

QUANG NGAI RURAL DEVELOPMENT PROGRAM (RUDEP) - PHASE 2

RUDEP Village Savings and Credit Facility



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RUDEP Is A Rural Development Program Funded By The People Of Australia And Vietnam.

1. Introduction.

This paper provides details of the savings and credit facility of the Quang Ngai Rural Development Program (RUDEP) and particularly the services available to members of savings and credit groups.

2. RUDEP

RUDEP is a 10 year rural development program financed jointly by the Governments of Australia and Vietnam. Its goal is to contribute to rural development, governance and poverty reduction in selected communes in Quang Ngai province. RUDEP has four key result areas: increased income, improved livelihoods, sustainability and empowerment. The four components of the program are:

- Household based rural income generation;
- Commune based rural infrastructure;
- Commune, district and province capacity building; and
- Management, monitoring and evaluation.

The Program is managed through a Program Management Unit (PMU) based in Quang Ngai City. The Vietnamese counterpart agency is the Department of Planning and Investment (DPI) and the program owners are the Quang Ngai Provincial People's Committee (PPC) and the Australian Agency for International Development (AusAID). The Program is currently working in 19 communes in all 12 mainland districts. The Program uses the following approaches to achieve its goal:

- Commune Development Planning (CDP) which is a participatory planning and development process that includes the steps of participatory rapid appraisal (PRA) activities, village planning meetings, commune and village plans, funds allocated for economic, social and infrastructure activities and activity groups to prepare plans and implement activities;
- Activity groups are used to empower group members and engender local accountability through the implementation of economic, social and infrastructure activities;
- Income generating options for both on-farm and off-farm activities;
- Savings and credit funds that are owned and operated by the members of the groups;
- Capacity building for technical knowledge, skills, management, planning and confidence for stakeholders.

3. Savings and Credit

RUDEP began a savings and credit activity in response to a shortage of credit being identified as one of the major causes of poverty. At the time RUDEP commenced, the Vietnamese Bank for Agriculture and Rural Development (VBARD) and the Vietnamese Bank for the Poor (VBP) were operating in Quang Ngai but it was not possible for poor people to access credit without collateral. Therefore RUDEP began its own credit program to support its goal of poverty reduction.

RUDEP's savings and credit activity (called the Village savings and credit facility (VSCF)) operates according to an Operational Procedure developed within the RUDEP PMU and approved by the Quang Ngai Provincial People's Committee (PPC).

A VSCF is a group of men and women between 15 and 30 in number who wish to use credit for income generation purposes and agree to abide by the Operational Procedures. The group must comprise at least 50% women and at least 50% poor members. The group receives VND

3 million per member (approximately US\$200) and these funds are deposited into a bank account opened and operated by the VSCF. Before receiving the seed capital, each group receives a series of three training courses and must save VND 5,000 per person per month for two months. The training courses include: operational procedures for all members; accounting and bookkeeping for the three management board members; and business planning training for all members. All members are required to deposit savings monthly with a minimum of VND 5,000 per month per member or 0.5% of the member's loan amount per month.

RUDEP also trains and contracts the District and Commune Women's Union (WU) to provide support to all VSCFs by having one District and one Commune WU members attend each VSCF monthly meeting. Their role is to provide on-the-job training to the management board and members and to ensure that a correct monthly financial report is collected from each VSCF and submitted to RUDEP by the 5th of each month. The competence of all WU service providers is assessed every six months and relevant training is provided to WU staff through the year based on the results of the competency tests. District WU staff attend a monthly meeting at RUDEP PMU to discuss issues and prepare for future activities. In some districts, the District WU has not been able or willing to provide support to all or some VSCFs and RUDEP has employed some young graduates of the local finance and accounting college to fill this support role. These people are paid on contract per VSCF and are called VSCF Support Officers.

