The Role of Microfinance for Developing Agricultural Economy and Designing a Sustainable Microfinance System in Vietnam

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ABSTRACT

Microfinance is considered a powerful tool in Vietnam’s economy. The current paper discusses the crucial roles that microfinance played in the economic and social affairs of the Vietnamese. This paper asserts that microfinance contributes to Vietnam society in several ways, including the development of the agricultural economy, assistance of poverty reduction in rural communities, the maintenance of stability in the agricultural financing market, and the provision of financial education and professional consultation to local residents. However, several critical issues regarding microfinance need to be addressed in current Vietnam; that is, a lacking economy of scale, a comparatively lower market share than commercial finance system, the low knowledge level of locals who participate in microfinance system, and low expertise level of managers in microfinance institutions. The country is also lacking a vibrant legal framework and supportive government policies to create an enabling environment for microfinance. Finally, the authors propose several suggestions and operational strategies for Vietnam’ microfinance institutions to provide optimal service and remain sustainability.

Keywords: microfinance, microfinance institution, microfinance system, agricultural economy in Vietnam, rural communities in Vietnam, poverty reduction in Vietnam

MICROFINANCE IN VIETNAM

Microfinance has increasingly attracted attention from the global development community because it is considered a powerful tool in poverty alleviation strategies in developing countries (Microcredit Summit 2004). In Vietnam, microfinance services are delivered by three types of providers: informal, semi-formal, and formal service providers. Each type of service provider is described briefly below.

Informal Service Provider

The informal microfinance providers include moneylenders, relatives, and Rotating Credit and Saving Association (ROSCAs). Until the mid-1990s, the informal sector has been the most important source of credit for Vietnamese households, especially in rural areas. According to the results of the Vietnam Living Standard (VLSS) 1992 survey, 73 percent of rural credit was provided by the informal sector. Although its role in rural credit has been declining, owing to the expansion of the formal and semiformal sectors, informal credit providers still play an important role in the development of rural Vietnam with more than 30 percent of the credit market recorded in the VLSS of 1998. The main advantage of informal credit suppliers is the simple loan procedure. Loans from the informal sector can also be applied for consumption purposes. Furthermore, the cost of informal credit has been affordable to
borrowers, although it usually has interest rates up to three times higher than the interest rates of formal banks. While loans from ROSCAs, relatives and friends were interest-free, most private money lenders charged reasonable rates given the high transaction cost and high risk of providing credit to the poor (UNDP, 1996a).

**Semi-Formal Service Provider**

The semi-formal players in microfinance include non-bank institutions, which are authorized to provide finance services, but are not allowed to mobilize savings from non-members. The main service providers in this sector include Mass Organizations (MOs), Non-Governmental Organizations (NGOs), and the credit component of national programs for poverty alleviation. Apart from capital resources, the NGOs also often brought along international experience on financing to the poor. However, microfinance is not the only objective for many NGOs. Often, microfinance was integrated with other activities or it was used as an entry point to implement other activities (UNDP, 1996b). In addition, NGO microfinance programs focus on saving mobilization. The credit component of NGO programs were often operated in remote areas and focused on providing small short-term loans with regular installment repayments. Because of their small scale, the contribution of NGOs to the rural credit market has been modest, at 4.94 percent of the total loan portfolio (GSO, 2000).

Meanwhile, MOs mainly play the role of executers in NGOs programs and the government. Apart from the integrated NGO programs mentioned above, government programs, in which MOs were involved, were directed toward poverty alleviation. In these programs, MOs assisted the government in disbursing loans to target groups. In addition, MOs acted as brokers for the Vietnam Bank for the Poor (VBP), owing to their extensive network.

