households was in fact specifically mentioned by VSCF members visited as being the main reason for why there were not more “poor” people found amongst the VSCF membership, with responses alluding to limited repayment capacity of the “poor”. It is believed that greater focus on beneficiary targeting would enable the VSCF program to indeed meet the needs of the poor, and would reduce the issues that have arisen from attempting to meet the needs of a wider cross-section of the communes the project seeks to serve.

RUDEP’s increasing focus on poorer households is likely to result in a decrease in the size of loans required, along with a decrease in the desired loan term. The main reason for this is the reduced capacity of poorer households to make repayments. It is expected that loan size requests will consequently reduce over time, and while it is recognised that any stated projection is an estimate and – without further empirical study - subjective, an average loan size over the short to medium term is expected to be in the range of VND1-3 million.

As the newer and poorer VSCF members become more familiar with the processes and systems, and the checks and balances of the VSCF program, they will gain more confidence in their ability to incur debt. At the same time the investments made by RUDEP in demonstrating successful income generating activities, in promoting role models in the relevant communities, and in the skill levels of members, and in other activities, it is expected that the confidence and capacity of VSCF members to increase repayments will result in increased loan sizes. While this trend is likely to occur, it would be speculative to determine loan sizes, loan terms, or indeed repayment rates as the VSCF membership is increasingly drawn from poorer households.

It appears that while some VSCF members who have no current demand for loans are remaining as members, there are many poor households, especially poor women, who remain unable to access financial services and continue to have to borrow from village money lenders at interest rates of 5% per month or more. Greater emphasis on facilitating such clients – the poor and women - to access the VSCF program is considered necessary if the objectives of the VSCF program are to be met.

The increased focus¹⁶ on the poor and on women by the RUDEP with regards the VSCF's is therefore appropriate and commendable. The revised targeting of 40% women and 70% poor membership clearly indicate the seriousness the project is giving to pro-poor and gender targeting.

This is however likely to require a separate focus on the needs of those who would then be excluded from the VSCF program. This is the small enterprise market of emerging entrepreneurs and generally requires access to more formal institutions. This may require some refocusing and reallocation of resources by the project.

Recommendations:

- 1. The project should continue to widen its outreach to the poor, particularly the poor women, as planned.**
- 2. RUDEP project should not permit any new entering VSCF members to have access to a loan from a formal financial institution, and should accordingly check with VBARD and Social & Policies Bank to determine which VSCF members have overlapping loans.**
- 3. That the project attempts to assist small enterprise clients with access to formal financial institutions (VBARD primarily), and that assistance to compiling appropriate business plans in line with the loan application requirements of these institutions be provided for those client beneficiaries *who require larger loans with longer loan terms*. This may well require the project to enlarge or refocus its activity group support¹⁷.**
- 4. Consideration should be given to new VSCFs:**
 - **increasing the target of women membership to 100% both in light of the targeting issues raised and as this may enable VWU to take greater accountability of the program (see section on Exit Strategy Options below);**
 - **to having more frequent repayment terms (viz monthly) in order to facilitate access by the poor who by definition do not have the capacity to repay larger amounts less frequently; and**
 - **to a smaller loan size focus (average loan size between say VND1-2 million).**

3.9 Interest on Savings

The calculation of interest on savings raised and discussed previously was not fully understood by the FCO. A brief operational policy guideline is offered in Annex 4.

¹⁶ See Revised Operational Guidelines.

¹⁷ This is in line with the TAG recommendation to (a) establish a specific program to support access to small enterprise loans by building the relationship with appropriate institutions (primarily VBARD), and (b) work with VBARD to identify constraints to (small enterprise) lending in project communes and propose appropriate QNRDP supported remedies.

Recommendation:

That the draft Operational Procedure on the treatment of interest on savings is discussed and approved by the TL.

3.10 Progress on Recommendation from Previous Report

Following the raising and discussion of a number of issues in the Microfinance Advisors Review Report of February 2004 was a number of related recommendations. Follow-up of these recommendations should be undertaken, and progress documented.

Recommendation:

The project should review the February 2004 Review Report, and progress in the implementation against the approved recommendations in that report should be documented and tracked by the FCO, and reported upon to the TL and PDA.

4 Issues Identified by FCO

The following are the issues identified by the FCO (in italics and bold) with an accompanying comment. The FCO also presented suggested solutions to the issues raised here as well as in his memorandum of 16th August, and these have been covered in the discussions and recommendations below and elsewhere in this report.

a. Rate of savings deposited and monthly meeting attendance are low

While continued attention should be given to both these issues, the reported savings and attendance rates of 90% and 89% are considered adequate, although not reason for complacency. Savings mobilisation is important as it indicates group cohesion and commitment, and grows the VSCF groups' capital base. Indicators and performance standards should be set in this regard, tracked through the aggregated form 5 at RUDEP level, and followed-up on as need be (see also Section 2 in this regard).

b. Rate of disbursement is low

The reported disbursement rate of 59%¹⁸ is of concern. This rate may mean that attaining financial sustainability will become more difficult, although the interest rate review continues to indicate continued sustainability at the 1% monthly rate (see Annex 5 and point e below), all other assumptions still applying. More importantly it may well indicate other problems, including a lack of understanding of the program; inappropriate targeting; a lack of income-generating opportunities; a need to adjust loan parameters (term, size, repayment frequency, etc); too onerous an application procedure; over indebtedness elsewhere; or a perception that the interest rate is too high. It is critical to understand the reasons underlying the reported disbursement rate.

The need for credit amongst VSCF members may be lower than anticipated, and this is likely to be exacerbated with the re-focusing on a poorer clientele. It is believed that the current beneficiary targeting of the VSCF may be too broad to enable access by all members. With male and female members, members from below and above the poverty line, literate and non-literate, old and young, farmers and non-farmers all being included in VSCF group membership, clear targeting is not taking place (see Section 3 for further comments on beneficiary targeting). Whether targeting is indeed the cause for low disbursement rates or there are other reasons needs to be understood.

