

QUANG NGAI RURAL DEVELOPMENT  
PROGRAM (QNRDP) - PHASE 2

Management & Operation of Village Savings and  
Credit Funds under QNRDP

Supplementary Report



VIET NAM-AUSTRALIA

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7 February 2003

VIE1506

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## Acronyms

AF	Activity Fund
AFG	Activity Fund Group
AMC	Australian Managing Contractor
AP	Annual Plan
APDA	Australian Participatory Development Adviser
ASAS	Australian Small Assistance Scheme
ATL	Australian Team Leader
AusAID	Australian Agency for International Development
BS	Balance Sheet
CBO	Capacity Building Officer
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
DPC	District People's Committee
DPI	Department of Planning and Investment
FCO	Finance and Credit Officer
GIS	Geographic Information System
GOA	Government of Australia
GOV	Government of Viet Nam
HH	Household
IEO	Infrastructure and Environment Officer
M&E	Monitoring and Evaluation
MEGO	Monitoring, Evaluation and Geographic Systems Officer
ODA	Overseas Development Assistance
O&M	Operation and Maintenance
PCC	Program Coordination Committee
PC/PA/PS	Problems Census/Problem Analysis/Problem Solving
PCF	People's Credit Fund
PDA	Participatory Development Adviser
PDD	Program Design Document
PMU	Program Management Unit
PPC	Provincial People's Committee
PPP	Participatory Planning Process
PSC	Provincial Steering Committee for ODA Projects
QNRDP	Quang Ngai Rural Development Program
SS	Scoping Study
STA	Short Term Adviser
TBA	To Be Advised
VBARD	Viet Nam Bank for Agriculture and Rural Development
VBP	Viet Nam Bank for the Poor
VND	Vietnamese Dong (approximately A\$1 = VND8,000)
VSCF	Village Savings and Credit Facility
VTL	Vietnamese Team Leader
VWU	Viet Nam Womens Union

# 1 Introduction

This report attempts to consolidate the findings and recommendations arising from tasks undertaken in terms of an assignment for URS to design the activity funds component of the Quang Ngai Rural Development Program<sup>1</sup>. The tasks undertaken include discussions with URS and partner staff, with program beneficiaries, AusAID, and others prior, during and after a field trip to Quang Ngai province during November 2002<sup>2</sup>, as well as review of program and related material. Input from these discussions and material have been incorporated into this report.

The primary output under the terms of reference is a detailed **Operational Manual** presented separately to this report. As such this report is largely supplementary in nature, providing additional information and explanations, findings and recommendations, that would not appropriately be included in an Operational Manual. This report is consequently brief.

The approach to the tasks in the terms of reference was to review a range of material supplied by URS (primarily the project planning documents). Contact was made via e-mail prior to the one-week field visit with field staff and with a local microfinance expert (and counterpart) in Vietnam to ensure the context and history was understood, and with the aim of ensuring that meetings were set-up in a timely and appropriate manner. In the field the approach was to obtain agreement on the envisaged process flow in chronological order, and this was then used as the basis for conceptualising the VSCF design. Developing the operational manual outlining policies and procedures, management, internal controls, and monitoring and evaluation, followed. The Team Leader approved the concept before proceeding to stage of operations manual completion.

A number of Quang Ngai Rural Development Program field staff, counterpart DPI staff, clients and partners were interviewed during a six-day field visit to Quang Ngai from Monday 25<sup>th</sup> to Saturday 30<sup>th</sup> November 2002 (see Annex 2 – Field Trip Schedule). Meetings were held with partners and potential partners Vietnam Women's Union (VWU), Vietnamese Bank for Agricultural and Rural Development<sup>3</sup> (VBARD), and a Peoples Credit Fund . These interviews were mainly held on a one-on-one basis and followed a loose schedule of questions and discussions, and solicitation of issues that arose during such discussions. Feedback from these interviews are included in this report where relevant.

The concept proposal was presented and workshopped with field staff during the field visit (see Annex 3 for this presentation). In addition a staff training workshop was made to a number of QNRDP field and counterpart staff on microfinance that solicited much discussion of issues, particularly of what was believed to be appropriate interest rate levels. This morning training workshop provided an introduction to microfinance as well as of an international best practise case study<sup>4</sup>.

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<sup>1</sup> See Annex One – Terms of Reference.

<sup>2</sup> This report accordingly includes a field trip report.

<sup>3</sup> The meeting with VBARD included a representative from the Vietnam Bank for the Poor (VBP).

<sup>4</sup> Copies of this workshop are available on request.

Appreciation is extended to the staff of URS and QNRDP, DPI, and partners for the helpful manner in which the technical advisor was welcomed, and for the openness with which questions were answered. Vietnamese counterpart Mr Dao Van Hung of the Micro Finance Resource Center at the National Economics University (Faculty of Banking and Finance) accompanied this advisor on all visits, and his insights, support and assistance is much appreciated.

The report attempts to provide clarity on the specific issues raised in the terms of reference, and in particular issues that arose during the field visit. In line with this the report follows with section 2, which covers the issues raised in the terms of reference, and section 3, which attempts to cover issues raised during and subsequent to the field visit. The final section concludes the report.

## 2 Issues Raised in the Terms of Reference

### 2.1 Conceptualisation of Activity Funds/Village Savings & Credit Facility

The conceptual basis of the Village Savings & Credit Facility<sup>5</sup> (or VSCF) is a hybrid model based loosely on a solidarity group lending model and the Revolving Savings and Credit Associations (ROSCAs) methodology. Loans are made by the group themselves to individuals within the group, with members being jointly and severally liable for repayments. Loans from QNRDP would provide the initial capital base, with accumulated savings and interest earned growing this capital over time. Loans from QNRDP (or from the groups own funds) would be un-collateralised, although sanctions will be imposed on individual households who do not comply with program conditions, spelt out to all members up-front.

The idea is that groups form around the common interest of savings and credit, and are largely self-managing with individual repayments (of the initial QNRDP loan) to the group building the capital base. The mechanisms for this are similar to other self-managed revolving fund groups, with the same dynamics/forces at work, in the short-run with QNRDP providing incentives for repayments, and in the longer run with mutual benefit leading to peer pressure for good repayments.

It is important that groups be cohesive, as without this group members are not able to apply appropriate pressure on members to maintain good repayment rates. Such cohesion creates group stability, and is critical for ensuring sustainability of the group. While such cohesion can occur in different ways, it is recommended that groups largely form themselves (viz choose their own members and group bylaws), and that membership be limited to hamlet or commune level (viz be geographically limited).

The formation of groups will be facilitated and supported by QNRDP together with their other activities. Training to all members of new groups is essential, and this will be provided by Quang Ngai Rural Development Program staff (the new Finance & Credit Officer or FCO). The operational manual is now available to staff, along with a Field Staff Guide that serves as the basis for implementing and supporting the VSCF program. Based in part on the operational manual a training-of-trainers program for the new FCO and other staff will be undertaken to ensure they have the necessary skills and knowledge. The District officers must be included in this training as they will be needed to provide on-going support to VSCF groups.

Affordability projections were calculated by other members of the Quang Ngai Rural Development Program team based on the cash flows and business dynamics of various business activities. Based on this an average loan size of VND 7 million and loan term of nine months have been assumed. An interest rate of 1.25% per month was set based on ensuring sustainability and taking these and other assumptions into account (see Annex 5).

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<sup>5</sup> For reasons relating to the methodology and planned outcomes of the Quang Ngai Rural Development Program, as well as to changes in how the activity funds will operate from that conceived in the project design document, a proposed change in name was accepted by the Team Leader. The “activity group funds” are now called Village Savings and Credit Facility (or VSCF).

The VSCF project will be field tested on 20 groups in three districts during the period April 2003 through March 2004<sup>6</sup>. The test will be evaluated during this period against the objectives outlined in the test protocol. Fine-tuning will take place as needed, and full roll-out will take place immediately thereafter. A key success of this component of the project is that there are good project staff on the ground, especially the FCO. Support from partners (see comments below) should be used to maximum advantage wherever possible, and building on existing good relationships is considered important.

The presentation in Annex 3 provides further detail on the concept, as well as a process flow chart of the stages and cycles of the VSCF.

## **2.2 Partnerships with Other Financial Institutions in Quang Ngai<sup>7</sup>**

The current sources of credit in Quang Ngai Province for the QNRDP target clients are mainly the Viet Nam Bank for Agriculture and Rural Development (VBARD), the Viet Nam Bank for the Poor (VBP, which effectively falls completely within the VBARD operation), and the various People's Credit Funds (PCFs). A few social organisations, particularly the Viet Nam Women's Union (VWU) and the Viet Nam Farmer's Association (VFA), provide credit to their memberships by linking with VBARD and/or managing funds financed by international donors and borrowing from the government (such as under rural development Program 120). These sources of credit have some potential to assist or be assisted to expand the outreach of pro-poor credit to the poor households targeted by the QNRDP. However, that potential will take time to evolve, is likely to vary from institution to institution, is likely to change over time, and it was consequently recommended that the Program initiate its own savings and credit program, with the nature of partnerships with these institutions being developed over time in a structured manner. A discussion and recommendations in respect of partnership with PCF's, VBARD and VWU<sup>8</sup> follows.

### ***Peoples Credit Funds (PCF's)***

A meeting with one of the local PCF's was undertaken during the field visit. PCF's are private businesses whose registration by the State Bank of Vietnam (or SBV, the central bank) is generally limited to one per commune. PCF's are regulated and supervised by the SBV and accordingly need to comply and report monthly on a range of prudential norms and standards. PCF's are in general licensed only in areas (communes) meeting a set of stated socio-economic criteria. These include the potential for fund mobilisation, an identified capital demand for production, existing businesses and services, human resources for administering and managing the operation of the PCF, and the presence of transportation and telecommunications.

PCF's also need to meet certain minimum capital adequacy and equity levels, and minimum risk-weighted performing asset requirements. In the latter regard PCF must ensure that at least 60%

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<sup>6</sup> A short test protocol needs to be developed by the QNRDP in this regard.

<sup>7</sup> Comments on partners are supplementary to the *Rural Financial Services* report of December 2001, as well as to the report annex in the PDD on Activity Funds.

