

# Microfinance Outreach and the Microfinance Institutions(MFIs) Sustainability: Evidence from Vietnam

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## Abstract

**Purpose** - Micro-finance institutions (MFIs) are critical to Vietnam's quest for poverty alleviation among the poor in the rural and agrarian communities. The current study attempts to investigate the impact of microfinance outreach programs undertaken by formal and semi-formal MFIs in Vietnam targeting the poor rural and agrarian communities.

**Research design, data, methodology** - An enquiry was made as to whether the poor and rural communities accessed the micro credit offered by Government supported MFIs and NGOs through their micro-finance outreach programs. Furthermore, the current study attempted to explore if the current mode of operations adopted by MFIs in Vietnam is sustainable.

**Results** -The findings indicate that significant progress has been made in Vietnam to alleviate poverty among the poor rural communities through micro finance outreach programs.

**Conclusions** - There are also pointers of MFIs sustainability in Vietnam. However, it still remains to be seen if the current sustainability pointers are long lasting without government subsidies or some international organizations financial support to microfinance outreach programs.

**Keywords** : Poverty Reduction, Financial Sustainability, Microfinance Institutions.

**JEL Classifications** : E44, G21, G23, G32, O16, Q14, R51.

## 1. Research Background

The advent of microfinance has been widely heralded worldwide and it has been extensively regarded as an instrument of poverty reduction (Mosley, 2001; Tsai, 2004; Morduch, 2002; Bystro, 2007; Armendáriz and Morduch, 2010). Recently, microfinance has received unprecedented attention, both from policy makers as well as in academic circles (Hermes and Lensink, 2007; Khandker, 2003; Sievers and Vandenberg, 2007; Barslund and Tarp, 2008). The converging view from both academicians and practitioners is that the goal of micro-finance is to improve the welfare of the poor (Khandker, 2001; Barslund and Tarp, 2008; Schreiner, 2002; Armendáriz and Morduch, 2010). From the viewpoint of development practitioners, lack of access to credit is one of the main reasons why many people in developing economies remain poor (Diagne and Zeller, 2001; Brau and Woller, 2004; Khandker, 2005; Roy and Chowdhury, 2009). Startling figures presented by Woolcock (1999) indicate that about 80% of the world population is without access to finance and this figure rises to about 90% in developing countries. Yet one fifth of the world's population, that is about 1.3 billion people are living in extreme poverty or at the point of starvation (Hermes and Lensink, 2007). Today there are thousands of microfinance institutions providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., 1995; Brau and Woller, 2004).

Has microfinance managed to reduce poverty? Notwithstanding, the amazing statistics of hundreds of millions of people now accessing microfinance services worldwide, knowledge about whether micro-finance has succeeded in reducing poverty remains only partial and is contested (Remenyi, 1991; Morduch, 1998; Khandker, 2003; Mordich and Haley, 2002; Bendig and Arun, 2011). At one end of the spectrum are studies arguing that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Khandker, 1998; Otero & Rhyne, 1994; Remenyi & Benjamin, 2000; Schuler, Hashemi & Riley, 1997). At the other are writers who caution against such optimism and point to the negative impacts that micro-finance can have (Adams & von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood & Sharif, 1997; Khandker, 2005). In the "middle" is work that identifies beneficial impacts but argues that microfinance does not assist the poorest, as is so often claimed (Hulme & Mosley, 1996; Mosely & Hulme, 1998). Given this state of affairs, it remains imperative for researchers, policy makers and development practitioners to continuously provide current evidence as to whether micro-finance reduces poverty or not and to what extent. The current study is one such attempt using Vietnam as a case in point.

Can poverty reduction and microfinance institutions sustainability be achieved at the same time? Without subsidies, can MFIs be financially viable while serving the poor clientele base? Is it a dual maximization problem? Two main microfinance approaches that have been hotly debated recently are poverty reduction orientation and financial sustainability orientation (Schreiner, 2002). One stream of thought –

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poverty reduction approach, focuses more on the depth of service that is, reaching the very poor and disadvantaged groups (Hermes and Lensink, 2007). This camp argues that the poor cannot fully pay for their borrowing and therefore, the poor need subsidized interests (Buckley, 1997; Woller, 2000). Besides, because of fear that the poorest clients might be ignored by profit seeking operators, the poverty reduction camp seems wary and skeptical about the commercialization of the microfinance sector (Hulme, 2000; Woller, 2001). Therefore, faced with a choice between donors, governments and the profit seeking private sector, they seem more comfortable keeping microfinance attached to donors and governments, perhaps because they trust donors and governments to have some ongoing concern with the poor (Woller et al., 1999; Woller, 2002; Schreiner, 2002).

The second stream of thought financial-sustainability approach focuses on commercialization of microfinance and increasing the breadth of service (i.e., number of clients). The sustainability group argues that any future which continues dependence on donors and governments subsidies is a future in which few microfinance clients will be served. Donors and governments, both notably prone to fads, are unlikely to continue subsidizing microfinance indefinitely and are not generous enough to do it on a major scale. This group believes that the only way to assure access by the poor to financial services is to ensure that the private sector finds it profitable to provide such services. Only the private sector has plenty of resources and will stick with a moneymaking activity even if it is not in fashion.