Recommendations:

- 1. An urgent investigation should be undertaken into the reasons amongst VSCF members for such a low disbursement rate.**
- 2. A client satisfaction survey – possibly incorporated into the study in 1 – should be undertaken, and the feedback loop completed with the input from this survey to make any further and final changes to the VSCF program prior to roll-out.**

¹⁸ This is the percentage of seed capital transferred to date against loan portfolio outstanding.

c. Rate of poor households participating in the VSCF is low

The reported rate of between 16 and 20% participation amongst listed poor households may be of prima facie concern given the projects' pro-poor focus. While the proposed increase in the targeted participation amongst listed poor households initially to 50% (and 70% in late 2005) is commendable given this focus, the nature of microfinance is that extremely poor households are often not able to access credit services. Moreover the project works in a range of communes with differing income and poverty levels, and using an absolute (as against a comparative) measure may be less appropriate. It is believed that the revised target of 70% based on the DOLISA listing is too ambitious, and is likely to be more appropriate when based on the projects' wealth ranking poverty indicator.

Recommendation:

RUDEP should review and define the participation by the poor both in terms of poverty levels and target levels.

d. Rate of overdue loan is still high

At a reported 0.82% PAR>30days it is not agreed that the repayment rate is high. Of course every delinquent loan should be followed up upon, and greater emphasis in tracking this should be pursued.

Recommendation:

A schedule of all delinquent loans by VSCF and member, with the amount and actions being taken, should be compiled by the FCO or AFCO on a weekly basis, and sent to the PDA and Team Leader.

e. The current interest rate may not be sustainable

A review of the interest rate indicates that it remains sustainable¹⁹, although only just (see Annex 5). The interest rate issue is not currently believed to be a cause for concern, although periodic review is necessary.

f. A lack of adherence to Operating Guidelines continues

This is an important aspect, and continued efforts to better monitor the performance of VSCFs, and then with immediate follow-up with the relevant VSCF group, needs to be done. This was discussed in greater detail in Section 3.

¹⁹ Defined here simply as being an excess on income over expenditure, including a provision for the effects of inflation on equity.

5 Exit Strategy Options

5.1 Introduction and Background

Given the lack of a suitable micro-finance institution, the original exit strategy²⁰ for the VSCF program was two-fold: either to transform VSCF's into PCFs (probably after merging or federating VSCFs at commune or possibly district level), or for VSCFs to manage themselves on an on-going basis. The legislation and regulations governing PCFs, and the way in which they are supported and supervised by the VSB is generally considered appropriate for VSCFs, hence their offering the preferable exit strategy. The design of the VSCFs reporting and internal control systems was consequently specifically aimed at ensuring that both the requirements of PCF registration and that a level of on-going self management would be realistically achievable. This was underpinned by the provision of competency-based training to every VSCF member, with additional training being offered to VSCF Management Board members. Ongoing support during the first six months of a VSCF groups formation by the VWU under contract to RUDEP was also key to the success of this strategy.

Two factors have arisen that have somewhat negated these exit strategy options. The first is the apparently imminent new law with the aim of improving the enabling environment for the establishment of micro-finance institutions and of their clients. The question as to which institutional framework models of credit-savings best fits the project has correctly been raised as an issue by both sponsors and implementers of the project²¹. Credit-savings models are currently not affected by the existing Law of Credit organizations, and so new legislative changes may offer opportunities for these models to be more flexible in meeting microfinance needs of the poor in Quang Ngai. Once the new statute has been enacted it is understood that the VSB would draft regulations over the institutions providing micro-credit and related savings. A number of drafts of the new statute have been circulated, and as the final statute has yet to be agreed, let alone enacted and regulations drawn-up, it is extremely difficult to make definitive recommendations in this regard at this time.

The second is the stated reluctance²² by the VSB at provincial level to accept applications for establishing PCFs in the province. Whatever the reasons for this the challenge of using the PCF window as an exit strategy for the VSCF component of the RUDEP program has increased.

The discussion below is offered in addition to the existing VSCF exit strategy in light of these factors.

²⁰ See the PDD.

²¹ See also the discussion on options in the Village Savings & Credit Facility Review Report of February 2004.

²² Meeting with VSB and RUDEP during February 2004 – see *inter alia* Review report of February 2004.

5.2 Strategic Option 1: Establish a Microfinance Institution

The Government is in the process of preparing the Decree for Microfinance Institution Operations, and various drafts of the envisaged Microfinance Decree having already prepared by SBV, with the latest available being dated 1st July 2004. The main contents of this draft Decree is follows:

- MFIs registered in terms of this law must be non profit organisations;
- In order to obtain a MFI License, the applicant shall have to satisfy the following conditions:
 - Having actual needs to carry out micro financial operations in the proposed geographic area;
 - Being a Vietnamese legal entity, such as a program of a mass organization or be established as a local NGO;
 - Having obtained the agreement from the local government upon the policy of micro financial operations development in the proposed geographic area; and
 - Having a chartered capital amount equal to the level of legal capital as provided by the State Bank at minimum as followings:
- All such institutions may provide micro-loan services to clients, or provide both micro-loans and accept savings deposits that are not for on-lending, shall hold a Microfinance Operating Licence with a minimum legal capital of VND 500 million;
- All other institutions providing micro-loans and accepting deposits for on-lending shall hold a Microfinance Operating Licence with a minimum legal capital of VND 5 billion; and
- The micro financial institution having been carrying out micro financial operations prior to the effectiveness of this Decree shall be automatically entitled to obtain a Microfinance Operating License. This waiver provision shall be effective for 24 months from the effective date of the Decree.

According to the SBV's announcement, the Decree will be approved by Government by the end of this year (November or December 2004 was stated as being the target), but it is still unknown whether this Decree would be revised before being finally submitted to Government for approval.

Assuming the new statute is the same as the draft Decree of July 2004, this option would entail merging relevant VSCFs, and then for RUDEP to prepare to establish a Microfinance Institution with legal capital of VND 500 million with all relevant VSCFs operating under management of this MFI.

It is recommended that - as soon as the Decree has been approved – steps urgently be implemented to investigate the advantages and disadvantages, costs and risks of pursuing this option as an exit strategy for the VSCF component of the RUDEP program.

5.3 Strategic Option 2: Convert into People's Credit Funds

The number of VSCF-type savings and credit groups in Viet Nam has rapidly increased in recent years. Nevertheless, due to them not belonging to a regulated legal framework, this model is difficult to develop and expand their size. So they seldom attain institutional sustainability. The advantage of the VSCFs under RUDEP is that they have been capitalised by the program, and have been provided with both systems and training in ensuring their successful on-going management. For this reason the option of VSCFs simply managing themselves once RUDEP is complete was offered as a realistic exit strategy option. Nevertheless in general the support of an external institution such as the VSB is likely to increase the rate of survival amongst the VSCFs in the long term, and is consequently a preferable exit strategy.