<sup>8</sup> The other financial institutions are not considered relevant for the reasons mentioned here and elsewhere.

of all loans by value are fully collateralised by approved means. This means in practise that although small (at around VND 6 million) the poorest being without collateral are not the primary target group of PCF's<sup>9</sup>. Certainly the collateral requirements would be problematic for many of QNRDPs clients. It is moreover clear that many of the areas targeted by the QNRDP do not meet these criteria, and are unlikely therefore to have PCF's approved in the near future.

The managers of the PCF visited said that the demand for credit and savings services was very large in Quang Ngai. The limitation they felt they had was insufficient capital, technical skills and support, and equipment (a computer was specifically mentioned).

PCF's usually charge around 1.25% nominal per month (or around 28% annual effective), with most loan terms being six months. When questioned the PCF leaders and staff stated that loans from VBP<sup>10</sup> and VBARD could be obtained at lower interest rates, but that they were not short of clients as the application and disbursement procedures at these institutions were complicated and lengthy, and the collateral requirements were in practise often even higher than that required by the PCF.

As stated in the PDD PCF's nevertheless may offer opportunities for partnership. For example they may be able to provide assistance to Village Credit & Saving Facility with technical support, the Program may train some PCF staff where they operate in the communes targeted by Quang Ngai Rural Development Program, and financial support to PCF's where VSCF's are not operating should be considered where the relevant PCF can substantiate that loans will be provided to QNRDP targeted low income participants.

Of the partners the PCF model is the one most close to that conceptualised, and the larger and better VSCF's could be merged and become PCF's at a later stage. While the FCO needs to monitor the VSCF groups and assist them to become PCF's over time, it is not thought that this would occur in the near future (say within the first two years of the establishment of any VSCF).

A possible issue for QNRDP is that the private nature of PCF's means that support to these bodies is support to private profitable businesses. Capital would become equity in the hands of the individual owners of these businesses, who would clearly fall out of the target group of poorest people that QNRDP is aiming to assist out of poverty.

As far as the partnership with the few local PCF's are concerned it is recommended that:

- a. PCF managers from PCF's in targeted communes are invited to participate in relevant QNRDP activities (particularly VSCF training) so as to build relationships with the PCF; to assess the ability and commitment of the PCF's to partnership with Quang Ngai Rural Development Program; to ensure relevant PCF's are exposed to the QNRDP and the VSCF component of the Program; have the necessary skills to provide financial services to

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<sup>9</sup> Only about 0.25% of credit nation-wide is provided to low income households through PCF's.

<sup>10</sup> It was mentioned in this discussion – and verified by Dao Hung – that VBP is in the process of being restructured, and is likely to become an agency focussed on financial policy formulation at national level. It is thought that relevant VBP programs would then be absorbed by VBARD.

low income households; and gain a possible in “taking over” VSCF’s should this be appropriate at a later date.

- b. Discussion as to partnership with PCF’s be pursued by the FCO at the commune level, as this is the general geographic limitation of their operation.
- c. Investment should be made in PCF’s where appropriate: specifically where the use of the funds can be tracked by the QNRDP, and where the PCF is able to guarantee funds will be used for on-lending for productive use by QNRDP-identified activity group participants.

### ***Vietnam Bank for Agriculture and Rural Development (VBARD)***

A meeting was held with the Branch Manager and senior staff of the Quang Ngai town branch of VBARD. VBARD was set-up to target rural communities, which constitutes around 90% of the population, to support rural development (particularly rural infra-structural development), and to provide financial services to commercial and subsistence farmers and other rural dwellers. VBARD currently has the largest branch network of any financial institution in the country, covering all districts in the country, and is also the largest appropriate provider of financial services, including credit, to the targeted sector. Operating as a commercial bank, VBARD has one branch in every district of Quang Ngai. While these are all located in the towns in each district, outreach to rural areas is being increased through the use of mobile bank vans.

Loan repayment conditions are generally that interest only is paid quarterly until the end of the loan term, when the entire principal is paid. Collateral (mainly in the form of land use certificates) is effectively required on all loans, even those below VND 10 million for which VBARD policy states no collateral is required. Due to bureaucratic difficulties most farmers in the province have not been issued with these certificates, and with severe limitations as to other assets they are able to offer as security, this has meant that many have effectively been denied access to loans from VBARD. Coupled with inflexible loan terms this has created cash-flow and other problems for a number of rural clients.

From the meeting, from discussions with field staff, the Vietnamese counterpart and others, as well as reading (the PDD, the Rural Financial Services Report and others), it is believed that VBARD staff are not necessarily convinced that they should be targeting low income households. Certainly reservations as to the capacity of low income households to save and repay were alluded to by VBARD. Despite its stated policies it is moreover clear that VBARD continues in practise to require collateral from borrowers, and that existing products are largely inappropriate for rural and low income households.

Interest rates charged by VBARD are around 1% per month nominal (around 22% annual effective), varying somewhat according to loan term. Both group and individual methodologies are utilised, although VBARD staff did state that their use of group methodologies in Quang Ngai province were very limited.

The VBARD branch visited stated categorically that VSCF groups would be allowed to open accounts in the group’s name as long as the groups were sanctioned by the CPC’s or similar

government agency.<sup>11</sup> VBARD also stated strongly that it would be willing and able to provide loans to VSCF with good track records, and leverage of both QNRDP fund and VSCF's own funds is thought highly possible in this regard. Finally it was mentioned by VBARD that VBP activities were co-ordinated in the province by VBARD, hence no referral here to VBP.

As far as the partnership with VBARD is concerned it is recommended that:

- a. Village Credit & Saving Facility with adequate access (especially in terms of distance to be travelled) open savings accounts with VBARD (see Operations Manual also in this regard).
- b. Training of VBARD staff together with Quang Ngai Rural Development Program field staff is undertaken where appropriate for similar reasons to those for training staff of other partners.
- c. The FCO **strongly** co-ordinates and facilitates loans from VBARD to Village Credit & Saving Facility at the group level, collateralised by members to assist in raising access, lowering transaction costs, and leveraging QNRDP funds.

### *Vietnam Women's Union (VMU)*

VWU is a sixty-year old social agency launched to assist poor women in Vietnam, and it has since 1993 also provided microfinance services to low income women in different parts of Vietnam. VWU generally utilises a group lending methodology of between 10 and 17 members, without formal or traditional collateral. Members wait three months from application to receipt of loans, during which time group leaders (chairperson, treasurer and secretary) are trained in the methodology and management of the scheme. On-going technical assistance is provided to all groups. Savings is integral to the VWU scheme, with all members having to save 5% of the loan amount prior to receipt of any loan. In addition all members save at least VND 5,000 to 10,000 (depending upon the region) each month. An advantage for the VWU is that savings and credit groups under in the VWU program are allowed by government decree to open accounts under a group's name with VBARD without any other sanction. Loan repayments are on a straight-line basis of principal and interest, and interest rates are usually between 0.5% and 0.75% nominal per month (or 11% to 17% annual effective).

From the meeting held with VWU, as well as from discussions and reading, it seems that in terms of methodology and target group (of low income and rural households) the VWU is the most appropriate institution the QNRDP should partner with for its VSCF program. The VWU scheme is generally similar to that being proposed on the Quang Ngai Rural Development Program. One notable difference is that the interest rate charged by VWU is significantly different to that envisaged under the QNRDP program. The VWU representatives with whom interest rates were discussed acknowledged that VWU were fortunate to receive subsidies from both the Vietnamese government and from international donors that enabled them to offer such low rates. Questioned about sustainability VWU stated that as funding support will be on-going from the government the program, was sustainable. As far as international donor support was concerned VWU would be applying for additional support at the end of the current funding cycle.

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<sup>11</sup> The planned institutional arrangements within which the VSCF's have been designed take this into account.

VWU stated that they would be happy to partner with QNRDP on the Village Savings and Credit Facility. A specific area in this regard that the VWU staff members said should be possible is for the VWU to provide loans to VSCF groups. This must be pursued along with the VBARD offer. In addition the VWU would welcome requests for technical assistance and training which they appeared well suited to provide.

While it is the considered opinion of this technical advisor that VWU is the most appropriate agency of those available with which QNRDP should partner, an issue for the QNRDP is VWU's exclusive focus on women, which is not consistent with the QNRDP's policies. This accordingly constitutes a significant barrier to developing a partnership relationship between the two. VWU moreover does not cover all the districts planned by QNRDP. It is therefore recommended that QNRDP proceed with the Village Savings & Credit Facility project, keeping relevant local VWU staff abreast of developments.

With regards the partnership with VWU it is recommended:

- a. That the new QNRDP Finance & Credit Officer (FCO) is tasked with ensuring that VWU is fully briefed on the VSCF project, which *inter alia* could serve as the basis for developing any future possible partnership.
- b. That QNRDP approach the VWU to assist with providing **on-going technical support** on the VSCF program, especially once VSCF groups have been established and operational for a period (six months to one year is suggested). This would be at both the QNRDP staff level and directly to VSCF's, and this is considered **a critical element for the success** of the VSCF program.
- c. That VWU be requested to provide staff that can join in the QNRDP VSCF training, particularly the proposed training-of-trainers program (VWU specifically agreed to send a few staff to this training course).
- d. At the end of the successful VSCF test period QNRDP approaches VWU to again discuss a possible partnership<sup>12</sup>.
- e. That the possibility of loans from VWU to Village Credit & Saving Facility be **strongly** pursued by the FCO.
- f. That the new Finance & Credit Officer (FCO) and other relevant QNRDP and counterpart staff attend VWU training workshops as appropriate (VWU specifically agreed that they would favourably consider any suggestions in this regard).

## 2.3 Exit Strategies

The primary exit strategy<sup>13</sup> is to ensure that VSCF group are sustainable both:

- i. **Institutionally:** this includes the VSCF's ability to manage their own affairs, follow the groups rules and regulations, elect competent and diligent leaders, to maintain group cohesion, and to track and account for the VSCF funds appropriately.

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<sup>12</sup> This may have a greater likelihood should the VSCF have mainly women clients.

<sup>13</sup> "Exit strategy" here refers to the planned termination of the on-going relationship between the QNRDP and VSCF's in a structured and sustainable manner.

- ii. **Financially:** by financial sustainability is meant to ensure loan repayment rates at a high level (over 98%), ensure on-going costs are covered by interest and fees charged, that the group is able to build their capital base, and that adequate internal controls are implemented and managed appropriately.