**Formal Service Provider**

The involvement of formal players in microfinance began with the establishment of the VBP in 1995. With the advantage of cheap credit subsided by the government, the VBP has rapidly increased its outreach to poor households. For example, VBP provided credit to 0.6 million low-income households in 1998 (Llanto, 2000). Apart from cheap credit, the increasing outreach of the VBP was partly due to its strategy to use the existing network of the Vietnam Bank for Agriculture (VBA) branches. Despite the massive outreach, the VBP was criticized by NGOs community and some donors such as Llanto (2000) for ignoring the financial sustainability and distorting the market with its extreme low interest rate. However, Izumida (2003) pointed out that NGOs and other microfinance institutions also receive interest-free or subsidized interest funds from donors but are facing no criticism.

People’s Credit Funds (PCFs) were reorganized from credit cooperatives established during the central planning period from 1954 to 1986. According to Hung (1998), PCFs were established on the model of the CaissePopulaire system in Quebec, Canada, with technical support from the Development International Desjardins (DID). The establishment of PCFs was conducted in a project funded by the Canadian International Development Agency (CIDA) and supervised by the State Bank of Vietnam. In 1998, it was estimated that there were 900 PCFs with an aggregated capital of VND 41,158 billion (USD 1,931.64 million) providing services to 0.6 million households.

**The Microfinance Market in Vietnam**

The Vietnamese microfinance market is segmented. That is, it is several markets with some overlap among one another. The most useful breakdown is typically to divide households into those who can
access the Vietnam Bank for Agriculture (VBARD) and those who cannot. The poor are mostly excluded from the attractive formal market of the VBARD. Aside from what may be once-off “loans” from the Vietnam Bank for the Poor (VBP), poor households must turn to relatives or private lenders for loans. For the poor, widespread and regular access to loans at interest rates somewhat below private lenders would be of great value. In Vietnam, some providers of microfinance have failed to provide this service because, trapped in a microfinance-as-charity vision, their small schemes can grow only with proportionate increases in subsidies. In such cases, a very small percentage of the poor get cheap credit while the remainder are left to deal with moneylenders.

Recently, the Vietnamese government has encouraged credit provisions to rural regions through regulating policies such as streamlining procedures related to mobilizing capital and lending to rural areas, erasing financial policies that discriminate between customers in state-owned and nonstate-owned sectors, applying policies with flexible and suitable interest rate to attract deposits, and loans and gradually reducing preferential loans in order to direct financial resources toward the poverty-stricken rural communities. By and large, in recognition of the important role played by microfinance institution on poverty alleviation in rural communities, the Government of Vietnam directly began to develop this sector by subsidizing rural credit and supporting financial intermediaries providing micro-credit to the rural poor. Key institutions used by the Government of Vietnam for this purpose were the Vietnam Bank for Agriculture and Rural Development (VBARD), Vietnam Bank for Social Policies (VBSP), and People’s Credit Fund (PCF). To date, these credit institutions have come to cover more than 95% of the credit market in the agrarian rural communities of Vietnam. VBARD, which is state-owned, has the largest network nationwide with 2,096 branches. Because of its large network base, it has managed to channel government subsidized loans to a large pool of poor rural households operating small businesses. VBSP which is ranked as the second largest micro-credit institution in Asia, currently operates 63 provincial branches, 612 transaction offices in districts, 8,495 communal mobile transaction points, and manages 239,647 savings and lending groups with more than 8,000 staff members who provide preferential credit to the poor rural households in Vietnam. PCF has 1037 local staff members operating at grassroots level among the rural agrarian communities in Vietnam.