The alternative exit strategy for RUDEP remains that of VSCFs becoming PCFs, despite recent discussions with the VSB at provincial level. This is certainly the closest model to the way that VSCFs projects are currently operating. It is believed that a pilot experiment or action research test be utilised to determine the methodology of merging VSCFs in a commune and transferring these into a People's Credit Fund.

The challenges in the transformation into a PCF are likely to be in terms of skills and capacity to manage such an institution, and although it is considered entirely possible to do so, this challenge is likely to be exacerbated by the continued move "down-market" to incorporate more women and poorer households into the VSCF component.

PCFs are located at commune level, autonomous, small-scale financial institutions and are closer to the people. Both the Law on Credit Institutions and the Law on Cooperatives govern them. PCFs are licensed by the SBV's provincial branches. PCFs perform an active financial intermediation function, improve access of rural borrowers and savers to financial services, and emphasise savings and credit discipline, in much the same way that VSCFs operate.

In Quang Ngai, 12 people's credit fund are currently in operation. If the experiment is successful, some lessons will be drawn for further development of people's credit funds. The SCF/UK in Vietnam also already converted their savings and credit program for the poor in Ha Tinh province into PCF, which may give some lessons learned.

Recommendation:

That processes immediately be put into action for a PCF to be established in one commune in which the project is operating. The structure of the PCF would be as is currently the case, but with a PCF MB drawn from amongst VSCF members into a "federation" of VSCFs, and with a skilled commune-level PCF (federated VSCF) accountant fulfilling all the relevant requirements to the SBV²³. Selection of VSCFs for the PCF should be of a commune with some of the stronger VSCFs. The aim of this exercise is as an action research experiment in determining whether this model is appropriate as an exit strategy.

²³ Microfinance Advisor Dao Hung has agreed to follow-up with the TL both in (a) providing the specific operating procedures and related requirements for the establishment of such a PCF, and (b) arranging for the project to visit a similar exercise where a Village Bank has transformed into a PCF.

6 Impact of VSCFs on Participating Members

This analysis primarily addresses impacts of microfinance on two areas as follows: (i) impact on borrowers; and (ii) impact on the community.

1. Impacts to Households

Microfinance activity is considered a useful tool for changing the lives of poor people all over the world. The impact of microfinance on borrowers are examined from aspects such as income, assets, living quality, confidence, and prestige in the community. In general, the relationship between microfinance and socio-economic conditions of households is shown briefly in the chart on the following page. This approach has been used by many well known researchers around the world to assess impacts of financial services on borrowers and this approach is suitable for developing countries, as Vietnam. This approach is also applied to assess impacts of credit-savings projects on beneficiaries.

The following are some of the indicators that are widely used:

- Improved outreach to the poor (number of the poor households has VSCFs loan);
- The members have access to the VSCFs loan for their production diversification and re-structure;
- Borrowers' income increase;
- Borrowers' savings (creating savings habit among the poor); and
- Improved production skills of households.