While the design of the VSCF program has focussed on the above VSCF groups that did not – or could not – adhere to the policies of the QNRDP program as outlined **must** then face possible expulsion from the Program in terms of the exit management policies and strategies set-up up-front in the operations manual and by Program field staff.

It is envisaged that the intense support from the QNRDP, starting with the formation and training of VSCF groups, would reduce as groups become increasingly familiar with policies and procedures, with the skills needed, and with the methodology and approach being pursued. While it is expected that different VSCF groups will require differing inputs of technical assistance and other support, it is anticipated that the majority<sup>14</sup> of VSCF groups should be able to be completely on their own within two years from VSCF establishment.

It is specifically envisaged that consideration be given to terminating any on-going support (training and technical assistance) to VSCF groups who do not illustrate continuous improvement (in terms of for example loan repayment rates, accumulated savings, and timely submission of VSCF reports) during their first year of operation.

Finally it is specifically acknowledged that a number of VSCF groups will continue to request training and technical assistance from the Program on an on-going basis after the two year period. As much of this should be undertaken by partners<sup>15</sup> (and as early) as possible. This will of course be limited by the resources available, both by the QNRDP and by partners.

The secondary (and related) exit strategy is to have partners who can provide additional technical assistance to support the sustainability of VSCF's. This also is in terms of both:

- i. **Institutional support:** here partners would – where necessary and appropriate - provide training and technical assistance, and manage and/or absorb VSCF groups into their own programs. The training and technical assistance would be directly to VSCF's and to relevant QNRDP staff and counterparts (at a so-called “wholesale” level).
- ii. **Financially:** the focus here from partners would be providing loans (and possibly grants) to VSCF's. This relates to earlier issues in that a significant inducement to partners is expected to be that VSCF's with a track record of good loan repayment and self-management (which in turn can be provided by QNRDP staff) will be sought by financial institution partners.

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<sup>14</sup> Experience indicates that around 60% of groups will be somewhat successful, able to largely manage their own affairs after two years of adequate and appropriate support; around 20% will have on-going issues of group cohesion, non-repayment or fraud, and will close down within the first year to two of being established; and 20% will be extremely successful, with sub-groups or splitting from having too many demands for credit, morphing into a semi-formal provider (such as a PCF).

<sup>15</sup> As mentioned earlier VWU is considered the most appropriate agency in this regard.

The importance of partners for the success of the VSCF program needs to be recognised by the QNRDP, particularly in terms of sustainability, and cannot be overstated<sup>16</sup>. The role of the FCO in building the relationships with partners (especially VWU) is considered key in this regard, although support from the QNRDP team and team leader must be visible.

## 2.4 VSCF Group Savings Accounts

The opening of VSCF bank accounts (invariably savings accounts) will facilitate VSCF members having a safe place to store savings and surplus funds, and would improve transparency (mainly through the Program then auditing these savings accounts). The establishment of such VSCF savings accounts would moreover facilitate initial direct access by the VSCF members to formal financial institutions, especially VBARD but possibly also commercial banks, which would serve as an additional linkage to these financial institutions, mobilising savings from a sector they would otherwise not have access to at little cost to themselves, and with aggregation lowering their own unit costs.

As mentioned it is considered that VBARD would be most appropriate in this respect. VBARD indicated that with the written support of the QNRDP and of the local government structure (the CPC or other), along with completion of their usual savings account application form with the groups' constitution, accounts could be opened immediately.<sup>17</sup>

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<sup>16</sup> Note that “primary” and “secondary” exit strategies refers to the timing of QNRDP's interventions given the stated issues with potential partners rather than to the importance of the two strategies.

<sup>17</sup> The Quang Ngai Branch Manager of VBRAD agreed to provide this in writing to the QNRDP Program during the meeting with him.

## 3 Other Issues

### 3.1 Interest Rates

It is considered important to the success of the Quang Ngai Rural Development Program that sustainability be attained as far as is possible. This has both an institutional and a financial element as far as the Village Savings & Credit Facility component is concerned (see also discussion on exit strategies earlier). An important aspect of the financial sustainability of the Village Savings & Credit Facility is that the capital base is not eroded, and that it hopefully grows over time. A critical element here is good loan repayment rates, and on which the design has centred. It is hoped – and assumed for purposes of calculation – that in excess of 97.5% of loans will be repaid in full.

The set interest rate of 1.25% per month has been calculated for VSCF sustainable based on certain assumptions, able for instance to support any operational costs and the cost of risk (viz the probability of the amount not being repaid), and inflation, and the VSCF has been designed accordingly<sup>18</sup>. The QNRDP PMC should review this interest rate from time to time in accordance with actual developments of the VSCF program over time.

This interest rate policy **MUST** be understood and **supported** by the all QNRDP field staff. Should field staff (DDO's especially) not support the concept of a sustainable interest rate then the legitimacy of the VSCF program will be in doubt by VSCF members, and should **this result it is considered this component of the QNRDP will have every likelihood of failure**. Both QNRDP field staff and counterparts must ensure that this policy is appropriately communicated to all VSCF's in line with the principles agreed to.<sup>19</sup>

The interest rates issue<sup>20</sup> needs to be discussed not only in the context of sustainability but also in that as self-managed groups, VSCF's could conceivably be able to set their own interest rates. On this latter issue it is important that groups who choose NOT to follow the QNRDP's stated interest rate policy must be censured, and if necessary, support to these groups withdrawn.<sup>21</sup>

The use of nominal interest rates (that is rates are calculated on the initial loan balance rather than on the declining balance of the outstanding loan) are used for purposes of simplicity. The calculation of the interest payable each month is to simply apply the rate to the loan disbursed, and this is maintained during the life of the loan. Basing interest amounts on varying (if declining) loan balances is likely to be extremely difficult to calculate with the rudimentary information and bookkeeping systems that will be in place at VSCF's. This is exacerbated by the fact that loan principle (the initial loan disbursed) are not planned to be repaid on a straight-line basis, but rather at a reduced rate of 2.5% per month, with a balloon payment of the remaining principle at the end of the loan term.

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<sup>18</sup> See both the operational manual and the field staff guidelines.

<sup>19</sup> In addition to manual see Annex Seven.

<sup>20</sup> See also Annex Five in this regard.

<sup>21</sup> See also Annex Seven in this regard for the agreed-upon principles under which the VSCF design has been conceived.

As the interest is calculated on the initial rather than the (smaller) declining balance the effective rate of interest is invariably **higher** than is nominally stated. Transparency as to the comparison between the nominal rate stated and the effective rate should be encouraged, and some detail is provided in Annexes 4 and 5 in this regard.

### **3.2 Cash Flows**

The design of the VSCF has in no small part been based on the cash flow dynamics of both the VSCF as a group and by individual productive activity projections. This in turn was based on an estimated average loan size of VND 7 million, an average loan term of nine months, the amount of Program funds available for capitalising VSCF's and some cash flow projections of individual productive activities.

With regards the funds available the average loan disbursed from QNRDP over 4 year period to each VSCF is assumed to be limited to a total of VND 25.6 million, based on 5 VSCF's per commune and A\$20,000/commune/year at an exchange rate of VND8,000=A\$1. The assumption here is that most (if not all) this amount will be disbursed immediately.

A further design aspect of the VSCF is that loan principle repayments are at the rate of 2.5% of loan disbursed per month. This is so that individual members' cash flows are somewhat positive, but without a grace period (which experience has found to reduce repayment rates) or full repayment of principle at the end of the loan term, which would exposure the VSCF to greater risk (in terms of maintaining repayment quality), and may be more than is affordable at that time.

Annex 8 provides some additional detail as to what impact differing assumptions will have on the VSCF's fund flows.

### **3.3 Management by the QNRDP is Critical**

“Management” here refers to the training, technical support, motivation, institution-building, monitoring, analysis and evaluation, and revisions in the VSCF policy and procedures. QNRDP field staff commitment, appropriate skills and personal relationships with VSCF's is considered critical. In particular the FCO's role is key, and recruitment of an appropriately skilled and experienced manager is vital.

With regards monitoring and reporting the Field Staff Guidelines provide the recommended reports that need to be compiled and submitted to the relevant QNRDP structures (the PMC is considered the most relevant here). An understanding of how the analysis of these reports is undertaken is vital, as without this problematic issues that arise cannot be identified. This refers to on-going assessment of VSCF's.

Some of the trends in these reports that need to be monitored include:

- the projected number of households to be provided with Program funds by activity;

- the expected rate of repayment by these households to the VSCF against the agreed repayment schedule (in both relative/percentage and absolute terms);
- the size of the VSCF funds versus the aggregated amount of related Program funds for productive purposes that had been provided and that are to be repaid to the group;
- a quarterly simplified income statement and balance sheet of the VSCF accounts; and
- the effective interest rate members pay in relation to other financial service providers in the province, etc.

Under the FCO's direction the VSCF's must be audited at least every six months. This means that the books and meeting minutes be reviewed, the accounts reconciled and checked for accuracy, and an integrated analysis undertaken of the trends in the various VSCF's. **Follow-up of issues that arise is absolutely critical.**

## 4 Conclusion

The conceptualisation and compilation of a draft Operational Manual and Field Staff Guidelines has been completed as agreed in the terms of reference. This short report is supplemental to these manuals, the primary output under the terms of reference.

A field test is critical to pilot the concept, to ensure its practicality, and field staff competency, against set objectives. These objectives will be outlined in a VSCF Pilot Test Protocol. Carefully tracking, assessment, and evaluation of the results of the one year pilot test will result in revision to the manuals, and to full roll out of the program.

Partnerships with other appropriate financial institutions – especially the PCF's, VBARD and the VWU - in Quang Ngai is considered critical to the success of the VSCF program. In general VWU is considered the most relevant of these, although their exclusive focus on women and the fact that they do not operate in all target areas limit the possibilities of partnership.

The exit strategies outlined depend both on building the sustainability of the VSCF as well as on the success of the partnerships recommended. Sustainability must be both institutional and financial if the VSCF project is to be considered a success.

Savings are a vital part of the VSCF concept, not least due to the critical import low income households place on such a service. Savings also provide an important source of funding for the VSCF's. Placing excess funds in a bank account is key, and VBARD has offered to assist in this regard.

Interest rates must be set for sustainability, although some political issues seem to prevail at what are considered excessive rates. The interest rate set of 1.25% per month on a nominal basis was based on a range of assumptions, and in practise these will not materialise as assumed. The interest rate must therefore be reviewed regularly.