Yet recently some scholars have argued that microfinance appears to offer a "win-win" solution, where both microfinance institutions and poor clients profit (Morduch, 1999; Remenyi & Benjamin, 2000). This view emphasizes that reaching the poor and sustainability are in large measure complementary, and particularly that sustainability serves outreach. Only by achieving a high degree of sustainability have microfinance programs gained access to the funding they need over time to serve significant numbers of their poverty-level clients. This image reveals that there is in fact only one objective – outreach that is, focus on the social benefits of microfinance for poor clients. Sustainability is but the means to achieve it. Sustainability is in no way an end in itself; it is only valued for what it brings to the clients of microfinance. The outreach approach measures the social benefits of microfinance for poor clients in terms of six aspects, that is, worth to clients, cost to clients, depth, breadth, length, and scope. The poverty approach assumes that great depth can compensate for narrow breadth, short length, and limited scope. The financial sustainability approach assumes that wide breadth, long length, and ample scope can compensate for shallow depth. The new framework not only pinpoints the assumptions behind the two approaches but also synthesizes the jargon of microfinance with that of standard welfare theory. The social costs and benefits of microfinance will never be measured perfectly, so most public-policy choices will turn on judgments that, because they cannot be proven, must be argued. These arguments, subjective though they must be, should rest as much as possible on empirical measurements and explicit assumptions (Diagne et al., 2000; Schreiner, 2002; Morduch, 2000).

## 2. Problem Statement and Objectives of the Study

Whilst, the provision of low interest rates charged by these microfinance providers and government subsidies, has been argued to provide a context with which to view the "win-win" possibility of poverty alleviation with full cost recovery, the problem posed in question form pertaining to MFI outreach and sustainability in Vietnam is as follows:

1. To what extent has the poor communities in Vietnam accessed the low cost microfinance from the major microfinance providers?
2. Furthermore, having provided the low cost finance to the poor communities, have the microfinance providers managed to recover the costs?
3. What are the prospects of the microfinance providers' viability in the long term?

Drawing from this problem statement in question form, the main purpose of this study is not to argue that the microfinance institutions in Vietnam should necessarily transform themselves into commercial banks that operate free of subsidies and still make profit. Instead, in light of the aforementioned approaches to microfinance enquiry, the current study has two main objectives: First, the study seeks to find out on the overall, evidence indicating the contribution of microfinance activities to poverty reduction in the largely rural and agrarian communities of Vietnam.

Second, using evidence from four main microfinance providers in Vietnam, the study also seeks to note for pointers of financial sustainability of these credit institutions.

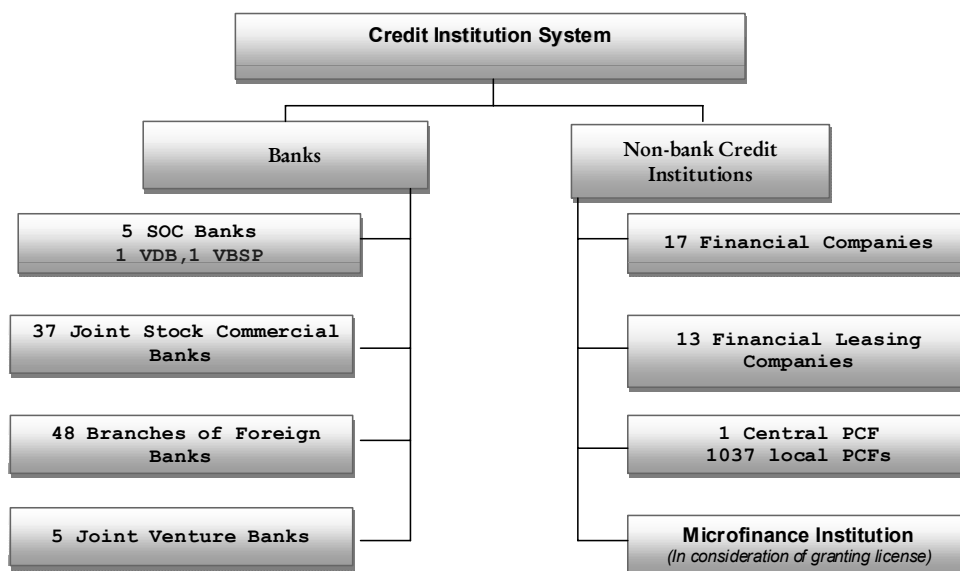
## 3. Literature Review

The section on literature review will be specific. In particular, two main issues are to be covered – i.e. the credit institutions in Vietnam and the microfinance outreach programs in Vietnam.

### 3.1. Credit Institutions in Vietnam

Credit institutions in any economy are major financial intermediaries that oil and foster investments and economic growth of a country. In past two decades, Vietnam witnessed a rapid increase in the quantity and quality of credit institutions ranging from joint commercial banks, non-bank credit institutions and People's Credit system among others that operated under the Law on Credit Institutions. Figure 1, below provides the official banking and non-banking credit institutions while Table 2 presents semi-formal credit institutions partaking in the provision of rural and agrarian financial services in Vietnam. Banking institutions include state-owned commercial banks, joint stock commercial banks, foreign controlled banks (i.e. joint-venture banks, foreign banks branches, 100% foreign-owned banks) and social policy-based banks (i.e. Development bank and Vietnam Bank for Social Policies). Non-banking credit institutions include financial

companies, financial leasing companies and microfinance institutions.



<Figure 1> Credit Institutions in Vietnam

Evidence before hand indicates that the rural financial market is mainly dominated by Vietnam Bank for Agriculture and Rural Development, Vietnam Bank for Social Policies, and People's Credit Fund systems which occupy more than 95% of credit market in both rural and agricultural sectors.