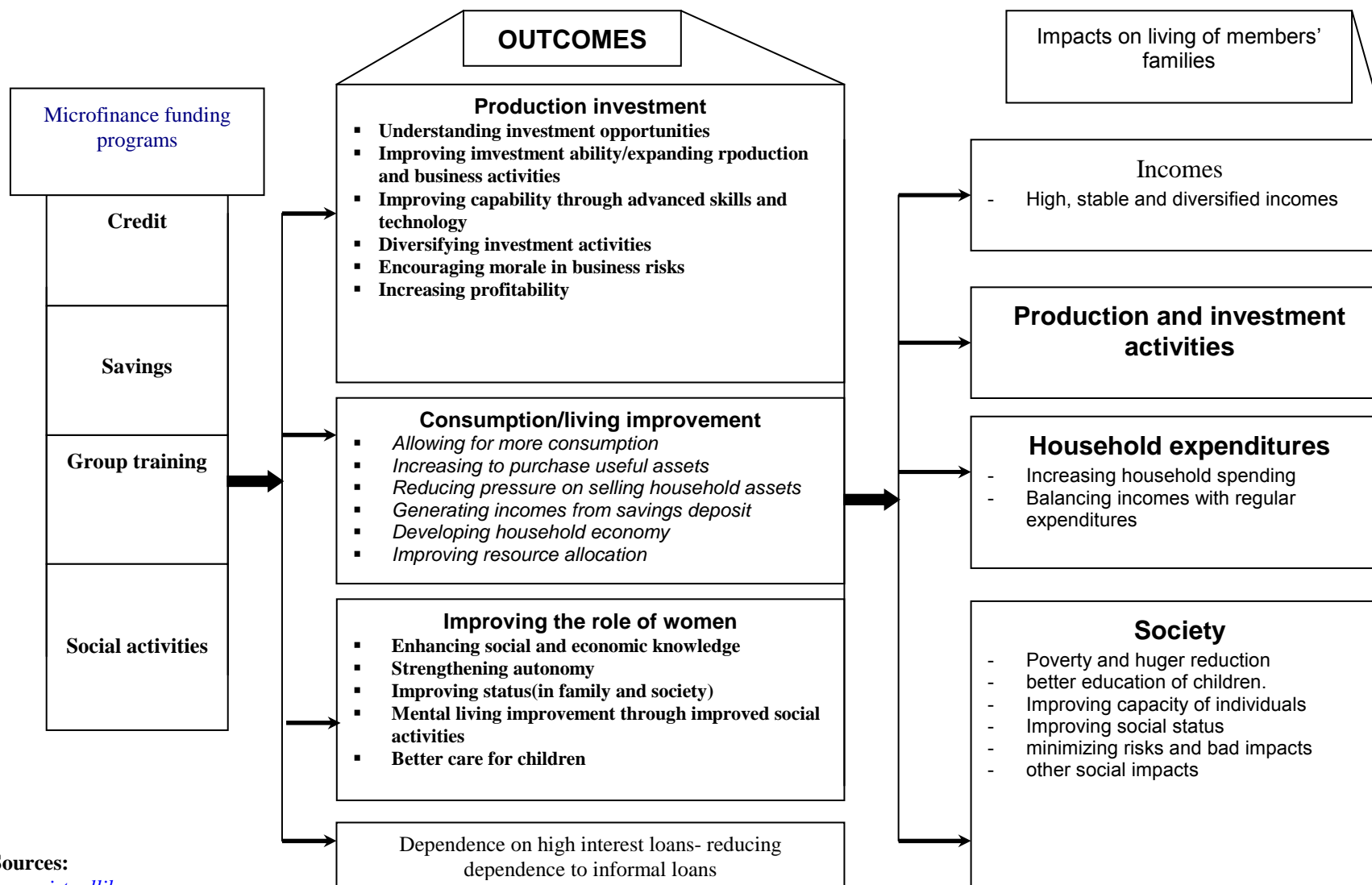
2. Impacts to Community

The impact of the microfinance does not limit itself to direct beneficiaries. Its impact has spread over the community and other institutions in the project area.

There are a number of questions that need to be discussed in this regard, including:

- Contribution to poverty alleviation in local areas (number of the hungry and poor households reduced)?
- Through the group's activities, friendship and cooperation among the members were improved?
- In addition to poverty alleviation and increase income, VSCFs have been realized as an effective tool to ensure women's participation and empowerment? and Women's position in family and society was improved?
- Job creation?

Chart: Impacts of the Microfinance on Borrowers



Sources:
www.virtuallibrary.co

Annex 1

Terms of Reference

Annex 1: Terms of Reference for Micro Finance Specialist

Duration: One month

Report to: Australian Team Leader

Key Counterparts: FCO/VFCO, DDOs and short term Vietnamese Rural Finance Specialist

Duties: The main purpose is to provide support to RUDEP in the design, implementation, monitoring and evaluation of a savings and credit facility that will support income generating activities with program communes.

Responsibilities:

- Review progress with the VSCFs and make recommendations for improvement.
- Identify factors pertaining to the operation of the VSCFs arising from other donor projects in Vietnam or elsewhere and actions by Vietnamese organisations.
- Identify options to improve the sustainability of the VSCFs regarding integration with microfinance institutions, etc.
- Train relevant staff or service providers on pertinent issues (TOT) considered necessary to ensure that the operational guidelines are understood and applied.
- Evaluate the forms used by VSCFs and make recommendations where necessary to ensure that they are appropriate, easily useable and are conducive to the growth of local credit facilities.
- Evaluate the content/usefulness of the current training support for VSCFs through service providers and its impact on the operations of VSCFs and make recommendations where appropriate.
- Mentor FCO/VFCO and counterparts as appropriate.
- Workshop findings with PMU and other interested parties.
- Assess the status/impact of the new microfinance decree to be tabled by the Vietnam State Bank in 2004 and review strategies and guidelines accordingly, especially with respect to documenting the exit strategy(s) for the VSCF program.
- Prepare and submit a written report before departing Quang Ngai.

Qualifications/Experience:

- Qualifications in economics, agricultural economics, commerce or related discipline.
- Experience in the design, implementation and monitoring of microfinance systems.
- Experience in rural development.
- At least 10 years experience with microfinance and rural development.
- Experience in SE Asian region, preferably Viet Nam.
- Demonstrated written and oral skills.
- Ability to work in a social setting with high levels of poverty.

Annex 2

Mission Schedule

Annex 2: Mission Schedule

The following is the schedule followed by Guy Winship (GW) and Doa Hung (DH) during the 23rd – 27th August 2004 Village Savings & Credit Facility support mission.

Day	Activities
22 nd August 2004	Sydney-HCMC-Danang
Monday 23 rd August	<p><i>Morning</i></p> <ul style="list-style-type: none"> • Danang to Quang Ngai • Welcome to offices • Detailed background discussion of VSCF program with PDA MH & FCO • Discussion with TL on VSCF issues, including need to refine the exit strategy <p><i>Afternoon</i></p> <ul style="list-style-type: none"> • Discussion with FCO about work-plan & progress to date on VSCF • Review documentation, especially “form 5” and memorandum of issues from FCO
Tuesday 24 th August	<p><i>Morning</i></p> <ul style="list-style-type: none"> • Discuss with FCO feedback on problems & issues (GW & DH); integrity of Form 5; issues raised from analysis of Form 5 • Discuss interest of savings rate calculation, write policy and train FCO <p><i>Afternoon</i></p> <ul style="list-style-type: none"> • Discuss lack of disbursement of loan funds and suggest solutions • Recommend and discuss an institutionalization and exit strategy for VSCF program • Outline issues over impact assessment of VSCF program • Update all formulas in “form 5” and discuss
Wednesday 25 th August	<p><i>Morning</i></p> <ul style="list-style-type: none"> • Discussion with FCO of structure, organization and operation of VSCF program. Suggest possible solutions to increasing workload <p><i>Afternoon</i></p> <ul style="list-style-type: none"> • Visit Tho Trung #3 VSCF group
Thursday 26 th August	<p><i>Morning</i></p> <ul style="list-style-type: none"> • Visit Tho Dong # 1 (example of a “good” VSCF group) • Commence writing report <p><i>Afternoon</i></p> <ul style="list-style-type: none"> • Reading of updated VSCF Operational Guidelines • Writing of report
Friday 27 th August	<ul style="list-style-type: none"> • Review of recommendations from Review Report in February • Presentation and discussion of draft report • Way forward
Saturday 28 th August	Departure from QN to Danang

Annex 3

Internal Memorandum of VSCF Issues from FCO

Annex 3: Internal Memorandum of VSCF Issues from FCO



CHUYÊN TRỊNH PTNT QUẢNG
NGÃI

Số 37-Đường Phạm Văn Đồng

Thị xã Quảng Ngãi, Việt
Nam

Tel: 055-816 266, 816 265

Fax: 055-816 260

Email: adminqnrdep@dng.vnn.vn

QUANG NGAI RURAL DEVELOPMENT PROGRAM

No 37-Pham Van Dong Street

Quang Ngai Town, Vietnam.