Cash flow considerations are critical, and a spreadsheet in this regard was developed (see annexes). Monitoring and evaluation by the fields staff is another critical element in the success of the VSCF project, and the level of skills, experience and diligence of field staff plays the largest role here.

**Annex 1**

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**Terms of Reference**

## Annex 1: Terms of Reference

The Activity Funds Specialist reports to the Australian Team Leader.

The main purpose of the assignment is to provide a detailed design of the activity group funds component of the QNRDP Program.

The output will be a detailed **operational manual** for QNRDP implementing field staff that documents guidelines for supporting activity group fund establishment, operation, monitoring and exit strategies by the Program implementing team.

The operational field manual should include the following:

- a. A process flow chart of the stages and cycles of the activity fund;
- b. Clearly defined exit strategies, as well as the tools and techniques to manage these exit strategies;
- c. Draft pro-forma group activity fund by-laws, including membership eligibility, and indicating the recommended role, skills needed, and possible process by which group leaders are selected and elected;
- d. Guidelines for field staff (so as to pass on to activity fund members) as to how to price loans from the activity fund, including price setting for the return of QNRDP Program funds;
- e. How a group savings account with a local bank will be established, the mechanism of how Program funds will be repaid into the account, guidelines for how activity fund members will manage and reconcile this account, and guidelines for auditing the account; and
- f. Guidelines for field staff (so as to pass on to activity fund members) as to how subsequent loans by members will be assessed, disbursed, and monitored. The design process will involve liaising with field staff on site as well as key members of the Program implementing team both in the field and in Australia.

**Annex 2**

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**Field Visit Schedule**

## Annex 2: Field Visit Schedule

### Design of Activity Funds/Village Savings & Credit Facility Component

	<b>Morning</b>	<b>Afternoon</b>	<b>Evening</b>
<b>Sunday 24<sup>th</sup></b>	Travel	Travel	
<b>Monday 25<sup>th</sup></b>	Travel	1.30pm: discussion of issues	Write-up of notes
<b>Tuesday 26<sup>th</sup></b>	Field visit to beneficiaries, to VBARD & PCF; meet with DPI		Write-up of notes
<b>Wednesday 27<sup>th</sup></b>	Field visit to VWU	Discussion/work-shopping of issues & conceptualizing program design	Writing-up concept into presentation
<b>Thursday 28<sup>th</sup></b>	Presentation of draft proposal & discussion	Editing concept proposal with feedback	Preparation of training workshop
<b>Friday 29<sup>th</sup></b>	Workshop/training to staff on micro finance issues	Discussion/work-shopping of issues with staff & DPI	Writing report
<b>Saturday 30<sup>th</sup></b>	Travel & own time	Meeting with counterpart/Dao Hung	Meeting with John Fargher
<b>Sunday 1<sup>st</sup></b>	Travel	Travel	Travel

## **Annex 3**

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# **Presentation of Activity Fund Concept**



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# Activity Fund Groups

## Presentation of Concept & Issues

*Guy Winship*

*World Education*

*Thursday 28<sup>th</sup> November*



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## Activity Fund Group Overview of Concept - A

***What is an “Activity Fund Group” (AFG)? A local community-based & self-managed revolving fund organised around appropriate income-generating activities in the same village or area.***

*Points to note:*

1. Capital from 3 main sources:
  - i. Funds for activities initially from QNRDP – consider as **seed** capital
  - ii. Own savings – collect savings from members right from start
  - iii. Interest, fees & loans from other institutions –probably only after 6 mths min
2. Loans initially for production in terms of approved bus plan (by QBRDP) - later for consumption purposes as well
3. Savings critical both as service and for ensuring & testing cohesion



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## Activity Fund Group Overview of Concept cont'd - B

4. Group cohesion critical for repayment – how to get this is by having common interests, such as saving together, knowing each other, etc
5. Savings & loan repayments at group meeting can be lent out at that meeting as loans to members who need it in terms of the groups policies – balance deposited at bank
6. Members who want access to another loan (eg: need larger loan) then pay off last loan with interest early
7. Self-management critical – for sustainability, for group cohesion, for lowering transactions costs – so need skills, training & support, and must formulate own rules (within guidelines if loans from QNRDP)



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## Activity Fund Group Overview of Concept cont'd - C

### *Main Recommendations:*

1. QNRDP must **only** re-capitalise AFG's who comply with the conditions of the program. Groups whose members who do not repay loans **MUST not** be able to access **any** other QNRDP services or support.
2. The AFG will be independent of other entities – but partners with VBARD/VBP, VWU, & PCF's. QNRDP to negotiate with PCF's where they are in the targeted communes:
  - for the AFG to join PCF in medium term (1 yr?)
  - where no PCF FCO to see if could become PCF in that commune



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## Activity Fund Group Overview of Concept cont'd - D

3. Group **must** have group bank account AND save into this before any funds disbursed by Quang Ngai Rural Development Program.
4. Capacity-building very important for success – QNRDP to invest resources in training
5. Funds from QNRDP will be to the AFG who on-lend to identified members as per approved business plan. At any one time only part of AFG will get loans from QNRDP - never all of group to avoid collusion within group



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## Activity Fund Group Overview of Concept cont'd - E

6. Funds collected from members on regular basis (per month) as follows:-

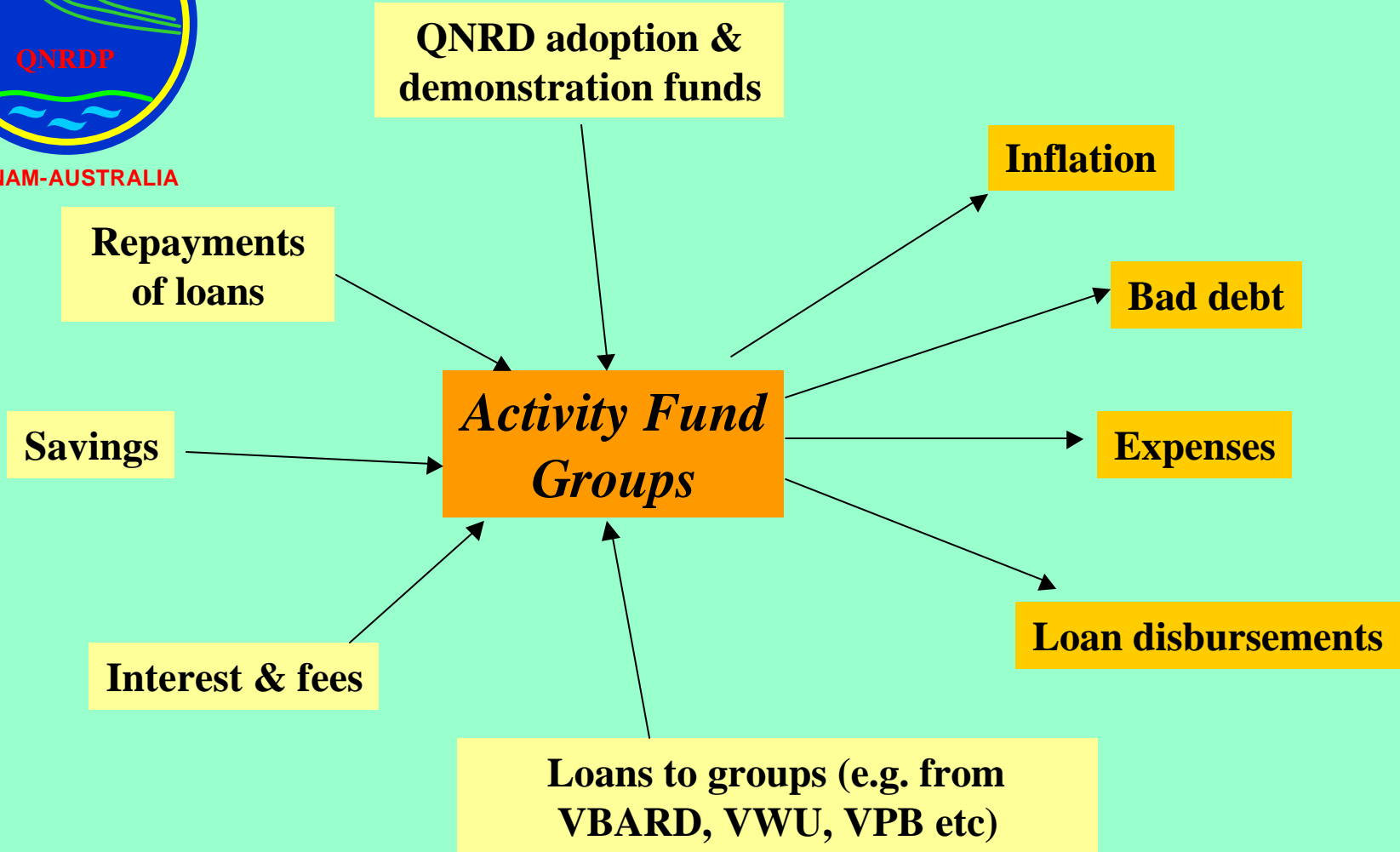
- a. Savings: 0.5% of loan, minimum of VND5,000/mth
- b. Loan repayment split between int & principal:
  - interest rate of 1.0%/mth nominal payable **monthly** (i.e. even before profits from activity realised)
  - Pay off 2.5% of principal/mth (balloon payment at end of outstanding loan balance)

*So everyone with loan will be making payment equal to 4% of loan amount per month*

If NO loan, then member must pay at least VND5,000 into savings account



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# Calculation of repayments based on assumed rate of interest

Quang Ngai Rural Development Program

INITIAL REPAYMENT SCHEDULE *per household or group member*

Amount	Int	Term	Total interest	P & I paid	epayment of Int on	Saving/mth	P/mth	TOTAL MTH PAYMENT
2,000,000	1.25%	12	300,000	2,300,000	25,000	10,000.00	50,000.0	85,000
<b>Nominal</b>					P - over period=		30.00%	Plus baloon payment of:
								1,400,000

*Interest rate based both on VBARD & PCF rates and on projected income statement for groups - pricing policy best to do based on track-record, so use this as basis for now. VBARD say will lend at 1%/mth for ST loan but need collateral. Also Dao Hung has st*

					0.50% min 5000			
					1.25%	0.50%	2.5%	<b>4.25%</b>
					int	savings	P	Total monthly payment