Besides the official financial sector, a vibrant semi-official sector also provided the poor rural community with micro credit. This semi-official sector is largely funded by the Non-Governmental Organizations (NGOs) and actively partake in micro finance and projects focused on providing micro credit to the poor rural community. There are about 60 international NGO supporting microfinance activities in Vietnam and most of these activities are conducted through mass organizations, particularly Women's Union. Women's Union is an organization in Vietnam that has the permission and legal authority from the Prime Minister to provide credit and savings. An example of a micro finance institution (MFI) with significant market share and operating under Vietnam Women's Union is the TYM Fund. Beside this TYM Fund, Capital Aid Fund for Employment of the Poor (CEP-HCM city) that operate under Ho Chi Minh City Labor Federation also hold significant share of this semi-official market. In fact, a recent survey indicated that both CEP- HCM city and TYM account for more than 50% of total outstanding loans of the semi-formal sector.

### 3.2. Microfinance Outreach to Rural Communities and Access In Vietnam

The emergence of microfinance in Vietnam can be traced way back to the 1980s alongside with the "Renovation" era. Development assistance programs initiated by international organizations (governmental or non-governmental) were instrumental for the emer

gence of microfinance in Vietnam towards the end of the 1980s. The main purpose of these governmental (bilateral and multilateral agreements) and INGOs development assistance was to reduce poverty in Vietnam. However, the approach to this poverty alleviation and implementation process adopted by these international organizations differed as some chose to focus on providing microfinance, while others treated microfinance as a component and a tool for achieving a huge social program. In recognition of the paramount role played by microfinance in poverty alleviation, the Vietnamese Government made concerted effort to support directly the development of microfinance sector in the 1990s. The Vietnamese Government initiated national poverty alleviation programs which were effected through providing micro-credit, subsidized rural credit and establishing financial intermediaries such as VBARD, VBSP and PCF. Financial intermediaries such as VBARD, VBSP and PCF were used as strategic tools to reach out and distribute microfinance to the poor communities of Vietnam by the Government.

#### 3.2.1. Vietnam Bank for Agriculture and Rural Development (VBARD)

VBARD was established in 1990, and is one of the state-owned commercial banks in Vietnam. It has the largest network nationwide of 2,096 branches. VBARD has been in charge of granting the government's subsidized loans to the poor especially before the establishment of the Bank for the Poor. Currently, VBARD provides commercial banking services for agricultural and rural areas. Lending to households and rural cooperatives account for more than 50% of total outstanding loans and its customers who are farmers account for 68%. The average loan size is about VND 21.1 million. With this loan scale, VBARD's targeted clients are small/micro businesses in

rural areas and the low income earners.

### 3.2.2. Vietnam Bank for Social Policies (VBSP)

VBSP was established in 2003 on the basis of the Bank for the Poor (founded in 1995). VBSP took over small scale policy lending programs managed by state-owned commercial banks and other state agencies (Ministry of Planning and Investment, Ministry of Labor, Invalids and Social Affairs, People's Committee at all levels etc.), and the Bank for the Poor. All in all, the formation of VBSP has merged the functions of various government agencies that were previously mandated to channel credits to the poor. Thus, VBSP's current goal is to provide preferential credit to the poor households as well as individuals and organizations that are eligible for social credit policies. However, in order to achieve this important task VBSP also co-operates with mass organizations involved in microfinance lending in order to reach out to many and supervising its customers. Currently, VBSP has an active network of 63 provincial branches, 612 transaction offices in districts, 8,495 communal mobile transaction points, manages 239,647 savings and lending groups with more than 8,000 staffs. The average loan size for a poor household was about VND 7.8 million as of early 2010.

### 3.2.3. People's Credit Fund (PSF)

People's Credit Fund was established in 1993, organized in two management level, (i.e. central and local level) as of 2000. PSF has about 1,037 clients at local level. The average loan size is about VND 8 million, an indication that the client base is not that of extremely poor customers.

### 3.2.4. Mass Organization

The Vietnamese Government has managed to harness the support and participation of mass organizations such as Labor Union, Farmers' Association, Veteran's Union and Women's Union in the microfinance sector. For instance, the Women's Union, which is the largest union and represented nationwide, 557 programs/projects with the initial capital of VND 244.2 billion and has a total 172,089 (i.e. 41.8% at commune level, 10.2% at district level, and 18% at provincial level).

### 3.2.5. International Development Agencies and Organisations

International development agencies from countries such as Sweden (SIDA), United Kingdom (DFID), Belgium (BTC), the international development organizations such as UNDP, UNFPA, UNICEP and the international non-governmental organizations (INGOs) have supported or cooperated with mass organizations (e.g. Women's Union) in disbursing microfinance and managing micro credit projects in rural communities. By and large, both the international development agencies and organizations have played crucial supporting roles in the formation and development of the micro finance sector targeting the poor Vietnamese.

## 4. Methodology

The target population of the current study consisted of both government supported and non-governmental financial intermediaries providing micro-credit to the rural Vietnamese communities. From these government and non-government financial intermediaries, registered formal and semi-formal micro-finance institutions were identified as the sampling frame. The sample size of nine (9) consisted of mainly four formal and five semi-formal-credit providing institutions were utilized as cases of the current study empirical investigation. In particular a case study approach was found befitting the achievement of the empirical objectives of this study.