Tel: 84-55-816 266, 816 265

Fax: 84-55-816 260

Email: adminqnrdep@dng.vnn.vn

To: PDA Mark Hoey
CC: TL Trevor Ole
From: FCO Do Dang Teo
Subject: Issues of Form 5 in July 2004
Date: 16 Aug 2004

Dear Mark,

After finishing data entry of 44 VSCFs and field trip to VSCFs in Duc Phong and Hanh Phuoc communes this morning (16Aug 2004), some issues were found as follows:

1. There are some common errors in Form 5, especially the OUTREACH. Most of Accountants usually forget to bring exact information from the form 5 of the previous month to the form 5 of this month. As a result, the data does not match each other. It takes much time for FCO to complete the consolidated Form. For example, Van Ha I VSCF, Duc Phong commune: in Form 5 of May, the *No of members with loan at the end of this month: 8* but when bring to form 5 of June: written: *9*.
2. A problem relating to Thach Thang I VSCF: The MB has agreed to disbursed VND 20,000,000 for 2 members (Ms. Lang and Ms. Huong). FCO met the leader and the accountant of this VSCF this morning, the major findings are the following:
 - The two Loan Applications have not been submitted to CCG for approval before disbursing loan. CCG did not know about this issue.
 - MB know that on the VSCF operational procedures, it does not allow them to do that. However, because VSCF's members complained that cost of cows and bull has been increasing, so 10 millions will be enough for them to buy cows or bulls. The leader could not refuse.
 - Ms. Lang had borrowed 10 mils from Thach Thang I VSCF and has already bought one cross-breed cow (Sindy cows) at 10,500,000VND. Ms Huong had also borrowed VND10,000,000 and has bought 2 cows at VND10,000,000 said by the accountant of Thach Thang I VSCF.

After discussion with the MB of VSCF for solutions, the leader of Thach Thang I VSCF said that this is my big mistake. So will have to be fined. And he suggested that, during the next 15 days he will try his best to get VND 8,000,000 (it means that agreed for these 2 borrowers to get 6,000,000 per each, the rest of 8,000,000 will be withdrawn and put into the bank account. But FCO has not agreed and give a Warning:

- Firstly, now disbursement until getting approval from CCG.
- Secondly, if CCG of Duc Phong agreed to approve the business plan, then not more than VND6,000,000 will be disbursed per each.

- For the rest of VND8,000,000 (over 4,000,000 per each member) will be compensated by the leader and the accountant latest on 17h 17 Aug 2004. FCO will check through the VSCF's bank account.
 - Should review this lesson learnt to all Thach Thang I VSCF members.
3. An issues relating to Hoa Son I VSCF- Hanh Phuoc commune:
- The accountant made mistakes when filling the data collected from MS 3a in Form 5. FCO has checked and correct them.
 - The overdue loan of this VSCF in June accounts for 13 %. But the MB still approved and disbursed new loan to the other members. Meanwhile, the DWU of Nghia Hanh did not give any advise on that.
 - The MB did not monitor the overdue loan by filling in the MS 3b.
4. Another common issue is that, most of new VSCFMBs have not disbursed the loans during the monthly meeting or one day right after finishing the monthly meeting. They usually disburse the loans to the selected borrowers for 4-7 days later. For example, in Van Ha I VSCF; VSCF Village IIA in Nghia Tho.
5. Most of DWU staff seem not to check the form 5 collected before sending to RUDEP.
Please have a look and give your advise soon!

21h30 16 Aug 2004

FCO

Annex 4

Operational Procedure Regarding Interest on Savings

Annex 4: Operational Procedure Regarding Interest on Savings

Quang Ngai Rural Development Program Village Savings & Credit Facility

Operational Procedure Regarding Interest on Savings

1. All VSCF members receive 0.2% per month simple interest on their savings. This interest will be compounded six-monthly.
2. The basis for calculation of interest will be on the minimum savings balance during the previous six months. This will be done as at 30 June and 31 December each year. Interest payable to members will be calculated by adding 1.2% (that is 0.2% x 6) to the minimum savings balance during the period either from 1 January to 30 June or from 1 July to 31 December each year. Interest will be added into each members' passbook as soon as possible after 30 June and 31 December, but never later than one month after these dates.
3. Such interest will then be expensed as a cost and will be immediately available to members in full.
4. Interest calculated at the following accrual date will be on the new minimum savings balance **INCLUDING** the interest from the previous period, and therefore will be compounded every six months.
5. The minimum savings balance is the lowest savings balance of the individual at any time during the six-month period.
6. Members may withdraw or deposit savings as they wish during monthly meetings **SUBJECT** to the VSCF group by-laws and the PPC approved guidelines of (particularly of minimum and collateral) savings requirements.
7. Members who withdraw all of their savings and accrued interest would have a VND 0 balance during that six-month period, and as the minimum savings balance is VND 0 it therefore would **NOT** attract any further interest since the previous interest calculation was done.

Annex 5

Interest Rate Review

Annex 5: Interest Rate Review - Village Savings & Credit Facility

Income Statement for Village Savings & Credit Facility

Income:	per month
Interest	675,000
Interest from funds in bank	24,450
Penalties interest and/or fees:	-
Total Income:	675,000
Expenses:	
Provision for bad debt	78,750
Stationery, tea & miscellaneous	20,000
Management Board / Leaders fee	202,500
Interest paid on members savings	9,450
Allowance for Inflation	322,875
Total Expenses:	633,575

Net monthly surplus to build capital:	41,425
--	---------------

Notes & assumptions:

1	Assumed average number of members/VSCF	25
2	Assumed seed capital per VSCF member	3,000,000
3	Assumed seed capital per VSCF	75,000,000
4	VSCF disbursement rate to membership	90%
5	Assumed average loan disbursement	67,500,000
6	Average portfolio outstanding	47,250,000
7	Assume no fees, or penalties on late payments	
8	Assume 98% repayment rate; so provisioning for write-offs of 2%. Calculated as 2% x (average portfolio) annualized.	
9	Assumes monthly VSCF operational expenses at VND20,000	
10	Assume fee for MB of 30% of interest income, based on regulation of 0.3% of interest monthly.	
11	Assumed monthly interest rate on members savings	0.20%
12	Assumed members savings rate (% of avg loan portfolio)	10.00%
13	Assumed members savings amount	4,725,000
14	Assumed interest on VSCF group savings in bank	0.20%
15	Assumed annual inflation rate	8.2%
16	Assumed monthly interest rate (on nominal basis)	1%

Loans disbursed at beginning of year:	67,500,000	Interest income at differing interest rates:
Nominal monthly interest at:	0.75%	506,250
Nominal monthly interest at:	1.00%	675,000
Nominal monthly interest at:	1.25%	843,750
Nominal monthly interest at:	1.50%	1,012,500
Nominal monthly interest at:	1.75%	1,181,250

Annex 6

Revised Consolidated Monitoring Report ("Form 5") for QNRDP/RUDEP

Quang Ngai Rural Development Program

No of VSCFs: ???