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## Summary Income Statement for Activity Fund Group

<b>Income:</b>		<b>per month</b>							
Interest		325,000	1	<i>13 h/h's/group at VND2 mil at 1.25% nominal interest, so group loan of VND 26 mil (as per budget). Will increase over time increasing both capital &amp; interest.</i>					
Fees & penalties		0	2	<i>Assume no penalties on late payments</i>					
<b>Total Income:</b>		<b>325,000</b>							
<b>Expenses:</b>									
Provision for bad debt		62,292	3	<i>Assume actual and provision for write-offs of 2.5%. Calculated as 2.5%*(average loan x ave no of members)/average loan term + 2.5%*monthly interest</i>					
Stationery, tea & misc.		15,000							
Inflation		86,667	4	<i>Assume inflation rate of 4% per annum</i>					
Management fee-man committee		150,000	5	<i>Management fee for man committee members at VND 50,000/mth for 3 leaders.</i>					
<b>Total Expenses:</b>		<b>313,958</b>		<i>Should only be paid as incentive if all expected payments being made in that month, so should be less than this over time.</i>					
<b>Net for growing group capital</b>		<b>11,042</b>							



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## **FORMATION of Activity Fund Groups - QNRDP Requirements for Activity Fund Groups**

Activity Fund Groups will be required to fulfill the following in order to obtain funds from QNRDP:

1. Completed training successfully
2. Constitution
3. Management committee members elected & in place in terms of constitution
4. Obtain written approval from Commune Peoples Committee
5. Savings account
6. Prove that the group meets regularly
7. Approval of business plan for those who want funds from QNRDP
8. Submit application letter in writing



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## QNRDP Requirements for Activity Fund Groups - A

### 1. **Completed training successfully** – course should cover 3 areas of:-

- a. *Group issues*, including an explanation of group constitution, roles & duties of management committee, what are the rights & duties of being a group member etc
- b. *Basic record-keeping*, including book-keeping, minute-taking, and how to maintain and reconcile a bank account, etc
- c. *QBNRP support & methodology*, including an explanation of the support (financial and otherwise), what happens if group members do not repay loan, etc

Training time suggested of 3 hours per week for a minimum of four weeks (min 12 hours)



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## QNRDP Requirements for Activity Fund Groups - B

- 2. Constitution** –must submit group constitution, which has all groups policies including process for becoming new member, conditions for loans from the groups fund, how savings are managed, penalties for failure to make etc. This must have been approved by all members unanimously.
- 3. Management committee members** – the Activity Fund Group must have elected all of the members of its management committee as set out in its constitution. Notwithstanding the constitution the group must at a minimum the have in place a Chairperson, Secretary and Treasurer in place, voted in according to the rules of the group, and this process must have been minuted.



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## QNRDP Requirements for Activity Fund Groups – C

4. **Meet regularly** – in order to show that the group is able to meet together on a regular basis it must have had at least 4 meetings attended by **every** member who has submitted to the constitution of the group (*note first series of meeting should be held weekly*). The minutes of these meetings need to be submitted to QNRDP in order to show that this has been fulfilled. Members must all have full name, address, photo etc
5. Obtain **written approval from Commune Peoples Committee** – needed to open bank account, gives “legal” status to group, and recognition of existence.



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## QNRDP Requirements for Activity Fund Groups - D

6. **Savings account** – must have an appropriate account at a local bank, must show who are the signatories on the account. A bank statement must be submitted to QNRDP showing that the account has a balance of not less than VND20,000 per member (based on VND5,000/person x 4 meetings)
7. **Business plan approval** – for those members / households who want funds must all have compiled, submitted & received approval.
8. **Submit application letter in writing** – a short letter from the Activity Fund Group indicating that:-
  - a. the policies set out in this manual have been read, understood, will be implemented
  - b. that the group intends to comply with the principles and policies guidelines for their group as set out in their constitution, and
  - c. that financial support from QNRDP is being requested.



## *Activity Fund Group Formation Process*

**1. A short letter of interest from group**  
(after activities identified with QNRDP)

**2. Undertake training course**  
(i. group issues, ii. Book-keeping, iii. QNRDP support)

**3. Constitution**  
(in place & agreed to by all members)

**4. Committee elected**

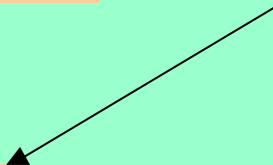
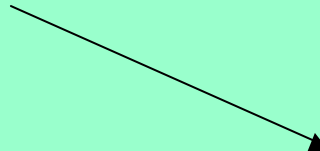
**5. Approval from  
CPC**

**7. Meet regularly**

**8. Approval of business plans**

**6. Open Savings account**

**9. Submit letter of  
application with all  
documents**





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## Notes, issues & questions:

- QNRDP disburses aggregated funds for approved Activity Fund Group member business plans into GROUP account
- Activity Fund Group disburses funds to each member
- Activity Fund Group can request for re-capitalisation as soon as these initial loans have been repaid in full & on-time
- Who will be implementing and selecting beneficiaries for Activity Fund Groups? Think it will be DDO's with FCO's support; if so, DDO & FCO needs to be trained, have guidelines for selection.
- Process for selection of beneficiaries to be determined and documented by QNRDP per activity cycle, but how from here to Activity Fund Groups?



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## Monitoring:

AFG must compile & give to QNRDP (FCO through DDO) monthly:

1. Income Statement & Balance Sheet
2. Bank statement – reconciled to BS
3. Schedule of savings/member – reconciled to savings balance in BS
4. Schedule of loans outstanding/member – reconciled to loan in BS
5. Expected payment schedule for following 6 meetings/mths for savings, loan repayments (split by P & I) etc
6. Expected vs actual payments per members for previous month – with explanation of any variance, and what group is planning to do about this issue. FCO to focus on following-up on problems here.
7. All gets filed into Activity Fund Group file – hard-copy



## Into QNRDP monitoring system:

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1. List of Activity Fund Group's formed (name or code of each group) – *to get number of groups (note: DDO will give Quang name & location of AFG & he will allocate code)*
2. Expected repayment of P & I per member (h/h) /group/period
3. Actual repayment of P & I per member (h/h) /group/period

Note: track repayment rate will be 5 / 4; 1-this over 12 month period will be “default rate” from logframe

6. No of members of each AFG
7. No of members of each AFG who are females
8. No of loans disbursed in month and amounts per loan per member/AFG
9. Loan balance outstanding / member
10. Total assets in Activity Fund Group from monthly BS

Note: this will be “change in size of activity funds managed by participants” from logframe



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## Into QNRDP monitoring system cont'd:

### 6. Savings balance per Activity Fund Group

Note: this will be **proxy** for “budgets sourced from participants” from logframe

### 10. Loans to each Activity Fund Group from other sources

Note: this PLUS 9 will be denominator for “proportion of activities implementation budgets sourced outside the program” from logframe

### 11. Capital cost per activity funded by QNRDP per Activity Fund Group – get from approved business plans, not from group info.

Note: this under 10 will be ratio “proportion of activities implementation budgets sourced outside the program” from logframe

**Q: What other information is needed by QNRDP management?**



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# Draft Activity Fund Group Operations Manual

## **Purpose of Ops manual:**

- To document & outlining policies & procedures, management, internal controls, and monitoring and evaluation of the Activity Fund Group procedures. The manual will outlining process by which activity funds will be disbursed, collected, and sustainability managed and monitored.
- Why is this important?
  - To ensure everyone on team & beneficiaries & AusAID has same understanding of this component of project
  - To assist with training of QNRDP field staff (especially FCO & DDO's) and,
  - To ensure consistent implementation takes place, and that replication & roll-out occurs easily.



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# Draft Activity Fund Group Compilation of Operations Manual

## Process:

1. Read final design document, made inputs & recommendations, gather relevant information.
2. Undertake field visit – to discuss issues with QNRDP team, meet with potential local partners (eg: VBARD, VWU, PCF etc), and visit some end beneficiaries.
3. Conceptualise with counterpart & agree on most appropriate methodological approach for activity funds.
4. Agree on primary concept design and methodology for Activity Fund Group's with QNRDP field team (*essentially are recommending village revolving fund / village bank methodology as most appropriate*)
5. Agree on envisaged process flow in chronological order with QNRDP field team, and use this as main basis for developing operations manual.
6. Complete draft operations manual; to QNRDP team for comments; finalise operations manual



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## Draft Activity Fund Group Compilation of Operations Manual

7. Ensure FCO appointed - important to have in place so that can be trained and will also use field test of manual as learning experience for him/her
8. Training of FCO & DDO's
  - Compile “QNRDP Activity Fund Group - Guidelines for Field Staff”
  - Compile short training course (2/3 days) using Operations Manual & Guidelines
  - Present training course
  - FCO, DDO's & other field staff use this exercise to make input into manual
  - **need to discuss & confirm along with dates.**
9. Field test manual & methodological approach:
  - suggest initial 24 activity groups formed (2 per commune) by FCO & DDO's as pilot tests immediately after training (or start even before)
  - FCO, DDO's & other field staff use this exercise to make input into manual
  - **need to discuss & confirm along with dates.**

## **Annex 4**

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# **Simplified Nominal to Effective Interest Rate for VSCF**

**Annex 4: Simplified Nominal to Effective Interest Rate Calculation**

	Loan term in months						
	12	12	12	12	9	6	4
Nominal interest rate per month	1.25%	1.00%	0.75%	0.50%	1.25%	1.25%	1.00%
Nominal interest rate over loan term	15.0%	12.0%	9.0%	6.0%	11.3%	7.5%	4.0%
Principal	1000	1000	1000	1000	1000	1000	1000
Total interest paid over loan term	150	120	90	60	113	75	40
Repayment of principal per month	83.33	83.33	83.33	83.33	111.11	166.67	250.00
Interest paid per month	12.5	10.0	7.5	5.0	12.5	12.5	10.0

Main assumptions:
1. One repayment of principal & interest per month
2. All repayments made on due date
3. Repayments on straight-line basis over loan term
4. Single loan disbursement at start of loan term
5. No other costs to client (e.g. fees, compulsory savings etc)