As cited by Chinomona and Sibanda (2013), a case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident and it relies on multiple sources of evidence. It investigates predefined phenomena and does not involve explicit control or manipulation of variables but rather the focus is on in-depth understanding of a phenomenon and its context. Case studies usually combine data collection techniques such as interviews, observation, questionnaires, and document and text analysis (Darke, Shanks and Broadbent, 1998). As a results a mixed approach – i.e. use of both qualitative data collection and analysis methods and quantitative methods may be used (Yin, 1994; Chinomona and Sibanda, 2013).

First, this study employed an interpretative, qualitative methodology to examine the micro-financing process in Vietnam. In this case, multiple cases were utilized to achieve this purpose. Second, owing to the limitations of relying on one source of information when collecting data on case studies, the study adopted data triangulation approach whereby, field researches that involve investigating the views and opinions of organizations directly and indirectly involved in the decision-making process by means of interviews, observations or otherwise were used.

According to Palmer and Quinn (2003), data triangulation refers to the use of multiple sources of data. Chinomona and Sibanda notes that, multiple and independent sources of evidence, including observations, interviews and document exploitation such as use of market research reports, company profiles, financial statements. In this study observations and document exploitation were used to corroborate the interview data and, by so doing, developed convergent lines of inquiry.

The researchers managed to conduct the interviews while at the same time taking short notes for future coding. The general observation was that each interview would trigger the necessity for another interview as the themes began to unfold. The convergent in-depth interviewing used in this study allowed the researcher to develop, clarify, verify and refine the core issues of the interview protocol. In this regard, both structured and unstructured questionnaires were used.

Unlike in quantitative research, qualitative research views literature review as an ongoing process and serve as a source of data (Goldkuhl & Cronholm, 2003; Glaser & Strauss, 1967). As put for-

ward by Turner (1983), literature from documented material should be viewed equally the same as field notes. The same point was buttressed by Glacer (1998, 1992) who referred to documented literature as "everything is data" and Strauss and Corbin (1990) who asserted that a "cache of archival material" is equivalent to a collection of interviews and field notes. In this article the researcher reviewed documents with literature on both formal and semi-formal micro-finance operations in Vietnam. These documents served two purposes. Firstly, they were treated as another source of data collection. Secondly, as noted by Goldkuhl and Cronholm (2003), prior reading provided models to help the researcher make sense of the data gathered on the sustainability aspects of micro-financing institutions in Vietnam. The researchers had an opportunity to observe some of the micro-financing activities and processes adopted by some of the MFIs. Following these observations, memos were developed from the notes taken and used to augment the data collected by means of interviews, informal conversations and documented material.

In this study, data collection and analysis were done simultaneously. Data analysis involved categorizing and triangulating the evidence from the multiple perspectives. Based on the field findings, the depth of micro-finance outreach in Vietnam and sustainability of MFIs were deduced. The remainder of the paper now reports the findings from the in-depth interviews, document exploitation and observations made. For confidentiality reasons, the identities of respondents will not be disclosed in subsequent sections. The next section will provide an assessment of the performance of MFIs in Vietnam and the sustainability of the MFIs based on the outstanding loans information and the calculation of financial self-sustainability of MFIs in Vietnam. A conclusion and suggestion of future research direction crown up the current study.

## 5. Discussion of findings

### 5.1. Performance of MFIs in Vietnamese Agricultural and Rural Areas

There is a remarkable growth of equity capitals in formal credit institutions participating in microfinance operation. Table 1 below provides the growth levels of equity capital and financial leverage in formal credit institutions operating in rural microfinance market

The statistics provided in Table 1 indicates that there is a huge difference among the leverage rates of VBSP, VBARD and PCF between 2007 and 2009. VBARD had the lowest rate that ranged from 3.82 to 4.47%, while VBSP ranged from 19 to 27% and PCF central and grass roots levels ranged from 9.63 to 18.5% and 30.1 to 46.38% respectively. The absolute equity capital of VBARD is the highest with VND 18,521 billion in 2009.

<Table 2> Growth levels of equity capital and financial leverage of formal credit institutions in rural microfinance market

Target		VBARD	VBSP	PCF Centre Level	PCF Grass Root Level
2007	Total capital source	321,444	36,153	6.248	13.632
	Equity capitals	14,336	10,018	112	4,298
	leverage rate	4.46%	27.71%	1.79%	31.53%
2008	Total capital source	396,993	54,691	6,352	14,883
	Equity capitals	17,759	12,812	612	4,480
	leverage rate	4.47%	23.43%	9.63%	30.10%
	Equity Capital's growth rate	23.88%	27.89%	446.43%	4.23%
2009	Total capital source	485,079	74,458	8,102	21,176
	Equity capitals	18,521	14,312	1,499	9,821
	leverage rate	3.82%	19.22%	18.50%	46.38%
	Equity Capital's growth rate	4.29%	11.71%	144.93%	119.22%

Source: Figures are calculated from survey data in VBARD, VBSP, and central PCF

While both formal and semi-formal MFIs developed strong independent organizational structures over some years, the semi-formal MFIs have by and large remained unstable. Table 2 provides statistics on some of the largest semi-formal MFIs such as CEP, TYM, FPW of Thanhhoa province and M7.

The semi-formal MFIs have much smaller size of equity and asset than formal MFIs. Despite being the largest organization, CEP only achieved total asset value of VND 190 billion in 2009. Most semi-formal MFIs have often equity capitals valued from VND 1 to 5 billion and rather high leverage rate perhaps because the capacity of capital mobilization is not strong.