THE ROLES OF MICROFINANCE SERVICE TOWARD DEVELOPING AGRICULTURAL ECONOMY AND ASSISTING RURAL COMMUNITIES IN VIETNAM

With a population of around 86 million people, nearly 70% of the Vietnamese population lives in rural areas (Barslund and Tarp, 2008). Of this rural population, 13.7 million households reside in rural agricultural communities as of 2007 records (General Statistics Office, 2008). Furthermore, about 1.6 million of these households were reported to be in business and, therefore, account for nearly 50% of the total households doing business countrywide (Barslund and Tarp, 2008). The average income per head for the rural households in Vietnam is VND 6.1 million (USD 286.29) per annum (General Statistics Office, 2010). In comparison with the national average income per capita, these households’ incomes are still below the poverty datum line (Asia Development Bank, 2010). According to the figures released by the General Statistics Office on December 31, 2007, Vietnam had about 3 million of its people at risk of starvation (General Statistics Office, 2007). Moreover, when compared to the households dwelling in urban areas, the living standards of rural households are well below their urban counterparts; thus, high levels of rural poverty have remained a challenge and major concern for the Vietnamese government. Recently, the government’s introduction of reforms in agricultural policy has brought splendid growth to
Vietnam’s agriculture economy. Before Resolution No. 10 in 1988, Vietnam lacked food and had to import rice. Since 1989, Vietnam became a large rice exporter. However, problems remain for Vietnamese farmers. First, Vietnamese farmers live in poverty because there is only a small cultivation area per household. Second, agriculture is the industry that is most affected by nature. Due to production risks and high transaction costs caused by those problems, commercial banks have a tendency to avoid lending to individual farmers. As a result, financial institutions were created to help individual farmers adjust to the market economy.

**Poverty Reduction**

During the past 20 years, microfinance has been an important component in the poverty reduction projects of the government and development agencies in Vietnam. A number of microfinance project evaluations and previous research such as UNDP (1996), Seibel and Kunkel (1997), Hung (1998), Llanto (2000) and McCarty (2001) have provided some evidence that microfinance is an effective tool to help the poor get out of poverty. In addition, the statistical figures from the Vietnam Living Standard Survey (VLSS) showed that the poverty rate in Vietnam dropped from 58 percent in 1993 to 37 percent in 1998 (GSO, 1994; 2000). During this period, the percentage of the rural population having access to credit also increased significantly from 23 percent in 1993 to 40 percent in 1998. Therefore, it is widely believed that microfinance has contributed positively to the reduction of poverty in Vietnam.

The direct microfinance support rendered to the rural poor by the Vietnamese Government has also encouraged the active mass participation of NGOs such as the Labor Union, Farmers’ Association, Veteran’s Union, Vietnam Women’s Union (VWU) etc., in microfinance activities. According to a survey report of 30 provinces, VWU manages 557 programs/projects with a capital base of VND 244.2 billion (USD 11.46 million) and 172,089 participating members. In addition to local NGOs microfinance activities, international development agencies from countries such as Sweden (Swedish International Development Agency), and international development organizations such as United Nations Development Program (UNDP), United Nations Population Fund (UNPF), United Nations International Children’s Fund (UNICF), and the international non-governmental organizations (INGOs) also now coordinate microfinance projects targeted at benefiting the poor and combating rural poverty. Among INGOs implementing microfinance projects, those with more than 10,000 members in rural communities are Save the Children Fund (SCF) and Action Aid Vietnam (AAV).

In addition, Vietnam’s rigorous attempts to develop the market economy in recent years have widened the gap between the rich and the poor. According to the report released by the Ministry of Labor on Oct. 17, 2013, the polarization between the rich and the poor increased from 9.2 (2010) to 9.4 (2012). Microfinance institutions are one of the solutions to reduce that gap; these institutions provide professional consultation services and low-interest loans to farmers, providing them with the power to escape from poverty. As income and living standards improve, people’s trust in the government increases. When the poor are able to help themselves escape from poverty with the assistance of microfinance institutions, the government can move the resources originally used in poverty reduction policies to other projects to enhance national development.