Principal outstanding during loan term:							
1	1000	1000	1000	1000	1000	1000	1000
2	916.67	916.67	916.67	916.67	888.89	833.33	750.00
3	833.33	833.33	833.33	833.33	777.78	666.67	500.00
4	750.00	750.00	750.00	750.00	666.67	500.00	250.00
5	666.67	666.67	666.67	666.67	555.56	333.33	0.00
6	583.33	583.33	583.33	583.33	444.44	166.67	
7	500.00	500.00	500.00	500.00	333.33	0.00	
8	416.67	416.67	416.67	416.67	222.22		
9	333.33	333.33	333.33	333.33	111.11		
10	250.00	250.00	250.00	250.00	0.00		
11	166.67	166.67	166.67	166.67			
12	83.33	83.33	83.33	83.33			

Average loan principal outstanding	541.67	541.67	541.67	541.67	555.56	583.33	625.00
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Effective interest rate	28%	22%	17%	11%	27%	26%	19%
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	Loan term in months						
	12	12	12	12	9	6	4
Nominal interest rate per month	1.25%	1.25%	0.75%	0.50%	1.25%	1.25%	1.00%
Nominal interest rate over loan term	15.0%	15.0%	9.0%	6.0%	11.3%	7.5%	4.0%
Principal	1000	1000	1000	1000	1000	1000	1000
Total interest paid over loan term	150	150	90	60	113	75	40
Repayment of principal per month	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Interest paid per month	12.5	12.5	7.5	5.0	12.5	12.5	10.0

Main assumptions:
1. One repayment of principal & interest per month
2. All repayments made on due date
3. Repayments based on 2.5% of <i>principle</i> plus interest on straight-line basis over loan term
4. Single loan disbursement at start of loan term
5. No other costs to client (e.g. fees, compulsory savings etc)

Principal outstanding during loan term:							
1	1000	1000	1000	1000	1000	1000	1000
2	975	975	975	975	975	975	975
3	950	950	950	950	950	950	950
4	925	925	925	925	925	925	925
5	900	900	900	900	900	900	
6	875	875	875	875	875	875	
7	850	850	850	850	850		
8	825	825	825	825	825		
9	800	800	800	800	800		
10	775	775	775	775			
11	750	750	750	750			
12	725	725	725	725			

Average loan principal outstanding	862.50	862.50	862.50	862.50	900.00	937.50	962.50
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Effective interest rate	17%	17%	10%	7%	17%	16%	12%
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## **Annex 5**

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# **Establishing an Annual Interest Rate Calculation**

### Annex 5: Establishing an Interest Rate for Village Savings & Credit Facility

Page 1 Income Statement

#### Income Statement for Village Savings & Credit Facility

Income:	per month
Interest	331,250
Fees:	-
Penalties interest and/or fees:	-
<b>Total Income:</b>	<b>331,250</b>
<b>Expenses:</b>	
Bad debt	55,898
Stationery, tea & miscellaneous	20,000
Leaders fee (or executive committee fee)	150,000
Inflation	88,333
<b>Total Expenses:</b>	<b>314,232</b>
<b>Net monthly surplus to build capital:</b>	<b>17,018</b>

#### Notes & assumptions:

- 1 Average loan disbursed from QNRDP over 4 year period to each VSCF totals VND 25.6 million, based on 5 VSCF's per commune and A\$20,000/commune/year at VND8,00=A\$1. Assume here that all can be disbursed immediately.
- 2 Assume no fees, or penalties on late payments
- 3 Assume 97.5% repayment rate; so actual write-offs of 2.5%. Calculated as  $(2.5\% \times \text{VND}25.6 \text{ million interest} + 1.25\% \text{ interest})/12$
- 4 Assumes monthly VSCF expenses at VND20,000
- 5 Assume fee for leaders of VND 50,000/mth each and only 3 leaders. Should only be payable as incentive, based on 100% of expected payments being made in that month
- 6 Assume inflation at 4% per annum, calculated as inflation rate x total loans / ave loan term
- 7 Assume interest calculated on nominal basis
- 8 Assume no savings available for on-lending

Loans disbursed at beginning of year:	26,500,000	Interest income at differing interest rates:
Nominal monthly interest at:	0.75%	198,750
Nominal monthly interest at:	1.00%	265,000
<b>Nominal monthly interest at:</b>	<b>1.25%</b>	<b>331,250</b>
Nominal monthly interest at:	1.50%	397,500
Nominal monthly interest at:	1.75%	463,750

**INITIAL REPAYMENT SCHEDULE - individual Village Savings & Credit Facility members**

Page 2 Individual Repayments

Loan Amount	Nominal monthly interest rate	Term	Total interest paid	Interest repayment per month	Principal repayment per month	TOTAL MONTHLY LOAN REPAYMENTS	Plus SINGLE BALLOON PAYMENT at end of term	Plus monthly savings of:	TOTAL MONTHLY PAYMENTS (savings & loan)
2,000,000	1.25%	9	225,000	25,000	50,000	75,000	1,550,000	10,000	85,000
4,000,000	1.25%	9	450,000	50,000	100,000	150,000	3,100,000	20,000	170,000
7,000,000	1.25%	9	787,500	87,500	175,000	262,500	5,425,000	35,000	297,500
7,000,000	1.25%	12	1,050,000	87,500	175,000	262,500	4,900,000	35,000	297,500

Notes & assumptions: 1 Assumed average loan size based on information provided by QNRDP.

2 "Nominal" means that interest rate is calculated on initial loan disbursed. For calculation of effective rate see Annex Four.

3 Assumed average loan term of 9 months size based on information provided by QNRDP. Other lines used for illustrative purposes.

4 Assume repayments of loan principle and interest made together at end of each month during monthly VSCF meeting, starting one month after loan disbursed.

5 Assume repayments of loan principle at rate of 2.5% of loan disbursed. This is so that cash flow is somewhat positive for members, but without grace period (which experience has found to reduce repayment rates) or full repayment of principle at end, which would be risky (in terms of maintaining repayment quality) may be more than members could afford.

2.50%

6 Assume monthly savings at 0.5% of loan amount

**Rough Fund flows for Village Savings & Credit Facility Groups**

Page 3 VSCF Cash Flows  
TOTAL for YEAR

	Mth 0	Mth 1	Mth 2	Mth 3	Mth 4	Mth 5	Mth 6	Mth 7	Mth 8	Mth 9	Mth 10	Mth 11	Mth 12	TOTAL for YEAR	
<b>Inflows:</b>															
Savings from members getting loan from QNRDP	-	11,250	16,894	16,894	16,894	16,894	16,894	16,894	16,894	16,894	16,894	16,894	16,894	16,894	197,081
Savings from members not getting loan from QNRDP	-	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	63,750	765,000
Interest on members savings (from balance kept aside)	-	38	78	118	158	199	239	279	320	360	400	441	481	3,111	
Loan from QNRDP	-	26,500,000	-	-	-	-	-	-	-	-	-	-	-	26,500,000	
Repayment of interest on QNRDP loan	-	-	331,250	331,250	331,250	331,250	331,250	331,250	331,250	331,250	331,250	331,250	331,250	3,643,750	
Repayment of principal on QNRDP loan	-	-	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	2,208,333	24,291,667	
<b>Cash inflows:</b>	-	26,575,038	2,620,305	2,620,345	2,620,386	2,620,426	2,620,466	2,620,507	2,620,547	2,620,587	2,620,627	2,620,668	2,620,708	55,400,609	
<b>Outflows:</b>															
Loan from QNRDP on-lent to group members	-	26,500,000	-	-	-	-	-	-	-	-	-	-	-	26,500,000	
Miscellaneous and general VSCF expenses	-	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	
Leaders fees	-	-	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	1,650,000	
Savings balance kept for withdrawals	-	18,750	38,911	59,072	79,233	99,394	119,555	139,716	159,877	180,038	200,198	220,359	240,520	240,520	
Balance carried forward from previous month	-	-	36,288	447,681	-	-	-	-	-	-	-	-	-	-	
<b>Cash outflows:</b>	-	26,538,750	208,911	229,072	249,233	269,394	289,555	309,716	329,877	350,038	370,198	390,359	410,520	29,945,622	
<i>Initial gross monthly cash flows =</i>	0	36,288	2,411,394	2,391,273	2,371,153	2,351,032	2,330,912	2,310,791	2,290,670	2,270,550	2,250,429	2,230,308	2,210,188	2,210,188	
Loan from initial inflows of own VSCF funds	-	-	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	22,000,000	
sub-total of net cash situation =	0	36,288	447,681	838,955	1,210,108	1,561,140	1,892,051	2,202,842	2,493,512	2,764,062	3,014,491	3,244,799	3,454,987	23,160,916	
Repayment of interest on VSCF loans	-	-	-	25,000	50,000	75,000	100,000	125,000	150,000	175,000	200,000	225,000	250,000	1,375,000	
Repayment of principal on VSCF loans	-	-	-	166,667	333,333	500,000	666,667	833,333	1,000,000	1,166,667	1,333,333	1,500,000	1,666,667	9,166,667	
Additional amount available for on-lending =	-	36,288	447,681	1,030,621	1,593,441	2,136,140	2,658,718	3,161,175	3,643,512	4,105,729	4,547,824	4,969,799	5,371,654		
Loan from initial reflows of own VSCF funds	0	0	0	500,000	500,000	500,000	2,000,000	3,000,000	3,000,000	4,000,000	4,000,000	4,000,000	5,000,000		
sub-total of net cash situation =	0	36,288	447,681	530,621	1,093,441	1,636,140	658,718	161,175	643,512	105,729	547,824	969,799	371,654	7,202,583	
<i>Number of loans at minimum loan size to members =</i>	-	-	4	5	5	5	8	10	10	12	12	12	14	97	
Total savings accumulated =	-	75,000	155,644	236,288	316,931	397,575	478,219	558,863	639,506	720,150	800,794	881,438	962,081	236,288	
<b>Interest accrued on members' savings=</b>	-	150	311	473	634	795	956	1,118	1,279	1,440	1,602	1,763	1,924	12,445	
Cumulative loans using VSCF own funds =	-	-	2,000,000	4,000,000	6,000,000	8,000,000	10,000,000	12,000,000	14,000,000	16,000,000	18,000,000	20,000,000	22,000,000	22,000,000	