No of Communes: ???

FCO-FINAL CONSOLIDATED REPORT

Monday, 23 August 2004

Changed
 cells to be filled in

Part I- FINANCIAL INFORMATION

	Items	Database	Jun-04	Jul-04
I	OUTREACH			
1	No of members at end of previous month	Carried down from previous month	1	2
2	No of new members	PLUS	5	7
3	No of members resigning	LESS	4	4
4	No of members at end of month	4 = 1 + 2 - 3	2	5
5	No of female members in total	No.	8	8
6	No of female members with outstanding loan	No.	4	4
7	No of members with loan at end of previous month	Carried down from previous month	7	5
8	No of members with new loan	PLUS	2	12
9	No of members repaying loan in full	LESS	4	2
10	No of members with loan at end of month	10 = 7 + 8 - 9	5	15
11	No of members making savings deposit in current month	No.	22	22
12	No of members attending monthly meeting	No.	21	21
II	SAVINGS			
13	Savings balance at end of previous month	Carried down from previous month	1,000,000	1,071,000
14	Amount of savings deposited	PLUS	100,000	150,000
15	Amount of savings withdrawn	LESS	50,000	250,000
16	Interest on savings (calculated in June & Dec as per operational procedures)	PLUS	21,000	-
17	Amount of savings actually collected this month	17=14-15+16	71,000	(100,000)
18	Savings balance at end of current month	18 = 13 + 17	1,071,000	971,000
III	LOANS			
A	Categorised by purpose of loan			
19	Value of loans disbursed for cattle raising this month		12	1,234
20	Value of loans disbursed for pig raising this month		1	1,234
21	Value of loans disbursed for poultry raising		4	2,345
22	Value of loans disbursed for cultivation		6	2,789
23	Value of loans disbursed for off-farm income generating activities		4	4,567
24	Value of loans disbursed for ALL OTHER purposes		3	1,999
25	Value of all loans disbursed this month	25 = 19 + 20 + 21 + 22 + 23+24	30	14,168
B	Categorised by loan terms			
26	No of short-term loans disbursed this month (loans of <= 6 months term)		2	3
27	No of medium-term loans disbursed this month (loans of <=12 months)		0	4
28	No of long-term loans disbursed this month (loans of 15 months term)		0	5

IV	PRINCIPAL COLLECTION		Jun-04	Jul-04
29	Total principal collected	from Form 3a	12	12,345
V	INTEREST COLLECTION			
30	Total Interest amount collected	From 3a	12	1,234
VI	PENALTY COLLECTION			
31	Penalty collection for overdue loans		12	12
32	Penalty collection relating to monthly meeting or other matter		12	0
33	Total Penalty amount collected	33 = 31+32	24	12
VII	OUTSTANDING PRINCIPAL			
34	Total outstanding principal for ALL loans	34 = (34 c/d from previous month) + 25 - 29	12	1,835
A	Monitoring of overdue loan:			
35	Cumulative number of members with overdue loans		2	12345
36	Total amount of ALL loans with overdue repayment	VND	2	12
37	% of loan principle overdue (PAR > 1 day)	37= 36/ 34	16.67%	0.65%
B	Monitoring of repayments:			
38	No of members not repaying in full this month	No.	1	1
39	Value of expected repayment this month (Principle + Interest)	VND	123	14,000
40	Value of actual repayment this month	VND	24	13,579
41	On-time repayment rate this month	41= 40/39	19.51%	96.99%
VIII	BANK TRANSACTION ACTIVITIES / BANK RECONCILIATION	VND		
42	Total in bank at End of previous month	Carried down from previous month	12	19,985,042
43	Seed capital in bank account from previous month	Carried down from previous month	-	5,000,000
44	Value of seed capital transferred into VSCF bank account this month	VND	20,000,000	7
45	Value of seed capital disbursed to VSCF members this month	VND	15,000,000	12,345
46	Seed capital in bank at end of this month	46=43+44-45	5,000,000	4,987,662
47	Other Loan disbursements	47 = 25 - 45	-	14,999,970
48	Value of actual repayments received this month	from 40	24	13,579
49	Net member savings (LESS interest in June and Dec) collected this month	49 = 18 - 16 (will be = 17 in all months except June & Dec)	50,000	100,000
50	Value of penalties in this month	from 33	24	12
51	Interest paid by Bank on account this month	from bank statement	12	123
52	Cash operational expenses this month	52 = 66 (from Income Statement)	65,000	147
53	Total in bank account at the end of current month	53=42+44-45-47+48+49+50+51-52	19,985,042	19,884,448

Part II- INCOME STATEMENT

		Jun-04	Jul-04
Operating Income:			
54	Interest from loans	54=30	1,234
55	Fees and penalties from loans	55=33	12
56	Interest earned from bank account	56=51	123
57	Other income	If occurs, take from form 3	12
58	Total income from operations	58 = 54 + 55 + 56 + 57	1,381
Operating Expenses:			
Financial expenses			
59	Interest & fees on debt for lending		-
60	Interest on savings (in June and December only)	60 = 16	720
61	Subtotal financial expenses	61 = 59 + 60	720
Other operational expenses			
63	Cash: Allowances to VSCF Management Board	From group form 3a ONLY (excludes RUDEP allowance)	123
64	Cash: Stationary	VND	12
65	Other operational expenses	VND	65,000
66	Subtotal cash operational expenses	66 = 64 + 65	65,000
67	Loan-loss provision	67 = 34 * (2%/12)	65,000
68	Depreciation (calculated annually as per operational procedures)	68 = 82 * 40% (once per year)	9
69	Subtotal non-cash operational expenses	69 = 67 + 68	21,800
70	Total expenses from operations	70 = 61 + 66 + 69	159
71	OPERATIONAL SURPLUS (DEFICIT)	71 = 58 - 70	1,222
72	Grant from QNRDP in assets (value of equipment, filing cabinets etc)	From form 3 and QNRDP records	124
73	NET SURPLUS FOR THE PERIOD	73 = 71 + 7	1,345