**Maintaining Stability in Agricultural Financing**

Currently, there are three financial institutions providing credit for individual households in rural Vietnam. The first is Agribank, which plays a major role in financing for households in rural Vietnam. Agribank became independent of the SBV (State Bank of Vietnam, the central bank) in 1988, and had
begun to serve loans for households in earnest from the 1990s. At the end of 2005, 58% of Agribank’s outstanding loans had been served to individual households, 30% for private enterprises and cooperatives, and 12% for state-owned enterprises. Agribank in principle lends money on collateral. However, decision No. 67, dated March 30, 1999, issued by the Prime Minister, permits an individual household to borrow an amount less than 10 million VND (about 717 USD) from Agribank without collateral. The average loan per household was about 2.5 million VND in 1998 and had increased to about 10.3 million VND (around 795 USD) in 2005. The reason for the increasing loan size is probably that many households have been able to borrow money from Agribank without collateral because of decision No. 67. Agribank has its headquarters in the capital and has local branches at the provincial, district, and commune levels all over Vietnam. In terms of fund mobilization, customer deposits account for 91.5% of total fund resources in 2005. It is therefore safe to say that Agribank is a self-sustaining institution despite being a state-owned bank.

The second system is the Vietnam Bank for Social Policies (VBSP), which is the state-owned bank that provides preferential credit to the poor and other social policy beneficiaries. It was originally established as the Vietnam Bank for the Poor (VBP) in 1995, in order to provide low interest credit without collateral to poor households. The standard of “poor households” that can obtain the VBP/VBSP’s loans is regulated from time to time by the government under the national Hunger Eradication and Poverty Reduction program (HEPR). For example, the standard from 2001 to 2005 was households whose income per capita per month was less than 80,000 VND (3.75 USD) in mountainous and island rural areas, less than 100,000 VND (4.69 USD) in rural areas in the delta regions, and less than 150,000 VND (7.04 USD) in urban areas. The VBP/VBSP provides loans for poor households through joint liability groups called Saving and Credit Groups (SCGs) in collaboration with mass organizations such as the Farmers’ Association and the Women’s Union. After decision No. 67, Agribank also has recommended borrowers to formulate groups in collaboration with mass organizations. The VBP had no local branches and instead used Agribank’s branches and employees.

This system forced Agribank to carry excessive workloads and interfered with its sustainable management. The Vietnamese government therefore reorganized the VBP as the VBSP and added loans for other social policy beneficiaries onto its mission statement in 2002, under the principle of separation between policy and commercial lending. The VBSP now has branches in all provinces and some districts. Although the VBSP endeavors to mobilize deposits from customers, this accounted for only 11.5% of its total liabilities in 2005. The major part of total liabilities, 67.7%, is borrowed from other credit institutions. This is due to the government’s provision that the state-owned credit institutions are annually obliged to deposit at the VBSP the equivalent of 2% of their mobilized funds from the previous year. In other words, VBSP funding is mainly supported by the government.

At the end of 2005, 81% of the total amount of the VBSP’s outstanding loans were served for poor households, 14% for job creation, 1.8% for safe water and rural environment sanitation, and 1.4% for migrant workers. The VBP stipulated that borrowers must use loans only for productive purposes, but the VBSP allows borrowers to use loans for unproductive purposes such as housing and schooling. This is probably because the authorities had to confirm the present situation that many borrowers use loans for unproductive purposes despite the bank’s prohibition. A study in the Red River Delta pointed out that the majority of VBP loans were meant for daily use (Le Roy and Robert, 1999).

After the adoption of agricultural renovation policy, old credit cooperatives established under the centrally-planned economy rapidly collapsed. In 1993, the Vietnamese government set up the third network of new credit cooperatives named People’s Credit Funds (PCFs), which adjusted to the market
economy. Each PCF at the commune level is its own legal entity and is managed independently. Anyone is eligible to save money in his or her favorite PCF. Now about 20% of total deposits are mobilized from non-members and only members in principle have access to PCF loans. Each PCF can lend money to non-members who are poor in its commune on the condition that the loan-outstanding for this type does not exceed 10% of its total loan outstanding. At present, about 8% of total loans outstanding are of this type. In 1995, PCFs set up the central unit, the Central People’s Credit Fund (CCF) to assist PCFs in the network, especially in mediating between the funds within the network by lending to and receiving deposits from PCFs.