The capital mobilization mainly stems from direct grants, borrowings and very little compulsory savings. Table 3 below, represents statistics on compulsory and voluntary savings by semi-formal micro finance institutions. The savings amount is subject to regulation of each organization and usually follows loans (1-5%) or the monthly absolute contributed value (VND 3-10 thousand).

&lt;Table 3&gt; Growth levels of equity capitals and financial leverage of some semi-formal credit institutions

Unit: VND Million, %

Targets		CEP	TYM	CEP Ba Ria	FPW Thanh Hóa	MFO Ninh <b>Phước</b>
2007	Total capital source	227,552	88,533	21,384	51,778	4,207
	Equity capitals	115,372	44,859	6,634	7,003	3,128
	Leverage	50.70%	50.67%	31.02%	13.53%	74.35%
2008	Total capital source	424,408	176,526	21,060	53,615	4,507
	Equity capitals	137,107	56,100	8,344	8,374	3,198
	Leverage	32.31%	31.78%	39.62%	15.62%	70.96%
	ECs growth rate	18.84%	25.06%	25.78%	19.58%	2.24%
2009	Total capital source	552,063	219,944	24,509	52,518	7,440
	Equity capitals	190,511	83,159	10,351	9,672	5,762
	Leverage	34.51%	37.81%	42.23%	18.42%	77.45%
	ECs growth rate	38.95%	48.23%	24.05%	15.50%	80.18%

Source: Data were provided by the Microfinance Working Group and survey results of research group

&lt;Table 4&gt; Compulsory and voluntary savings of some semi-formal MFIs as of 2009

No	Name	Customers of Compulsory Savings	Customers of Voluntary Savings	Compulsory Savings(million VND)	Voluntary Savings (million)	Districts	Total Capital Source (million VND)	Ratio of Savings/Total Capital Source
1	TYM	34,464	1,516	32,483	1,446	18	176,526	19.22%
2	CEP – HCM	113,843	41,650	97,588	10,553	44	424,408	25.48%
3	FPW-Thanhhoa	5,668	0	1,814	0	6	10,958	16.55%
4	Binh Minh-SEDA	4,644	327	2,212	135	3	11,298	20.77%
5	PTKT- HCM	7,524	7,524	3,207		24	35,632	9.00%
6	MFI -Tuyenquang	18,007		4,352		5	40,585	10.72%
7	Fund for poor women - Hatinh	30,162		8,606		8	55,672	15.46%
8	Vietnam - Bilgeum project	41,050		21,009	3	17	69,350	30.30%
9	total semi-formal MFIs	352,437	76,835	207,830	23,949	211	970,885	23.87%

Source: MFWG and Vietnam MFIs Survey Group

The compulsory savings of semi-formal MFIs is much bigger than voluntary ones. However, the compulsory savings ratio only makes up 21.4% of the total capital source. The capital mobilization from voluntary savings in semi-formal MFIs is very little (see Table 3). In general, the voluntary savings ratio only makes up an average of 2.47% of the total capital source of semi-formal MFIs.

## 5.2. Formal Rural Financial Institutions Outstanding Savings

Statistical evidence provided in Table 4 indicates that all formal rural finance institutions expanded capital mobilization in rural areas with remarkable growth between 2001 and 2009. The growth rate of capital mobilization in VBARD and PCF was on average about 23.5% and 28.16% per annum respectively, although there was a sharp decrease in VBSP capital mobilization growth rate.

&lt;Table 5&gt; Outstanding savings of formal rural financial institutions

Unit: Billion VND

Year	VBARD		VBSP		Grass root PCF	
	Rural savings	+/- (%)	Savings	+/- (%)	Savings	+/- (%)
2001	30,977				2,126	
2002	34,270	10.63			2,548	19.85
2003	57,530	67.87	637		3,228	26.66
2005	68,842	13.64	1,718	15.22	5,157	23.09
2006	80,991	17.65	680	-2.21	6,714	30.20
2007	98,769	21.95	861	-48.75	9,240	37.62
2008	123,497	25.04	320	-62.83	12,329	33.43
2009	155,554	25.96	28	-91.25	15,368	24.65

Source: Data from VBARD, VBSP and PCF

Despite the general increase in savings over this period, the mobilized savings were not sufficient to meet the rural credit needs. For instance, the rural savings mobilization by VBARD only covered 85% of the total credit needs in rural areas, while PCF and VBSP covered 81% and 3.5% respectively. Due to the fact that these formal MFI could not sustain the rural savings mobilization, they had to resort to external capital mobilization in order to meet the required rural credit needs. Table 5 and Figure 2 shows VBSP and VBARD external capital mobilization from for example, urban branches and other financial institutions in Vietnam or abroad through issuing bonds, deposit certificates and other valuable papers.

and 72.03% respectively). In spite of this increase in fund mobilization, the absolute value was small when compared to the loan outstanding source. Perhaps, this could be due to the VBSP operation regime which is non-profit oriented in nature.

### 5.3. Formal MFIs Outstanding Loans

Unlike VBSP, VBARD is the largest credit institution that provides microfinance to rural communities in Vietnam. Figure 2 below presents VBARD microfinance outstanding loans. However, despite operating in 64 provinces nationwide, VBARD's loans were by and large small. In addition to that, 40% of VBARD's clients borrow from 0 to 5 million VND while about 35% borrow from 5 to 10 million VND. The statistics in Figure 2 indicate that outstanding loans that were less than 5 million VND in value accrued a total value of VND 1,375 billion while that which was greater than 100 million earned VND 278,791 billion of the total portfolios.