The VSCFs charge an interest rate of 1% per month and there are three loan terms: short (six months – monthly, quarterly or six monthly repayments); medium (12 months – monthly, quarterly or six-monthly payments); and long (15 months – monthly or quarterly payments). All loans must be approved by the members and the management board and approved by the Commune People's committee. The Management Board withdraws and deposits funds in the bank account and receives an allowance from the profits of the VSCF. Management Board competence is also assessed every six months.

The main difference between RUDEP VSCFs and other savings and credit schemes in Vietnam is that the Operational Procedures allowed for a VSCF to become independent after two years of successful operation and management. This meant that the seed capital and profit would belong to the members of the VSCF and they would be able to operate the VSCF according to their own rules.

Originally all VSCFs grew out of income generating activity groups and in order to ensure that groups continued to increase in technical knowledge to enable them to maximise the benefits from the credit, RUDEP provided each VSCF with a budget of VND 10 million per year. Each VSCF develops an income generating activity plan that is submitted to RUDEP for approval and funds are provided to the VSCF through the Commune Development Fund system. In 2007 the amount of funds each VSCF received was performance based and ranged from VND 12 million to zero.

4. VSCF Status.

The table below provides details of the VSCF component at June 30 of 2004, 2005 and 2006 and March 2007. The VSCF component started in 2003 and the first seed capital was disbursed to five VSCFs in July 2003. At present there are 169 VSCFs in 19 communes in 12 districts of the province.

Figure 1: VSCF Status: by year.

Parameter	Month/Year			
	06/2004	06/2005	06/2006	04/2007
Total VSCFs	44	96	169	169
No of Members	1,044	2,321	4,111	4,040
% women	66%	72%	74%	75%
Total Seed Capital (VND bn)	2.4	7.0	12.7	12.7
Portfolio At Risk Rate (%)	1.82%	0.79%	1.62%	3.36%
Total Savings Deposits (VND m)	140	491	868	1,196

The VSCFs operate in both lowland and upland communes with 102 VSCFs in lowland communes and 67 VSCFs in upland communes. There are 57% of members who are poor according to the current MOLISA criteria.

5. Services Provided.

- **Credit:** Members can borrow amounts ranging from VND 500,000 to VND 6 million and all requests for a loan must be accompanied by a business plan and must be approved by the other members of the group. Loans must be repaid with monthly interest payments and principal payments as per the agreed term as set-out in the loan agreement. Loans should be used for productive or income generating activities. Loans cannot be rolled over if the member cannot repay and each member must wait for one month before getting another loan after having repaid the first loan.
- **Savings:** The Operational Procedure allows for compulsory and voluntary savings. All members must save a minimum amount each month and the amount depends on whether the member has a loan or not and the size of the loan. Members also use the savings facility for voluntary savings and many groups are now using their savings to as part of the loan capital. Increasingly, savings are being used to repay loans as people get into the habit of saving and find it a safe, effective way to keep extra cash.
- **Establishment training:** RUDEP has contracted Women's Union staff and VSCF Support Officers as service providers to provide training for VSCF members. The sequence of training is as follows: Formation workshop to make sure the potential members understand clearly what the VSCF is and how it would operate and they can then choose whether or not to join; Operational Procedures training to ensure that members clearly understand and know the procedures and understand their role within the group; Management Board training for the four members selected to be the board of each group on organization and implementation of VSCF, in particular how to operate the VSCF under the Operational Procedures, how to control the VSCF monthly meeting effectively and how to do the accountant forms; Business Plan training where all members learn how to make a simple business plan and fill in the loan application so that they can access both VSCF funds and loans from formal credit institutions in the future.
- **On-going support:** Experience has shown that the establishment training is not sufficient to provide members and management boards with the skills and knowledge to successfully operate a VSCF. Therefore RUDEP contracted the same service provider who do the establishment training to provide ongoing support by having these people attend every VSCF monthly meeting. Their role is to assist the management boards to learn how to conduct a monthly meeting, to remind members and boards of the procedures, to assist management boards do all the accounting forms and the monthly financial reports. These service providers also provide advice to members on how to fix problems as they arise within the VSCF. Over time RUDEP has built the capacity of

Commune Women's Union staff and they are now competent to provide this ongoing support to VSCFs in most communes.

