

QUANG NGAI RURAL DEVELOPMENT
PROGRAM (RUDEP) - PHASE 2

Review Workshop of 5 Existing VCSF after 6
Months Implementation



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AusAID

Australian Embassy
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Ba Dinh District,
Hanoi, VIET NAM

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Prepared by

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

DONOR AGENCY

AusAID

Australian Embassy

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

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

LEAD COUNTERPART AGENCY

Department of Planning and Investment

96 Nguyen Nghiem Street, Quang Ngai Town

Quang Ngai Province, Viet Nam

Ph: +84 55 825701

PROGRAM MANAGEMENT UNIT

No 4 Pham Van Dong Street, Quang Ngai Town

Quang Ngai Province, Viet Nam

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

AUSTRALIAN MANAGING CONTRACTOR


URS Sustainable Development

25 North Terrace

Hackney SA 5069

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

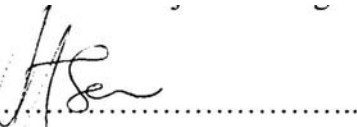
Program
Manager:



Dee Hartvigsen
International Projects Manager

URS Australia Pty Ltd
25 North Terrace, Hackney
South Australia 5069 Australia
Tel: 61 8 8366 1000
Fax: 61 8 8366 1001

Program
Director:



Ted A'Bear
Vice President
Sustainable Development

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Summary

We have completed the review workshop of 5 existing VSCFs in Duc Phong and Tinh Tho communes which are part of RUDEP.

We also conducted the internal audit in accordance with the Operational Procedures of VSCF which was approved and promulgated by the Quang Ngai PPC through the **Decision No 899/QĐ-CT dated 11/04/2003**.

Besides that, during the review workshops and the audit we have found some major findings as follows:

- Official members and/or unofficial members of CCG have not regularly taken part in the monthly meeting, especially in Tinh Tho commune.
- Voting and selecting members (by raising hands) for getting loan was not properly effective.
- It took a lot of time for the accountant to prepare all accounting monitoring books, especially members' passbooks during the monthly meeting.
- Contents of the monthly meetings have not attracted all members. As a result, the attendance rate of members in the monthly meeting was still low.
- Presentation skills of VSCFMB have not been good as required.
- VSCFs' members tend to prefer fixed term deposit over savings deposit. It would be very difficult for the accountant to calculate the interest payment for each savings deposited member.
- There is no format policy on cash management at VSCF level which has led to lax and discretionary management of cash on hand. Moreover, VSCF's members have no experience on checking cash-flows (incoming cash and/or outgoing cash transactions). So there were several problems relating to depositing collected money to the bank account as well as withdrawing.
- Loan size (from VND1,000,000 to VND6,000,000) has not met the demand. Some members need more, others need less.
- Loan term is short, especially for mountainous communes where borrowers prefer to get long term loans for raising breeding cows.
- The penalty condition was very strict. VSCF's members complained that they would be allowed to extend their loan terms if they had borrowed from VBARD. Meanwhile, based on the VSCF Operational Procedures, if you are only 01 day delayed in principal repayment, you will be fined at 1.5%. Eventually, borrowers were forced to sell their products at a loss to repay principal on time.
- Dealers knew when the borrowers would have to repay principals then dealers tried to force the producers to sell at lower price.
- Duration of 06-month follow-up for mountainous communes is so short for improvement of VSCFMB's capacity.
- The distribution of interest earned from lending is unclear. As per Operational Procedure, 30% of interest collected will be covered for VSCFMB allowance and administration. However, this did not mention what percentage will be paid for VSCF leader, accountant or treasurer. Meanwhile, the VSCF's accountants have been

working very hard. So they need to be treated with more special attention. Moreover, the rest of 70% interest collected will be covered for inflation, risk and growth funds.