*Notes & assumptions:*

- 1 Group takes 1 month to form, open bank account, start training, etc (hence month "0"). Savings commence from start of month 1 at VND5,000/mth for all; from month 2, half at assumed savings rate & half at VND5,000
- 2 Loans disbursed at end of month 1, with repayments commencing at end of month 2.
- 3 Group size = 15
- 4 Average loan size to VND from QNRDP = VND 26,500,000
- 5 Average loan size = VND 1,501,667
- 6 Average loan term = 12
- 7 Repayment frequency = monthly in arrears
- 8 Savings as % of loan = 0.50%
- 9 Minimum monthly savings = VND 5,000
- 10 Nominal interest rate = 1.25%
- 11 Percentage of group with loan at any one time = 15%
- 12 Loan from QNRDP during month 1, and on-lent to group by end of month 1
- 13 Assumed repayment rate = 97.5%
- Amount of principal repaid each period = 2.50%
- 14 Any principle outstanding paid on last day of loan term
- 15 Misc. expenses for group (tea etc) = VND 20,000
- 16 Assume pay for each of 3 leaders = VND 50,000
- 17 Assume balance of savings funds kept on hand = 75%
- 18 Assumed interest paid on savings 0.20%  
balances =
- 19 This spreadsheet is also intended for use to see cash flows
- 20 Assume no withdrawals from savings account during the year projected
- 21 Loans disbursed using own VSCF funds at end of following month
- 22 Minimum loan size = VND 500,000

## **Annex 6**

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# **Planning Schedule for VSCF Component**

## Annex 6: Planning Schedule for VSCF Component

Outputs & Activities		Responsibility	Completion date	Notes
<b>1. Design Village Credit &amp; Savings Facility Concept</b>		<b>Guy Winship</b>	<b>6<sup>th</sup> December</b>	
1.1.	Reading PDD, visiting partners & beneficiaries, discussing with field staff etc.	Guy Winship (or GW)	15 <sup>th</sup> November	Done prior & during the field trip
1.2.	Conceptualisation of how Village Credit & Savings Facility will operate	Guy Winship	15 <sup>th</sup> November	Done prior & during the field trip
1.3.	Presentation & discussion of Village Credit & Savings Facility concept & operation	Guy Winship	16 <sup>th</sup> November	Was workshopped & discussed with all field staff on 16 <sup>th</sup> & 17 <sup>th</sup> November
1.4.	Approval of design concept by Team Leader	Trevor Ole	3 <sup>rd</sup> January	Needed for Operational Manual to proceed
<b>2. Operational Manual</b>		<b>Guy Winship</b>	<b>14<sup>th</sup> February</b>	
2.1.	Complete writing of draft Operational Manual	Guy Winship	20 <sup>th</sup> January	Sent to Dao Hung & field staff for feedback & comments
2.2.	Detailed comments & feedback back to GW	QNRDP field staff & Dao Hung	31 <sup>st</sup> January	
2.3.	Finalise Operational Manual	Guy Winship	7 <sup>th</sup> February	GW should be able to get Operational Manual completed in one week (assumes no major structural changes in manual)
<b>2.4</b>	Approval of Operational Manual by Team Leader	Trevor Ole	14 <sup>th</sup> February	Needed for staff training to proceed
<b>3. Training of relevant field staff</b>		<b>Dao Hung</b>	<b>March 2003</b>	
3.1.	Introduction to Micro-finance & Village Credit & Savings Facility Concept	Guy Winship & Dao Hung (or DVH)	27 <sup>th</sup> November	A training "awareness" workshop to most field staff was provided covering i. Introduction to Micro-finance; ii. Case Study on a Best-practice MFI; iii. Overview of Micro-finance in Vietnam; and iv. Village Savings & Credit Facility concept
3.2.	Training course outline conceptualised & presented to QNRDP management team	Guy Winship & Dao Hung	27 <sup>th</sup> January	Training skeleton is in this schedule (see output 2 above). DVH to present full course outline to Team Leader by 27 <sup>th</sup> January. With TL go-ahead DVH to prepare training course
3.3.	Compilation of draft training course material	Dao Hung	7 <sup>th</sup> February	Draft training course to be circulated for comments. (While operational manual will need to have been approved, much can be done concurrently)

<b>Outputs &amp; Activities</b>		<b>Responsibility</b>	<b>Completion date</b>	<b>Notes</b>
3.4.	Detailed comments & feedback back to DVH	QNRDP field staff & GW	21 <sup>st</sup> February	If all comments back in time DVH should be able to get Training Course completed in two weeks (given Tet holidays)
3.5.	Approval of Training program by Team Leader	Trevor Ole	26 <sup>th</sup> February	Needed for staff training to proceed
3.6.	Identify participants, arrange & conduct training course	Dao Hung	28 <sup>th</sup> February	After Tet holidays
3.7.	Training program revised with input from first course & finalised	Dao Hung	End March	To ensure course appropriate to program and relevant to participants
<b>4. Pilot test of Village Savings &amp; Credit Facility's</b>		<b>QNRDP staff</b>	<b>March 2004</b>	
4.1.	Outline & aims of Pilot Test	QNRDP staff, GW & DVH	27 <sup>th</sup> January	Tabling of test protocol with objectives against which pilot test will be assessed
4.2.	Implement Pilot Test	QNRDP staff - input from DVH as needed	Start early April - end March 2004	Will need to have Operational manual and trained staff in place. Assume one year pilot test with 4 to 6 groups
4.3.	Mid-term pilot test review	QNRDP field staff, Guy Winship & Dao Hung	September/ October 2003	Issues that arise will be dealt with by DVH from Hanoi or he can go to Quang Ngai as necessary. Assuming all goes well one field visit by GW should be fine; if problems arise may need additional time for GW to revise objectives & extend test
4.4.	Pilot test review & assessment of progress	QNRDP field staff, Guy Winship & Dao Hung	March / April 2004	Need to review processes, staff and operational manual against test. If all ok, replicate and roll-out
4.5.	Approval for roll-out by Team Leader	Trevor Ole	End April 04	Needed for full roll-out to take place
<b>Quang Ngai Rural Development Program Village Credit &amp; Savings Facility roll-out</b>				

Main outputs:

1. **Design of the VSCF Concept:** this involves reading and investigating the local environment, the QNRDP design and resource parameters, and discussing proposed concepts with field staff. This was undertaken primarily during the field visit. While the process is iterative it is critical that field staff agree to the design concept for continuation.
2. **Operational Manual:** this must be completed at an appropriate level of detail in terms of VSCF fund establishment, operation, monitoring and exit strategies of the program. The manual will serve as a guidelines for both field staff and participants, and will include the following:
  - a. A process flow chart of the stages and cycles of the VSCF;
  - b. Clearly defined exit strategies, as well as the tools and techniques to manage these exit strategies;
  - c. Draft pro-forma VSCF fund by-laws, including membership eligibility, and indicating the recommended role, skills needed, and possible process by which group leaders are selected and elected;
  - d. Guidelines for field staff (so as to pass on to activity fund members) including as to how VSCF loans were priced;
  - e. How a group savings account with a local bank will be established, the mechanism of how Program funds will be repaid into the account, guidelines for how VSCF members will manage and reconcile this account, and guidelines for auditing the account; and
  - f. Process by which subsequent loans between members will be assessed, disbursed, and monitored.
3. **Training of Trainers:** this will involve the training of the QNRDP's Finance & Credit Officer (and the DPI counterpart), and relevant VWU & VBARD staff. This training will also be the main vehicle for providing the programs' District Development Officers (DDO's) with exposure and awareness of the Village Savings & Credit Facility concept and operational components. It is suggested that the training should comprise three elements:
  - a. *Micro-finance:* an introduction to micro-finance generally and in Vietnam, with some general case studies of what success have taken place in Vietnam and elsewhere. A field visit to a PCF, to VBARD and to VWU would also be useful. Then to focus on going through the operational manual, while doing so covering related aspects of micro-finance. I think 3/4 days should be sufficient for this as long as trainees have knowledge of project and have good literacy & numeracy skills (e.g. are able to calculate interest rates).
  - b. *Change management* – how to deal with change, how to help others do so etc. The reason for this is that for both staff (especially DDO's) and for participants managing themselves in a changing environment can create a range of issues and challenges that can be overwhelming. My feeling is that the credit component of the project is somewhat foreign to many of the staff and to participants, and how to deal with issues would be very useful. I think 1 or 2 days on this would be sufficient.
  - c. *Training of trainers skills:* exposure to adult learning methodologies and training techniques would be necessary for anyone to pass on skills. I think that 2/ 3 days for this should be sufficient.
4. **Pilot test of Village Savings & Credit Facility's operations:** this will essentially involve setting objectives for testing the Village Savings and Credit Facility concept and operation, adjusting inputs (e.g. staff training, operations manual, etc), documenting adjustments, issues and problems, obtaining additional input from the technical consultants as need be, final review and approval for roll-out.

It is considered critical for the Team Leader to approve and sign-off at key stages in the process. These have been highlighted in the schedule.

## **Annex 7**

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# **Principles of Sustainable Rural Credit**

## **Annex 7: Principles of Sustainable Rural Credit**

### **1. Background**

That there is a gap between the supply and demand for financial services in many rural areas of the world, especially in developing countries, is taken as given. The formal banking system is unable (some would say unwilling) to fill the gap, even for the core services of safe savings and for short-term credit for both productive and consumptive activities. As with many other such areas it is apparent that most (65% by the design teams own estimates) of the people of Quang Ngai province do not have access to a range of appropriate financial services – credit, savings, insurance, payment services etc, particularly in the low-income rural communities targeted by the QNRDP Program.

Many rural financial services specialists have argued increasingly over the past two decades that the provision of (formal or non-formal) financial services within these low-income communities can – under certain conditions - be offered on a financially sustainable basis, particularly where the level (or potential level) of economic activity is able to provide the necessary volume to keep the unit cost of the provision of such services to a minimum. Providers of these targeted rural financial services have used both an integrated approach (offering a range of financial and non-financial services as is the case with the QNRDP Program) or have specialized in the provision of financial services only to a niche market of the economically active (the so-called minimalist approach). Of course the households initiating and managing these productive activities require much more than credit only; they will need at various times support with productive skills development, marketing, purchasing of inputs, linkages both horizontally and vertically, with distribution et cetera: it is simply in how these services will be provided that the nature of the institutional make-up will differ. It is clear that an integrated approach is to be utilized in the QNRDP, and that this is not minimalist micro-finance Program.