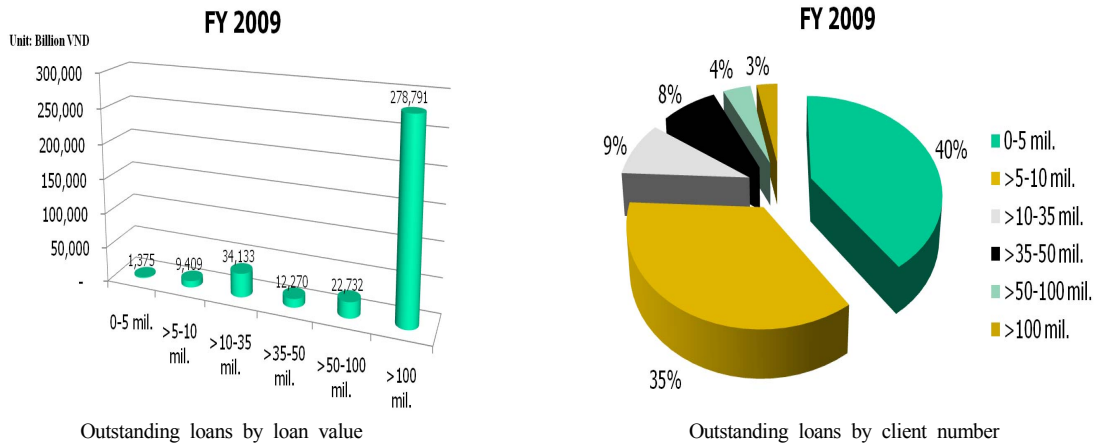
&lt;Table 6&gt; VBSP capital mobilization structure

Unit: Billion VND,%

Capital source	2003	2004	2005	2006	2007	2008	2009	Average
Total fund mobilization	9,197	13,205	17,005	20,823	30,090	46,832	40,240	
- Borrowings from SBV	1,531	1,661	1,641	1,621	4,821	7,796	16,796	
+ Ratio	16.65	12.58	9.65	7.78	16.02	16.65	22.6	13.22
- Deposits and borrowings from other credit institutions	918	2,681	4,966	6,579	12,431	16,91	8,64	
+ Ratio	9.98	20.30	29.20	31.59	41.31	35.43	10.8	27.97
- Deposit 2% of credit institutions	3,043	4,036	4,696	5,940	8,019	13,092	11,793	
+ Ratio	33.09	30.56	27.62	28.53	26.65	27.96	15.8	29.07
- Resident deposit	637	1,491	1,718	1,680	2,000	1,114	1,005	
+ Ratio	6.93	11.29	10.10	8.07	6.65	2.38	12.3	7.57
- Entrusted fund for investment	534	721	1,010	1,204	1,656	2,102	582	
+ Ratio	5.81	5.46	5.94	5.78	5.50	4.49	0.8	5.50
- Bond issuance			30	30			2,000	
+ Ratio			0.18	0.14			2.7	0.16

Source: Figures from VBSP

It can be seen that the growth of VBSP capital source was mainly a result of 2% deposit from state-owned credit institutions, deposits and borrowings from other credit institutions, resident deposits and entrusted fund for investment. The deposits and borrowings from other credit institutions gained the highest growth rate and ratio (27.97%



<Figure 2> VBARD Microfinance outstanding loans as of 31st Dec 2009

Table 6 below represents the outstanding loans for three formal MFIs operating in rural Vietnam. The statistics indicate that overall these formal MFIs expanded their rural lending remarkably between 2001 and 2009.

<Table 7> Formal MFIs Outstanding Loans

Unit: Billion VND

Year	VBARD		VBSP		Grass root PCF	
	Outstanding Loans	+/- (%)	Outstanding Loans	+/- (%)	Outstanding Loans	+/- (%)
2001	35,432		6,194		2,559.1	
2002	54,618	54.15	6,832		3,089.1	20.71
2003	70,320	28.75	10,376	51.87	4,049.6	31.09
2004	90,713	29.00	14,271	37.54	5,087.7	25.63
2005	93,000	2.52	18,355	28.62	6,433.0	26.44
2006	112,411	20.87	24,139	31.51	8,209.4	27.61
2007	134,377	19.54	34,862	44.42	10,832.0	31.95
2008	151,090	12.44	52,511	50.63	14,142.0	30.56
2009	182,350	20.69	72,660	38.37	18,618.0	31.65
Average		23.49		40.42		28.21

Source: Data from VBARD, VBSP, PCF

Table 6 indicate that the average growth rate of outstanding loans for VBSP, VBARD and the central PCF between 2001-2009 was 40.42%,23.49% and 28.21% respectively. Overall, these results demonstrate that formal MFIs managed to expand micro credits to the rural communities in Vietnam.

#### 5.4. Semi-Formal MFIs Outstanding Loans

The statistics in Table 7 indicates that lending which was the main semi-formal MFIs activities, accounted for the largest ratio in total asset.

The total outstanding loans of semi-formal MFIs make up 93.74% (over VND 910 billion) of the total assets. Most of the semi-formal MFIs credit source was group lending (45.44%). The two largest semi-formal microfinance providers were CEP and TYM which consisted of 80 - 90% of the outstanding loans in total assets.