- The present basis for appropriating different funds (inflation, risk, growth and administration) is monthly interest income. This approach is simple and only corrective in case of no savings available. The regulation said savings depositors will receive the amount of interest equivalent to the current savings interest rate at the Bank. However, there was no separate bank account for savings and seed capital/credit. This will not give us the correct value on how much interest the VSCF gets from interest payable for seed capital and for savings.
- At present, there is inadequate means to track the balance of the inflation fund and management fund except the risk fund.
- The accounting skills of the VSCF accountant are still limited.
- There are many monitoring forms which have to be recorded by VSCF's accountant. Of which the Progress Report is rather complicated
- The method of calculation of interest payments based on the average amount has some problems.
- It is very hard for VSCF members to prepare Detail Business Plans, especially low education members. Moreover, Business Plans sometimes are useless. Some VSCF's members who are not able to write and read asked their neighbors for help. As a result, they received loan but did not know exactly what they should do.
- The attendance rate of women participating in the monthly meeting as well as getting loans is still limited.

Key recommendations:

- More suitable Operational Procedures on VSCF should be revised and developed to meet properly the varied of demands of target members.
- Some monitoring or procedures need to be reduced such as Receipt voucher of savings and interest collection.
- Reporting and bookkeeping systems should be improved (less monitoring forms but enough necessary information).
- Percentage of long term loans should be considered for more suitable for mountainous communes.
- Follow-up after fishing 3-day training and allowance for VSCFMB for mountainous communes should be 12 months instead of 6 months as per the original Operational Procedures.
- Capacity of VSCF members on monitoring and checking the inflows and out flows of funds should be improved.
- A series of training courses should be done for VSCF (see the Annex 2)
- Interest should be calculated on the balance of outstanding loan.
- The Progress Report should be revised as simply as possible. This Report should be submitted to CCG and then can be checked by a member of CCG (CPC's accountant would be preferred) before sending to Service Provider and/or RUDEP
- A simple monitoring system on VSCF should be developed and installed on all relevant CCG's computers for following up.

- In order to save time on preparation of receipt vouchers (for example receipt for savings collection), the VSCF's accountant should prepare only one receipt voucher for all the VSCF's members when they deposit their savings.
- The Training manual on the 3-day training course of VSCF should be revised for more practice.
- A more suitable business plan format should be prepared and introduced to the VSCF's members.
- Appropriate technical demonstrations/training courses should be tested and provided to the VSCFs, especially for the poor people.
- A marketing system should be developed and introduced to the targeted groups.
- Several study tours on marketing should be conducted.

1 Introduction

Village Savings and Credit Facility (VSCF) is a component which belongs to the Quang Ngai Rural Development Program (RUDEP). It plays an important role to contribute to the hunger elimination and poverty reduction as well as achievement of the goal of RUDEP.

VSCF is established by a group of low income households that are able to provide a group guarantee, apply peer pressure within the VSCF. Objectives of the VSCF component of the Program are: (i) to facilitate low income households access to financial services and to support from RUDEP in order to further implement their income generation activities; (ii) to build the capacity for financial management at all levels (households, village and commune) so that they can improve their economic sustainability.

The VSCF first started in Duc Phong and Tinh Tho communes in June 2003 as the pilot sites and was expanded to 4 other program communes at the end of Dec 2003.

These 2 low-land communes are located in Mo Duc and Son Tinh district, Quang Ngai province. The main activities of local people are agriculture, livestock and fishery.

In order to assess the operational situation of the first 5 VSCFs after 6 months implementation for further improvement, 5 review workshops and an audit were conducted by RUDEP in December 2003.

2 Purpose, Scope, & Methodology of the Review

2.1 Purpose of the Review

- Review the current situation of the 5 existing VSCFs in 2 above-mentioned communes to have comprehensive overview of those VSCFs.
- Give an opinion of the financial statements of 5 VSCFs, particularly whether they present a true and fair picture of program revenue and expenditure.
- Work out what are advantages and disadvantages of VSCF Operational Procedures as well as RUDEP assistance inputs for lessons learnt.
- Recommend the appropriate measures to provide necessary services to VSCF's members effectively by potential Service Providers.
- Propose efficient methods of management, monitoring and evaluation.