- **Literacy and numeracy skills:** A large proportion of people in upland communes are illiterate and innumerate and RUDEP has tried a number of approaches to improve this situation and particularly for VSCF members. Presently RUDEP is working with the NGO Action Aid to deliver its 'Reflect' program in a number of pilot communes using selected commune/village people as facilitators/trainers. These skills not only improve the bookkeeping and business plan skills of VSCF members, it also improves people's confidence to interact with people outside the commune such as in banks, in markets, agriculture and health offices, etc.
- **Technical support:** In village planning meetings, people identified lack of accessible credit as their major constraint followed closely by a lack of technical agricultural information. Therefore, in order to meet these constraints, RUDEP established VSCFs where people had identified this need and then provided funds to the group for them to develop a plan to satisfy their agricultural technology requirements (usually for cropping, livestock, forestry and aquaculture activities). This has mainly taken the form of technical training, demonstrations or trials and study tours (to visit farmers in other communes doing a similar activity and markets and input suppliers). VSCF members can then make an informed decision to borrow from the VSCF based on experience and knowledge gained from the technical activity. In a number of years, members have the opportunity to experience different agricultural activities which helps to diversify incomes and reduce risk. In upland areas where people are more risk averse, this gives people the confidence to borrow and increase their income.

6. Issues.

The main issues facing the VSCFs include:

- Delinquency - constant monitoring and immediate action to identify and control the first instances of delinquency in a VSCF are required otherwise, it quickly spreads to other members and other groups.
- Changes in Attitude – in upland communes, all previous government programs have been seen as grants and welfare activities and even though the VBP and now the Bank of Social Policy (BSP), have operated in these areas, people still do not understand that loans from banks must be repaid. The ethnic minorities have received the usual training program but given by people from their district rather than outsiders, but there is a need to continually repeat the training and further reinforce the ideas contained in the operational procedures. This is an ongoing process.
- Service providers – as the number of VSCFs has grown, the demand on the District WU to support these VSCFs has meant that in some areas, the WU is unable or unwilling to provide this support. RUDEP has developed a performance based contract with the WU paid on accurate and timely submission of the financial monitoring form and attendance at monthly VSCF meetings. As staff change in the WU, RUDEP is obliged to train new staff and to retrain existing staff based on the competency assessments. RUDEP has also sought to raise the competence of the Commune WU to support VSCFs and continue to train Commune WU staff to support VSCFs and in some of the older VSCFs, the Commune WU staff perform this role without the assistance of the District WU. Where WU is not able to provide the support to VSCFs, RUDEP has contracted private VSCF Support Officers, but the priority is to work with WU where possible.
- Remote Communes – the new VSCFs are in the newer, more remote upland communes. This has implications for service provider access to VSCF meetings and also for VSCF management boards to travel to and from the bank to deposit and withdraw funds. In these

communes, the members are usually poor people and do not own motor bikes and must walk for many hours to the district bank or hire a motorbike. While access is improving to most communes, there are still some that will be difficult to access in the wet season.