#### 5.5. Evaluation of MFIs Operations in Vietnam

There has been tremendous growth in the number of clients who benefited from formal rural financial providing institutions in Vietnam. By 2009, both VBARD and VBSP had branches and transaction offices in all 64 provinces nationwide with the PCF absent in only in 9 provinces while NGOs supporting micro financing were present in 36 provinces. Table 8 below provides the statistics on the number of customers that the major MFIs provide micro credits in rural Vietnam.



&lt;Table 8&gt; Semi-Formal MFIs Outstanding loans as of 2009

No.	Name	Total Clients	Active Clients	Total Outstanding Loans (Million VND)	Group Lending (Million VND)	Individual Lending (Million VND)	Total Asset(Million VND)	Outstanding Loans/ Total Asset (%)	Group Lending / Total Loans (%)
1	CEP – HCM	118,955	107,867	388,230	0	388,229	424,408	91.48	0,00
2	TYM	34,464	33,932	140,174	91,044	49,130	176,526	79.41	64,95
3	Vietnam - Belgium Project	41,050	40,890	59,416	59,416	0	69,350	85.68	100,00
4	Fund for Poor Women - Hà Tĩnh	30,162	25,493	51,341	51,341	0	55,672	92.22	100,00
5	Microfinance - Tuyên Quang	18,007	15,379	38,222	31,418	6,804	40,585	94.18	82,20
6	Fund for Economic Development- HCM City	7,524	7,524	31,553	13,414	18,139	35,632	88.55	42,51
7	CEP- Bà Rịa Vũng Tàu	8,069	7,284	17,928	17,928	0	21,060	85.13	100,00
8	M7 Đông Triều	6,408	4,530	13,577	13,577	0	13,602	99.82	100,00
9	Others	106,903	76,428	129,685	118,811	10,874	134,049	97.00	92,00
	Total	371,542	319,291	870,126	383,535	486,591	970,884	90.00	44,00

Source: MFWG and Vietnam MFIs Survey Group

&lt;Table 9&gt; Number of Customers Benefiting from MFIs in Vietnam

No	Organizations	Total number of Customers	Number of Active Customers	The rate of Active Customers/Total Customers (%)
1	VBARD	4,257,183	4,195,271	98.55
2	VBSP	7,536,960	7,536,960	100.00
3	PCFs	1,503,333	953,736	63.44
4	Total number of MFIs	371,542	319,291	85.94
	Of which			
4.1	TYM Fund	34,464	33,932	98.46
4.2	CEP-Ho Chi Minh	118,955	107,867	90.68
4.3	FPW- Province of Thanh Hoa	5,668	5,668	100.00
4.4	M7 Uong bi	6,742	3,587	53.20
4.5	Microfinance of Tuyen Quang	18,007	15,379	85.41
4.6	Development Fund for poor women, province of Ha Tinh	30,162	25,493	84.52
4.7	Vietnam – Belgium Project	41,050	40,890	99.61

Source: MFWG and Vietnam MFIs Survey Group

The statistics provided in Table 8 show that VBSP had the largest number of customers, accounting for about over 7.5 million

households. In addition to that, almost 100% of these households were active borrowers. VBARD followed second with about 4.2 million customers and of which 4.1 million were active borrowers. The People's Credit Fund which was third had about above 1.5 million customers. The semi-official MFIs customers were about 371 thousand.

A report by the World Bank in 2008 showed that the micro-finance market in Vietnam constituted of 24 million poor and low income people or 5.4 million low-income households (LIHs). The report further confirmed that approximately 70% to 80% of the poor people in Vietnam had access to microfinance services, at least at the level of using credit and deposit services provided by formal institutions, such as: Vietnam Bank for Agriculture and Rural Development, Vietnam Bank for Social Policies and People Credit Funds.

## 5.6. Viability and Sustainability of Micro-Finance Institutions in Vietnam

In Vietnam microfinance institutions receive assistance ranging from direct capital funding as a grant or a funding without interest (e.g. VBSP or NGOs), to indirect aid that lowers interest rates and technical assistance (e.g. VBARD, PCFs, NGOs). Table 9 below provides statistics on operational self-sustainability (OSS) and financial self-sustainability (FSS) of MFIs in Vietnam as of June 30 2009. The statistics were generated by the authors based on the survey data obtained from VBARD, VBSP, Central PCF and MFIs.

<Table 10> Performance of MFIs as of June 30th 2009

Name of organizations	Operational Self Sustainability OSS (%)	Financial Self Sustainability FSS (%)
VBARD	170	96.9
VBSP	99.89	48.8
Central PCF	106.7	95.7
Average level of 9 major MFIs	164	96
Of which		
CEP – HCM	196	111
TYM	166	90
M7 Can Loc	152	86
FPW Thanh Hoa	160	69
Plan Int.	185	115

Source: Author's Generated Statistics based on VBARD, VBSP, Central PCF and MFIs Survey Data

While most credit institutions and MFIs in Vietnam have not reached international standards for assessing operational self-sustainability (OSS) and financial self-sustainability (FSS) which is  $OSS \geq 120\%$  and  $FSS \geq 100\%$ , the 9 major MFIs' self sustainability is very impressive ( $OSS = 164\%$ ,  $FSS = 96\%$ ).

Based on the data provided by MFIs and the statistics generated by the authors from the survey data collected (microfinance statistic

and information exchange - the Mix), the 2 indicators, that is, ROA and ROE of MFIs in Vietnam have been on the increasing trend irrespective of whether the MFIs had independent legal status.