2.2 Scope of the Review

- 5 existing VSCFs (2 in Duc Phong and 3 in Tinh Tho Communes).
- Time: data is collected up to Dec, 2003.

2.3 Methodology

In order to collect sufficient information and implications for the report, we have combined various methods of review:

- Design a format of review report based on the SWOT tool.
- Prepare and deliver the relevant monitoring forms to the VSFCMB for filling out the necessary data in advance.
- Collect the information/ideas provided by VSCF's stakeholders during the review workshop.
- The collected information is classified by 4 aspects: Organization and Implementation (human resources); Finance and Credit; Techniques, Marketing.

3 Findings of the Review

3.1 Organizational and Implementing Aspects

At RUDEP Level

Strengths:

- Actively cooperate with CCG/CWU for providing a series of useful training courses/workshops.
- Contract with district women's unions for providing training, especially the 6 month follow-up after finishing the 3-day training course.
- Supports necessary initial materials.
- Has staff to monitor and supervise the VSCFs frequently, especially during the monthly meetings.

Weaknesses:

- RUDEP staff sometimes can not participate in the monthly meetings due to being too busy.
- Information transferred from RUDEP to CCG is still insufficient, especially invitations for training.
- Have no sufficient solutions for encouragement of CCG's members to participate in the monthly meetings (in Tinh Tho commune).
- Do not link the program's activities to other credit organizations implemented in the involved communes.
- Do not really empower and encourage the local authorities such as village head, youth union, etc. to be involved the VSCF's activities.

At commune level (CCG)

Advantages:

- Be considered for approving the Loan Agreement submitted by VSCFMB.
- Conduct a series of training courses/workshops, communication strategy on VSCF in cooperation with RUDEP/DWU.
- Often participate in the VSCF monthly meeting (excepting Tinh Tho).
- Regularly contact RUDEP when having problems (excepting Tinh Tho).
- Have staff (accountant of CPC) specialized in credit skills.

Disadvantages:

- Never participate in the monthly meeting (happened in Tinh Tho).
- CCG's members, especially accountant of CPC do not usually take part in the 3-day training course of VSCF and/or monthly meetings.
- Computer supported by RUDEP has not been used for VSCF's purpose.
- Skills on micro-finance of CCG are still weak.
- CCG has many things to do so sometimes they do not pay much attention to the VSCF's activities.
- CWU come back from Ha Tinh study tour but do nothing for VSCF in Tinh Tho.

At VSCFMB level

Advantages:

- Work actively
- Be ready to learn and apply appropriate knowledge

Disadvantages:

- Do not submit the monthly report to CCG.
- Skills on management and implementation are still weak due to short time of acting as Management Board.
- Accounting and bookkeeping skills need to be improved.

3.2 Finance and Credit Aspects

Beneficiaries/members of the VSCF:

- Members of the VSCF usually come to the Activity Group (AG). Before starting the VSCF, RUDEP has formed the AG through the demo based on the demand of specific technical requirements such as cow fattening, pig or chicken raising, etc. It may be the reason for success of the Demo so that most of low-income and better-off members are invited or informed to participate in the Demo. As a result, through the sample survey-PRA and some field visits conducted by FCO and DDO, it shows that there are

few poor households participated in the VSCF. This is a hindering factor leading to achievement of the goal of RUDEP.

Data of 5 existing VSCF up to the date of report (30-Dec-2003):

- As per operational procedures of VSCF, loan size is from VND1,000,000 to 6,000,000. However, some borrowers need more otherwise others need less.
- After 6 months of implementation, total number of borrowers from 5 VSCFs is 70 persons. Total initial seed capital transferred to the 5 VSCFs is VND 369,000,000. Total loan disbursed is VND365,000,000 (accounting for 99%) up to the date of report. Of which, there is a case of having overdue loan.
- Total savings (compulsory and voluntary) is VND25,965,000. Collected interest is VND 9,086,189. Loan loss-reserve fund is VND1,672,915. *For further detail, please See Annex 1 and Annex 2.*