For the Village Savings & Credit Facility component of the Program the group of economically active can be said to be those that fall between the (usually small) group of employees/employers from the formal sector (government and regulated business) and those that are not able to cover the costs of obtaining the financial services they require, often needing welfare or other support. The nature of economic activity targeted by many of these niche providers of rural financial services have usually focused, especially initially, on this informal unregulated sector, where the provision of short-term credit for working capital or productive asset purchase, and savings services, have predominated. This is squarely the market targeted by the VSCF component of the Program's HHIRGI component.

In many cases a group lending methodology has been followed by service providers. This is usually done for two main reasons:

- i. to lower the unit transaction cost of providing such services; and
- ii. to enable group and several liability between members within the group in order to offer collateral substitutes as this is invariably not possible within this sector using traditional lending methods.

Given the inherent limits such groups have, from the client's perspective such group methodologies do not necessarily offer the most flexible or appropriate service, and when they are able many clients would wish to "graduate" to other targeted, more flexible, or individual services, either within the Program or to another service provider. For this (and other) reasons it is often in the interest of financial service providers to work with one another where mutually

compatible products and services are on offer. It is not uncommon, for example, to hear of formal sector institutions subsidizing the non-formal providers to obtain savings or to get “graduates” on a preferential basis. Formal sector institutions – generally commercial or government banks – can of course also offer complementary products and services, and as they are generally regulated, have the added advantage of (perhaps perceived only) security, with central bank deposit insurance etc. Linkages with other financial service providers is consequently often integral to the Program design of many rural finance service providers.

## **2. Principles of Financially Viable Lending for Rural Activities**

The methods used to reach these low-income rural communities have differed greatly, and it should be acknowledged that widely differing methodologies have been successful in different contexts and environments. While no one method can be said to be appropriate in every context, it should nevertheless be appreciated that certain common principles have become recognized as being central to the provision of financially viable lending to VSCF-type groups. These (mainly supply-side) principles can be summarized in five<sup>22</sup> as follows, along with some comments relating to the QNRDP Program, and are in no particular order:

### ***Principle One: Offer Credit Services that Fit the Preferences of The Clients / VSCF Group members***<sup>23</sup>

Credit services can take many forms, but in the current given context can be taken as a loan with a specified repayment period. The needs and perceptions of clients must be taken into account when designing any loan Program, although it should be recognized that client preferences are not necessarily the same as client needs. For example loans should match the activity cycle (eg: loan terms for rice farming inputs must match the growing season); or loans that are too large in relation to the productive activity will be difficult to repay, while those that are too small may not enable the planned productive activity to take place. Care to ensure a client-friendly approach is important, such as locating services as close to clients as possible, rapid appraisal of the mini-business plan and disbursement with simple application procedures, and open channels of communication. Testing/demonstrating appropriateness is key, as is carefully monitoring of client satisfaction, and a willingness to encourage flexibility, so that the procedures for loans can be changed if need be.

### ***Principle Two: Streamline Operations so as to Reduce Unit Costs***

Having a simple, standardized, transparent and thus easily understood application and disbursement process is important not only to maximize client satisfaction but also to ensure the efficiency of the operation. Clients face opportunity and transaction costs in applying and waiting for loans, and these costs are present whether the operational methodology is self-managed groups or another method. Self managed groups should be encouraged to make every effort to keep overheads and expenses to a minimum, and to operate as efficient and effective an operation as possible. This is key if loan disbursements and repayments are to be tracked properly, if turnover of loans are to be maximized, and if financial sustainability is to be attained.

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<sup>22</sup> Much of this has been drawn from *Sustainable Banking with the Poor; MicroFinance Handbook – An Institutional and Financial Perspective: Joanna Ledgerwood, The World Bank, 1999, especially chapter 3.*

<sup>23</sup> The term “clients” is used here interchangeably with VSCF group members.

***Principle Three: Structure the Program so that Clients are Motivated to Repay Loans***

Loan Programs such as being proposed by the QNRDP Program design team are often structured to ensure client motivation to repay in two ways:

- i. Joint liability groups whereby other members of the VSCF are responsible for one another's loan. **Group cohesion is critical here**; without it the use of this so-called "peer pressure" technique is completely negated; and
- ii. Incentives (both positive and negative), such as being able to obtain a subsequent loan from the VSCF fund should the current one be repaid, not offering loans to anyone else in the group should there be any defaults, or by informing the village elders that the client has not repaid are some examples of this.

***Principle Four: Design the Lending Program to Ensure Rates and Charges Cover All Costs***

The costs facing the provider of the loan – whether a financial service provider or a small community self-banking group such as a VSCF – can be said to be three-fold:

- i. Cost of capital – that is the cost of borrowing the funds that are being lent out (this includes the cost of inflation);
- ii. Costs of transaction – that is the cost of doing business (i.e.: the administrative, operational, Program, etc costs); and
- iii. Cost of Risk – that is the probability of not being repaid.

For any lending Program to be financially sustainable interest fees and/or charges would need to cover these costs.

***Principle Five: Ensure the Institutional Sustainability of the Group/Provider through Capacity-Building and Replicable Structures***

The on-going degree of any group to manage itself depends upon its cohesion (often the result of having a common purpose), its competence to compile and enforce its own rules, and its ability to replicate its structures (in this case referring mainly to changes in leadership) This means that any self-managing VSCF group would need, for example, to have a set of by-laws and the mechanisms to implement these by-laws. In the context of an activity fund it may also imply some group registration if the loan fund is to be owned and managed collectively.

Any VSCF group must have the capacity to manage the funds (to assess applications for revolving funds, to track repayments, etc) and ensuring this is absolutely critical for the success of any credit Program. The provision of both appropriate quality training and on-going technical assistance is vital. Critical success factors and milestones should be agreed with the group against which progress towards complete self-management can be tracked.

## **Annex 8**

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### **Estimated Indicative Targets for VSCF's**

## Annex 8: Estimated Indicative Targets for Village Savings & Credit Facility

The established indicative cumulative annual targets in respect of the VSCF during Phase Two of the Quang Ngai Rural Development Program are as follows:

Year	No. of Communes	Approx. No. of Villages	Approx. No. of VSCF's/ Village	Indicative Total No. of VSCF's	Indicative Total No. of H/H's reached
2002-03	3	15	5	65	1,300
2003-04	6	30	5	150	3,000
2004-05	9	45	5	225	4,500
2005-06	12	60	5	300	6,000
2006-07	12*	70	5	350	7,000
<b>Total</b>	<b>12</b>	<b>60</b>	<b>5</b>	<b>350</b>	<b>7,000</b>

\* in this year there may be additional new communes as some of the earlier ones graduate.

*VSCF Group Size:* The indicative target of 350 VSCF's over the five year period of Phase Two of the Program was based on extrapolations that 5 activity groups would form in each village. The number of VSCF's might grow in subsequent years if the Program is able to maintain an "operating lid" of 50 households per group. The indicative outreach targets are based on an average VSCF group size of 20, all of whom would access Program funds at one point during the relevant phase of the Program. Assuming 5 people per household, the estimated indicative projection of people affected would thus amount to 35,000<sup>24</sup>. While having larger VSCF groups would assist in raising outreach levels, it is expected that larger groups may lower the ability of the group to self-manage, could lead to increased difficult in providing quality technical assistance and capacity-building, and moreover could reduce the peer-pressure effect. A policy of having a minimum initial activity group size of 10 will be maintained by the Program implementing team.

*Activity Type:* From the problem census/problem solving process in 2001/02 it is expected that activity funds will be formed from some of the following income generating activities.

1. Cattle fattening
2. Pig production
3. Poultry production
4. Goat production
5. Lowland cash crops
6. Upland cash crops
7. Tree crops
8. Vegetables
9. Fresh water fish

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<sup>24</sup> By comparison VBARD had in June 2001 an out reach of 79,929, of which 8,325 were poor in terms of the definition used by the design team, and VBP had an outreach of 6,217 households in the Quang Ngai province (from Rural Financial Services report, December 2001).

This is by no means an exhaustive list of possible activities but it does represent current perceptions from the design teams' extensive commune studies, as well as current feedback from field staff. As other communes join the Program the list of possible activities will grow but the focus will still be on those with the highest priority in each commune. As each issue/group matures then other VSCF groups may form to address new activities and/or what are currently lower order activities.

The QNRDP design and field teams also expect that as experience grows with each component then farmers will combine several of these component activities into a more diversified farming system to produce their own higher quality animal feed combine grain and forage legumes, adopt more profitable field crops, introduce garden vegetables, include fruit and industrial trees, incorporate fish in paddies or animal effluent ponds etc.

### *VSCF Loan Fund Size*

It is understood that the above indicative targets cannot be related directly to budget lines as the actual composition (numbers) in each VSCF group, the varying level of support required (which will vary significantly between households in the same VSCF) and the type of actual activities concerned are not yet fully known. Actual productive activities will vary between villages and between communes, and certainly **within VSCF groups**. Moreover it is expected that not necessarily all households in a VSCF group will access Program funds for productive inputs during the year the group was established. Procedures will be put into place in the final year to ensure earlier disbursement.

The Program's estimated average fund size projections have been based in part (see Annex 5) on an amount of A\$20,000 per commune per year being available for income generating activities financed through the VSCF on a loan (principal + interest) basis. A basis for this estimate of the capitalisation of VSCF's by the Quang Ngai Rural Development Program is further based on an assumed 4 year involvement with each commune from commencement to "graduation", and the total funds available for income generating activities through the VSCF's therefore amounts to A\$80,000 in total. The indicative projected outreach target assumptions (of 5 villages per commune and 5 activity funds per village) are that 25 VSCF groups are estimated by the design and field teams per commune.

The estimated average Program fund capitalisation of each VSCF is consequently A\$3,200 (i.e. \$80,000/25) or VND 25.6 million (at rate of VND8,000/A\$1). At an estimate of 20 households per activity group fund, this would in turn amount to an average of \$160 per household.

It needs to be stated that at the assumed average loan size of VND 7 million (after the QNRDP field team) that it is suggested that consideration be given by the Program at disbursing the majority of available funds for each VSCF close to commencement of the VSCF. Providing VND 21 million would enable 3 loans (on average) to be disbursed at the commencement of the VSCF, which as illustrated in the fund flow projections in Annex 5, would enable additional loans to be made from the reflows (repayments of interest, principle, and from savings accumulated).