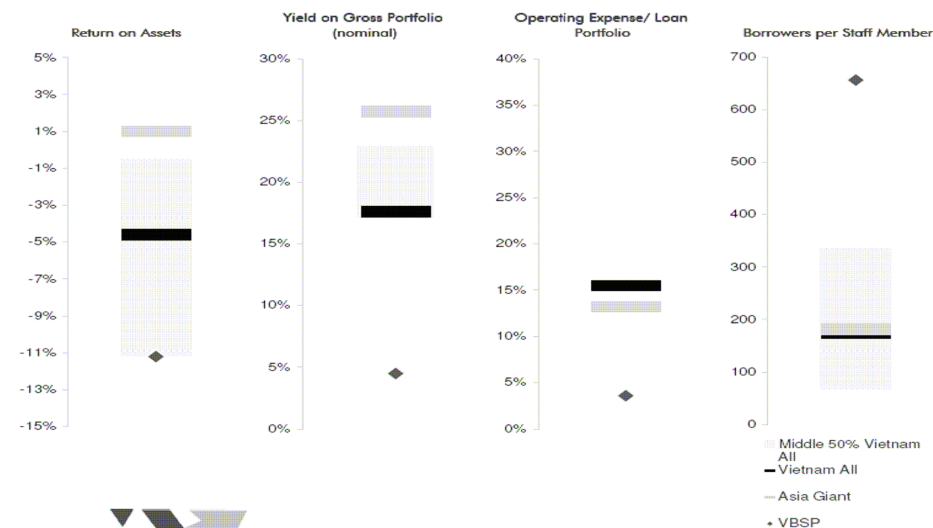
<Table 11> ROA and ROE indicators of typical MFIs and VBSP

Unit: %

Name of MFIs	ROA				ROE			
	2005	2007	2008	2009	2005	2007	2008	2009
CEP	6.65	6.68	10.06	11.55	12.14	13.01	27.55	34.43
CEP BRVT		8.17	15.63	17.22		21.57	44.32	41.97
FPW Thanh Hoa	5.47	3.18			5.78	3.55		
TYM	2.66	5.80	7.83	7.36	4.68	11.36	22.31	19.36
M7 Can Loc		7.34	0.22			19.43	0.59	
M7 DB District		7.22	-0.89			10.41	-1.32	
M7 DBP City		6.01	-0.24			12.75	-0.50	
M7 Dong Trieu		4.96	-0.76			10.66	-1.69	
M7 Mai Son		3.89	0.48			9.05	0.86	
M7 Ninh Phuoc		4.61				8.22		
M7 Uong bi		6.47	-0.45			13.61	-0.99	
VBSP	-4.57	-2.91	-2.33		-15.35	-10.23	-8.39	

Source: Author Generated Statistics based on "The Mix"

Drawing from the ROA and ROE statistics provided in Table 10 for MFIs in Vietnam, there was a general upwards increase for VBSP, TYM fund, CEP and M7s, even though VBSP figures were negative. However, when compared to international practice and commercial banks, the ROA and ROE of MFIs can be considered reason



<Figure 3> Comparison of Performance of MFIs in Vietnam and Asia



ably high. In most instances, the average ROA and ROE for commercial banks are 2% and 20% respectively. By and large, while formal microfinance institutions have tended to move towards stability and financial sustainability, most microfinance projects in Vietnam have not shown this clearly. Perhaps the reason could be that, since the microfinance projects have no formal legal status it could be difficult for them to mobilize funds and develop capacity.

## 6. Conclusion and Future Research

This paper has argued first that microfinance is an important social and developmental tool to reduce poverty in rural communities of Vietnam. However, for this to happen, the poor rural communities should have access to micro credits. Against this backdrop, an attempt is made in this paper to examine the micro finance outreach by both formal MFIs and semi-formal MFIs in Vietnamese rural communities. As for the formal MFIs, the operations of three major rural micro credit providers – VBARD, VBSP and PCF were examined while CEP, TYM, FPW of Thanhhoa Province and M7 operations were among the semi-formal MFIs providing micro credits to rural Vietnamese that were explored. The surmounting evidence from this research show that 82% of the rural communities had access to one or another form of microfinance, an indication that micro finance outreach under the period of investigation were well pronounced.

The current study also sought to investigate whether the microfinance outreach in Vietnam is sustainable. However, while this is too early to tell with certainty, there is growing evidence that with government support in the form of subsidies, most MFIs are likely to be sustaining their micro finance provision to the poor rural communities of Vietnam. Yet, it still remains to be seen whether the Government of Vietnam can continue subsidize the MFIs for a foreseeable future or whether the international non-organizations (INGOs) through bilateral and multi-lateral government agreements will manage to provide the much needed funds to support micro finance programs in Vietnam.

This evidence provided in this study, is based on a research project that was undertaken by a team of MFIs researchers in Vietnam. In particular, a mixture of sample surveys, focus group discussions, and in-depth case studies were used to compile the evidence. This approach was adopted in order to ensure both breadth and depth of understanding, the scope for micro finance outreach programs in rural communities of Vietnam, the achievements made and the sustainability of the MFIs by utilizing the possible benefits of analysing the data in combination with data from different sources – the triangulation approach. However, the study mainly restricted itself to the evidence found for the duration between 2001 and 2009. Since then, some developments have occurred in Vietnam's microfinance sector, and therefore it is imperative that future researchers take note of this.

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