3.3 Technical Aspect

- Most of VSCF’s members have been provided with technical knowledge through the cow fattening demos before joining the VSCF. Some borrowers have been successful on fattening cows and have generated more income. However, due to market fluctuation (the livestock price went down) several borrowers have been lost.
- Through the Review Workshop, some lessons learnt on technical issues should be considered:

Strengths	Reasons for successfulness	Weaknesses	Reason for unsuccessfulness
<ul style="list-style-type: none"> • RUDEP conducted many farmers’ field visits or training events. • Shared experiences on technical field among the VSCF members. • Exchanged information on where to buy reasonable price skinny, healthy cows. • Conducted training courses and study tour for local paravets. 	<ul style="list-style-type: none"> • Price purchase plays an important role in successfulness of cow fattening (reasonable price purchase). • Skinny cows should be considered for vaccination and parasite treatment. • Follow the diet suggested by technical specialists. • Bought the pregnant cows and after a short, having a calf. 	<ul style="list-style-type: none"> • Technical knowledge provided by Providers rarely was complicated. • Several technical documents provided have not really met the local demands/sources. • Borrowers have not paid much attention to technical knowledge before carrying out any business plan. 	<ul style="list-style-type: none"> • Borrowers did not see the importance of the Business plan. • Bought skinny cows but not healthy. • Bought cows but not skinny. • Poor market. • Insufficient techniques.

3.4 Marketing Expectations

Advantages:

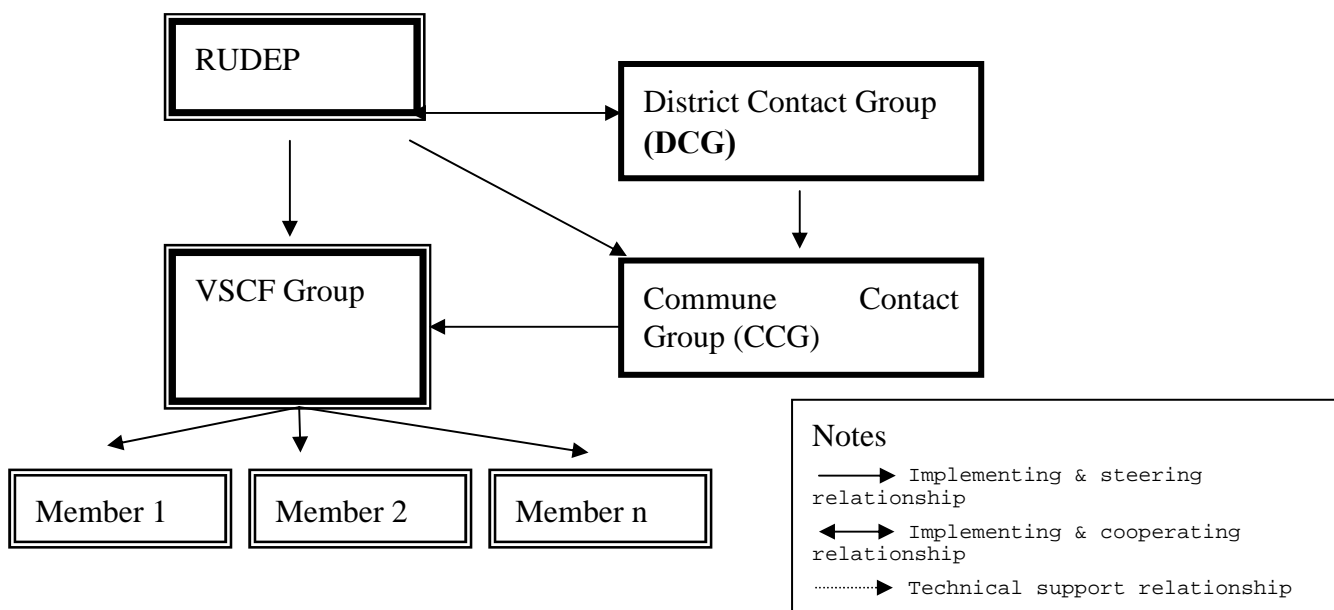
- After a certain time of implementation, all VSCFs' members realized that marketing plays a very important role in achievement of the VSCFs.
- Several VSCFs have formed an unofficial marketing team to provide information to other VSCFs' members.
- During the VSCF monthly meeting, members have been actively discussing marketing issues such as where to buy skinny healthy cows, what the reasonable price of cow was, how and where to contact dealers, how to negotiate with the dealers. etc.