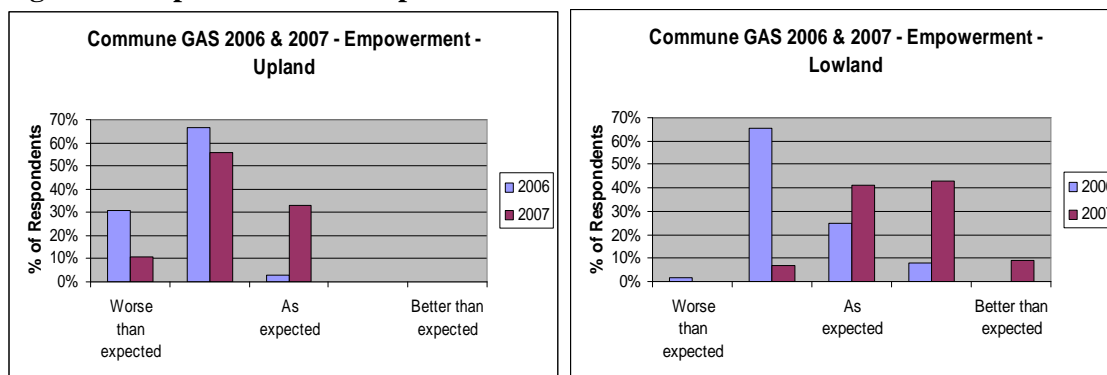
- **Decree 28:** The delayed release of the modified decree and associated circulars has created uncertainty for the RUDEP VSCFs as RUDEP and the Provincial Government work on an exit program for the VSCFs. The initial objective was to allow well managed VSCFs to operate independently and own their seed capital after two years of operation. This is still the preferred option that fits with RUDEP’s overall objective of poverty reduction and empowerment of poor households.
- **Bank of Social Policy (BSP):** Over time, BSP has continued to improve its services and its coverage in upland areas and it is possible for it to provide credit services to most communes in the province (but not all as of May 2007). However, BSP does not offer a savings facility and in the remoter areas, seems to prefer to lend to better off farmers, than to poor farmers. Hopefully this is changing.

7. Impact

RUDEP has conducted a number of studies to measure the impact of the program on the incomes and livelihood of VSCF members:

- **Income and asset ownership:** RUDEP conducted a study of VSCF members who had been members for at least two years and looked at change in income and asset ownership. The study indicated that average income had increased by 50% over a two year period with incomes increasing from VND 8.3 million to VND 12.4 million. This increase was supported by the change in asset ownership by households, where TV ownership increased by 100% and motorbike ownership increased by 50%.
- **Perception Studies:** RUDEP has used the Goal Attainment Scaling (GAS) method to measure perceptions of VSCF members over time, concerning income, livelihoods, empowerment and sustainability. The study involved asking a sample of VSCF members to select their perception of their present situation from a choice of five set questions for each of the four topics. The study was done in 2006 and repeated with the same people in 2007. The results show an improvement in how people perceive their situation for all the topics but the results for the uplands are much lower than for those in the lowlands. This indicates that it takes a longer time to have a similar impact in the uplands compared with the lowlands. Figure 2 below shows the data for the questions on empowerment.

Figure 2: Empowerment Perception: VSCF members: 2006 and 2007.



- **Case Studies:** The case study below indicates the changes that occur when VSCF members gain confidence to use the savings and credit and all the other available services.

Case Study:

The Ka Ranh I VSCF in Son Hai commune, Son Ha district, was formed in September 2004 with 15 ethnic minority (H're) members who expressed a need for credit. Seed capital of VND 45 million was provided by RUDEP. Initially, after finishing the initial training and the two business planning workshops, members were encouraged to get loans. However, none dared to borrow even though H're farmers in the commune usually borrowed money from Kinh people at high interest rates.

After being involved in a chicken raising demonstration for VSCF's members and with the encouragement from Son Hai commune Women Union, two members borrowed VND 500,000 each to raise chickens. After this cautious start, at the end of 2006, 15 members of this VSCF had total outstanding loans of VND 64,500,000 with no overdue loans. Most of the VSCF savings has been used for lending. Some members have had their Loan Application approved but they are waiting for repayments to enable them to borrow. Members are very active in participating in VSCF monthly meeting to share experience about their cropping and livestock raising skills.

One member said "Now, I do not want to borrow money from the Kinh people for my cassava planting as before. I have 2 buffaloes and VND 1,450,000 as my savings in the VSCF. I will continue to save more money and I will withdraw my savings to invest in the coming cassava season in January 2007".

8. Conclusion.

Credit alone is a necessary but not sufficient facility to overcome poverty. In RUDEP's experience, on-going training, on-going management support, technical training and support, literacy and numeracy skills, prompt response to default and a savings facility are also required to operate a successful credit program.