Part III- BALANCE SHEET
Assets

		Jun-04	Jul-04
Current Assets			
74	Cash in VSCF safe	From form 3a	12
75	Cash in bank account	75 = 53	12
76	Loans outstanding	76 = 34	12
77	Loan-loss reserve (negative)	77 = (77 from previous month) + 67	12
78	Total Current Assets	78 = sum (74...77)	48
Non-Current Assets			
80	Value of fixed assets from RUDEP plus other fixed assets purchased	80 = (80 from previous month) + 72 + cost of other fixe	234
81	Accumulated depreciation	81 = (81 from previous month) + 68	12
82	Net fixed assets = Non-Current Assets	82 = 80 - 81	222
83	Total assets	83 = 79 + 82	270

		Jun-04	Jul-04
Liabilities			
84	Savings deposits (including interest)	84 = 18	12
85	Other short-term liabilities	If occurs, take from form 3	15
86	Total liabilities	86 = 84 + 85	27
Reserve Funds / Equity			
87	Groups funds	87 = (87 from previous month) + 44 this mth	12
88	Value of assets supplied	88 = (88 from previous month) + 72 this mth	12
89	Cumulative operational surplus (retained earnings)	89 = (89 from previous month) + 71 <net surplus (or - net loss) this mth>	12
90	Total equity		36
91	Total liabilities and equity		63

Annex 7

Revised Consolidated Monitoring Report ("Form 5") for VSCF

Commune:

Village Savings & Credit Facility name:

Month:

	Items	July
I	OUTREACH	
1	No of group members at end of previous month	4 from June
2	No of new members joining group this month	ENTER #
3	No of members resigning from group this month	ENTER #
4	No of members at end of month/July	4 = 1+2-3
5	No of female members in the Village Savings & Credit Facility	ENTER #
6	No of female members with outstanding loan at the end of July	ENTER #
7	No of members with loan at the end of previous month	10 from June
8	No of members receiving new loan this month (July)	ENTER #
9	No of members repaying loan in full	ENTER #
10	No of members with loan at end of month	10 = 7+8-9
11	No of members making savings deposit this month	ENTER #
12	No of members attending monthly meeting	ENTER #
II	SAVINGS	
13	Savings balance at end of previous month	18 from June
14	Amount of savings collected this month	ENTER #
15	Amount of savings withdrawn this month	ENTER #
16	Interest on savings (calculated in June & Dec as per operational procedures)	ENTER #
17	Amount of savings actually collected this month	17 = 14-15+16
18	Savings balance at end of current month	18 = 13+17
III	LOANS	
A	Categorised by purpose of loan	
19	Value of loans disbursed for cattle raising this month	ENTER #
20	Value of loans disbursed for pig raising this month	ENTER #
21	Value of loans disbursed for poultry raising	ENTER #
22	Value of loans disbursed for cultivation	ENTER #
23	Value of loans disbursed for off-farm income generating activities	ENTER #
24	Value of loans disbursed for ALL OTHER purposes	ENTER #
25	Value of all loans disbursed this month	Total of 19...24
B	Categorised by loan terms	
26	No of short-term loans disbursed this month (loans of <= 6 months term)	ENTER #
27	No of medium-term loans disbursed this month (loans of <=12 months)	ENTER #
28	No of long-term loans disbursed this month (loans of 15 months term)	ENTER #
IV	PRINCIPAL COLLECTION	
29	Total principal collected	ENTER #
V	INTEREST COLLECTION	
30	Total Interest amount collected	ENTER #
VI	PENALTY COLLECTION	
31	Penalty collection for overdue loans	ENTER #
32	Penalty collection relating to monthly meeting or other matter	ENTER #
33	Total Penalty amount collected	33 = 31+32

	Items	July
VII	OUTSTANDING PRINCIPAL	
34	Total outstanding principal for ALL loans	34 = (34 from June)+25-29
A	Monitoring of overdue loan:	
35	Cumulative number of members with overdue loans	ENTER #
36	Total amount of ALL loans with overdue repayment	ENTER #
B	Monitoring of repayments:	
37	No of members not repaying in full this month	ENTER #
38	Value of expected repayment this month (Principle + Interest)	ENTER #
39	Value of actual repayment this month	ENTER #
40	On-time repayment rate this month	40 = 39/38
VIII	BANK TRANSACTION ACTIVITIES / BANK RECONCILIATION	
41	Total in bank at End of previous month	48 from June
42	Loan disbursements	= 25
43	Value of actual repayments received this month	= 39
44	Net member savings (LESS interest in June and Dec) collected this month	44 = 18 - 16
45	Value of penalties in this month	= 33
46	Interest paid by Bank on account this month	ENTER # (from bank statement)
47	Cash operational expenses this month	ENTER #
48	Total in bank account at the end of current month	48 = 41-42+43+44+45+46-47

Annex 8

Revised Consolidated Monitoring Report (“Form 5”) for Commune Accountant

Name of Village Savings & Credit Facility:

The commune accountant completes this form 5 for each and every VSCF

Name of Commune:

Name of commune

No of VSCFs:

No of VSCFs in commune

Part I- General Information

	Items	Database	
I	OUTREACH		Jun-04
1	No of members at end of previous month	Carried down from previous month	
2	No of new members	PLUS	
3	No of members resigning	LESS	
4	No of members at end of month	4 = 1 + 2 - 3	
5	<i>No of female members in total</i>	<i>No.</i>	
6	<i>No of female members with outstanding loan</i>	<i>No.</i>	
7	No of members with loan at end of previous month	Carried down from previous month	
8	No of members with new loan	PLUS	
9	No of members repaying loan in full	LESS	
10	No of members with loan at end of month	10 = 7 + 8 - 9	
11	No of members making savings deposit in current month	<i>No.</i>	
12	No of members attending monthly meeting	<i>No.</i>	
II	SAVINGS		
13	Savings balance at end of previous month	Carried down from previous month	
14	Amount of savings deposited	PLUS	
15	Amount of savings withdrawn	LESS	
16	Interest on savings(calculated in June & Dec as per operational procedures)	PLUS	
17	Amount of savings actually collected this month	17=14-15+16	
18	Savings balance at end of current month	18 = 13 + 17	
III	LOANS		
A	<i>Categorised by purpose of loan</i>		
19	Value of loans disbursed for cattle raising this month		
20	Value of loans disbursed for pig raising this month		
21	Value of loans disbursed for poultry raising		
22	Value of loans disbursed for cultivation		
23	Value of loans disbursed for off-farm income generating activities		
24	Value of loans disbursed for ALL OTHER purposes		
25	Value of all loans disbursed this month	25 = 19 + 20 + 21 + 22 + 23+24	
B	<i>Categorised by loan terms</i>		
26	No of short-term loans disbursed this month (loans of <= 6 months term)		
27	No of medium-term loans disbursed this month (loans of <=12 months)		
28	No of long-term loans disbursed this month (loans of 15 months term)		
IV	PRINCIPAL COLLECTION		
29	Total principal collected	from Form 3a	
V	INTEREST COLLECTION		
30	Total Interest amount collected	From 3a	
VI	PENALTY COLLECTION		
31	Penalty collection for overdue loans		
32	Penalty collection relating to monthly meeting or other matter		
33	Total Penalty amount collected	33 = 31+32	

	Items	Database	
VII	OUTSTANDING PRINCIPAL		
34	Total outstanding principal for ALL loans	34 = (34 c/d from previous month) + 25 - 29	
A	Monitoring of overdue loan:		
35	Cumulative number of members with overdue loans		
36	Total amount of ALL loans with overdue repayment	VND	
37	% of loan principle overdue (PAR > 1 day)	37= 36/ 34	
B	Monitoring of repayments:		
38	No of members not repaying in full this month	No.	
39	Value of expected repayment this month (Principle + Interest)	VND	
40	Value of actual repayment this month	VND	
41	On-time repayment rate this month	41= 40/39	
VIII	BANK TRANSACTION ACTIVITIES / BANK RECONCILIATION	VND	
42	Total in bank at End of previous month	Carried down from previous month	
43	Seed capital in bank account from previous month	Carried down from previous month	
44	Value of seed capital transferred into VSCF bank account this month	VND	
45	Value of seed capital disbursed to VSCF members this month	VND	
46	Seed capital in bank at end of this month	46=43+44-45	
47	Other Loan disbursements	47 = 25 - 45	
48	Value of actual repayments received this month	from 40	
49	Net member savings LESS interest in June and Dec collected this month	49 = 18 - 16 (will be = 17 in all months except June & Dec)	
50	Value of penalties in this month	from 33	
51	Interest paid by Bank on account this month	from bank statement	
52	Cash operational expenses this month	52 = 66 (from Income Statement)	
53	Total in bank account at the end of current month	53=42+44-45-47+48+49+50+51-52	

Part II- INCOME STATEMENT

Operating Income:

54	Interest from loans	54=30	
55	Fees and penalties from loans	55=33	
56	Interest earned from bank account	56=51	
57	Other income	If occurs, take from form 3	
58	Total income from operations	58 = 54 + 55 + 56 + 57	-

Operating Expenses:

Financial expenses

59	Interest & fees on debt for lending		
60	Interest on savings (in June and December only)	60 = 16	
61	<i>Subtotal financial expenses</i>	<i>61 = 59 + 60</i>	

Other operational expenses

63	Cash: Allowances to VSCF Management Board	From group form 3a ONLY (excludes RUDEP allowance)	
64	Cash: Stationary	VND	
65	Other operational expenses	VND	
66	<i>Subtotal cash operational expenses</i>	<i>66 = 64 + 65</i>	
67	Loan-loss provision	67 = 34 * (2%/12)	
68	Depreciation (calculated annually as per operational procedres)	68 = 82 * 40% (once per year)	
69	<i>Subtotal non-cash operational expenses</i>	<i>69 = 67 + 68</i>	

70	Total expenses from operations	70 = 61 + 66 + 69	
71	OPERATIONAL SURPLUS (DEFICIT)	71 = 58 - 70	
72	Grant from QNRDP in assets (value of equipment, filing cabinets etc)	From form 3 and QNRDP records	
73	NET SURPLUS FOR THE PERIOD	73 = 71 + 7	

Part III- BALANCE SHEET

Assets

Current Assets			
74	Cash in VSCF safe	From form 3a	
75	Cash in bank account	75 = 53	
76	Loans outstanding	76 = 34	
77	Loan-loss reserve (negative)	77 = (77 from previous month) + 67	
78	Total Current Assets	78 = sum (74...77)	
Non-Current Assets			
80	Value of fixed assets from RUDEP plus other fixed assets purchased	80 = (80 from previous month) + 72 + cost of other fixed asset purchases the VSCF made using own funds	
81	Accumulated depreciation	81 = (81 from previous month) + 68	
82	Net fixed assets = Non-Current Assets	82 = 80 - 81	
83	Total assets	83 = 79 + 82	

Liabilities

84	Savings deposits (including interest)	84 = 18	
85	Other short-term liabilities	If occurs, take from form 3	
86	Total liabilities	86 = 84 + 85	
Reserve Funds / Equity			
87	Groups funds	87 = (87 from previous month) + 44 this mth	
88	Value of assets supplied	88 = (88 from previous month) + 72 this mth	
89	Cumulative operational surplus (retained earnings)	89 = (89 from previous month) + 71 <net surplus (or net loss) this mth>	
90	Total equity		
91	Total liabilities and equity		

Limitations

URS Australia Pty Ltd (URS) has prepared this report for the use of AusAID Quang Ngai Rural Development Program in accordance with the usual care and thoroughness of the consulting profession. It is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this report. It is prepared in accordance with the scope of work and for the purpose outlined in the Program Design Document.

The methodology adopted and sources of information used by URS are outlined in this report. URS has made no independent verification of this information beyond the agreed scope of works and URS assumes no responsibility for any inaccuracies or omissions. No indications were found during our investigations that information contained in this report as provided to URS was false.

This report was prepared during September 2004 and is based on the conditions encountered and information reviewed at the time of preparation. URS disclaims responsibility for any changes that may have occurred after this time.

This report should be read in full. No responsibility is accepted for use of any part of this report in any other context or for any other purpose or by third parties. This report does not purport to give legal advice. Legal advice can only be given by qualified legal practitioners.