Disadvantages:

- Dealers tried to force the cow fattening keepers/borrowers to sell their cows at lower price because dealers know that borrowers will have to sell their cows to repay principal on time.
- Purchase of cows at higher price but selling at lower price.
- Lack of information on marketing, especially how to deal with the dealers outside of Quang Ngai province. Moreover, there were few fattened cows sold at the same time. It is very difficult for dealers outside of the province come to buy because of high transportation fee.
- Have no local market for bid when they buy or sell cows.

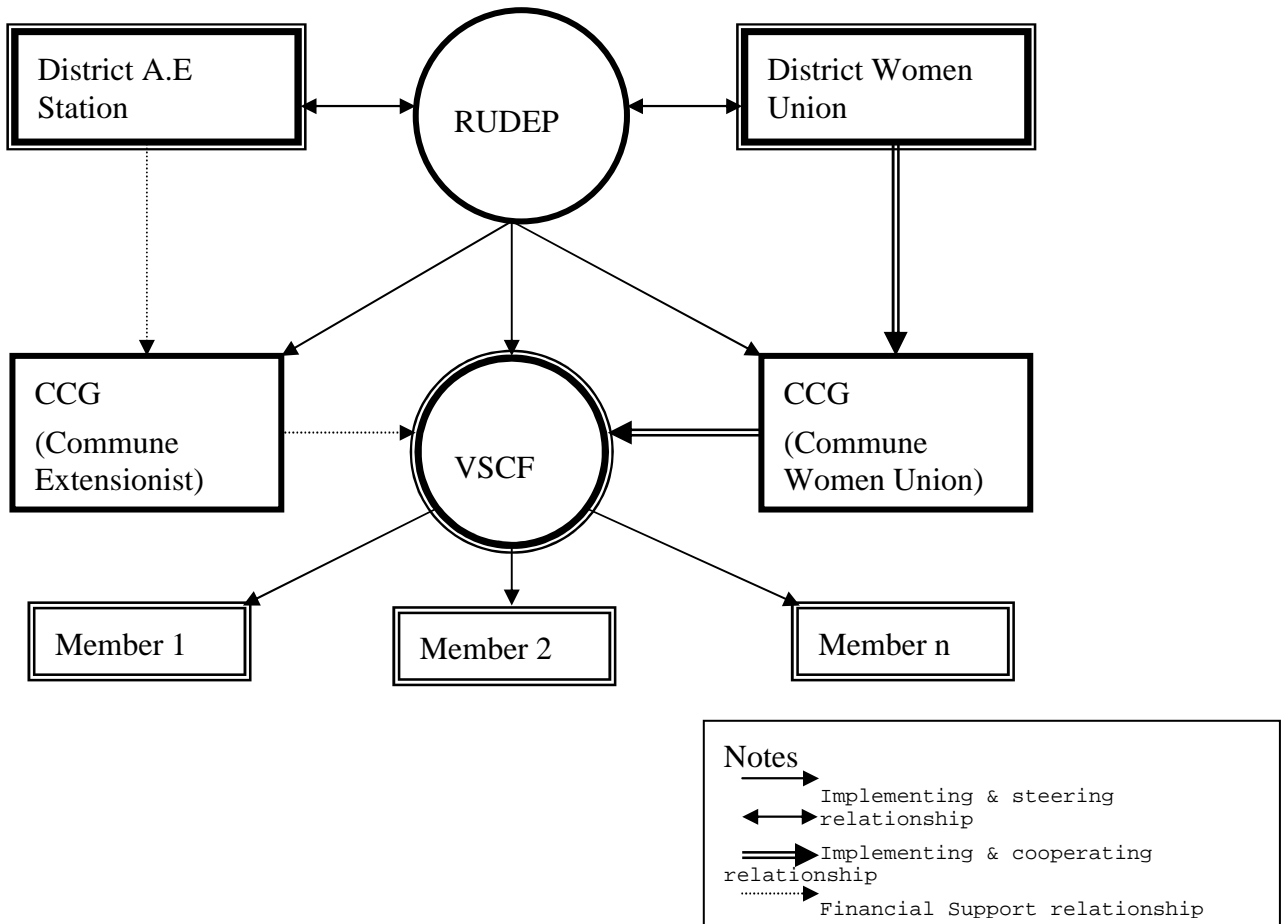
4 Model of Organisational Structure of VSCF

Figure 1: The current model is shown as the following



After the first 6 months of implementation of the VSCF, it was found that there have been more and more VSCFs established. This will not be only very difficult for RUDEP staff to manage all the schemes perfectly but also will be hard for VSCFs to operate sustainably. So a new model implementing and advising by service providers should be taken into account.

Figure 2: The suggested model



The reasons for making up that model

District Women Union- Financial Service Provider:

- The district Women’s Union has much experience in credit management. Moreover, this is an organization with stable staff, which helps ensure the stability in terms of organizing of the VSCF in the long term. They also have network from district to commune and village.
- They have been successful in several credit programs funded by the Government.
- The gender issues will be more focused if the district Women’s Unions are the financial service providers.

District Agricultural Extension Station- Technical and Marketing service provider:

- Have stable staff, at least one or two State staff.
- Have experience in agricultural techniques as well as agricultural extension approach.
- The Government is paying a lot of attention to improving capacity for extensionists and trying to establish a perfect network from central to grass-root level.
- Can provide inputs for agriculture which is the main income of local farmers.
- Can advise VSCF's members on what kinds of animal and/or crops to raise
- Update information on advanced techniques and marketing.

Steps to form a VSCF:

Step 1: Distribute the Flyer of VSCF to Activity group members or groups of low income households who have not accessed credit organizations.

Step 2: Conduct awareness workshops on VSCF to the targeted/interested groups.

Step 3: Let participants register to take part in the VSCF and form a VSCF group.

Step 4: Vote and select 4 members of the VSCF Management Board then establish the VSCFMB.

Step 5: Conduct the 3 day-training course on micro-finance management for VSCF's members, especially VSCFMB and then open bank account.

Step 6: Start collecting savings, advising in preparation of business plans in the first two monthly meetings.

Step 7: Transfer seed capital and disburse loan borrowers who have the approved Loan Application and Agreement.

Step 8: 6-month follow-up (for low land communes) and 12 months (for high land communes).

Annex 1

References

Annex 1: References

1. Operational Procedures of the VSCF-RUDEP, April 11, 2003.
2. Review report on Lam Ha I VSCF after 6 months of implementation, Dec, 2003.
3. Review report on Thach Thang I VSCF after 6 months of implementation, Dec, 2003.
4. Review report on Tho Dong I VSCF after 6 months of implementation, Dec, 2003.
5. Review report on Tho Trung I VSCF after 6 months of implementation, Dec, 2003.
6. Review report on Tho Tay I VSCF after 6 months of implementation, Dec, 2003.
7. Progress Report on 5 existing VSCFs up to Dec, 2003.
8. Interim audit report from Participatory Watershed Management in Hoanh Bo, 2000.

Annex 2

Workshop and Training Activities

Annex 2: Workshop and Training Activities

Events Name of Agents	Study tour on VSCF	Awareness workshop on VSCF	3 day-training on Micro- finance	3 day- training on VSCF	Business plan workshop
PMU staff	01	01	01	0	0
DCG	0	01	0	0	0
District Women Union	01	01	0	01	01
VSCFMB	01	01	0	01	01
VSCF members	0	01	0	01	01

Limitations

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