Usury was prevalent in the past in Vietnam; currently, the interest rates range from 10% to 15% per month (according to a report released by the State Bank of Vietnam on Jul. 9, 2013), forcing numerous farmers to sell rice that has not fully grown. By providing microloans, credit unions help numerous farmers escape from poverty and achieve high living standards. In the past, the majority of the microfinance loans have been short-term loans, accounting for approximately 84.4% of all term types. However, the credit structure of credit unions has gradually changed, and the number of mid- to long-term loans have increased, enabling members to purchase new equipment, improve production technology, construct factories, and expand operations to meet large funding demands and to coordinate investment opportunities with local development policies. Since 2012, mid- to long-term loans have increased. For example, concerning the credit union system, the overall loan growth rate in 2012 increased 16.7% compared with 2011, and the ratio of mid- to long-term loans increased by 144.7%. The objective of mid- to long-term loans was mainly to provide credit union members with capital investment funding to purchase machinery and equipment to develop the agricultural industry. This indicated the critical role that credit unions play in the economic development of rural areas in Vietnam. Regarding the quality of loans, according to the report released by the State Bank of Vietnam, the nonperforming loan ratio among the overall financial institutions in Vietnam in 2012 ranged between approximately 8%–10%; the nonperforming loan ratio among credit unions was substantially lower than that of other financial institutions, which fell at approximately 0.7%. Moreover, in 2012, the total profit earned by credit union systems in Vietnam was approximately VND660 billion (approximately VN$600 million per credit union), which was an increase of 36% compared with the previous year. In Ho Chi Minh City, for example, 89% (17/19) of the credit unions earned profit and paid a dividend rate that exceeded the deposit rates (approximately 14%–20%). Numerous credit union members escaped from poverty and their businesses became positive business models because of the support they had received from the credit unions. These results all indicated that the credit union system can help promote stable financial development in rural areas of Vietnam.

** Provision of Financial Education and Professional Consultation  
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Microfinance institutions also play the crucial role of education providers in Vietnam, in which they provide business management advice to local residents and gradually elevate the education level of people and communities. The goal of credit unions is not to maximize profits, but to facilitate the development of their members and the economic society and to use investments to promote the development of small and medium enterprises alongside other socioeconomic projects, creating employment opportunities in the local regions of Vietnam. In addition to providing funding for investments, microfinance institutions offer educational services to investees. These educational services include counseling about operation and production methods, communicating government policies, and training the management of small and medium enterprises. The credit unions in the rural areas of Vietnam...
can instantly, comprehensively, and accurately reflect the state of economic activity of the community by conducting a variety of business activities and providing information to the local and financial decision-making departments to facilitate effective decision-making. Credit unions can also, during interactions with members and clients, offer recommendations or guidance regarding business projects, the scale of investments, development direction, and financial management. If the members or clients violate business regulations, the credit unions can help them overcome these problems by properly monitoring them, improving overall social efficiency.

CRITICAL CONCERNS REGARDING MICROFINANCE IN CURRENT VIETNAM ECONOMY

The development of microfinance in the economic system of Vietnam is currently facing several problems that mainly comprise business issues and human issues: business issues include low economies of scale and low market share and human issues primarily consist of regulation deficiencies, lack of competent authority, low levels of compliance, and the lack of professional knowledge among managerial personnel. The positive and negative effects of education on the children of poor families also remain to be determined. Scholars have also proposed their views regarding this topic. These views are described below.

Business Structure and Environment

The business structure and environment of Vietnam is characterized by low economies of scale, in which the average registered capital is approximately VND356 million. Other problems include a generally poor business environment, absence of deposit insurance, and various types of business violations such as illegal loans to nonmembers, loan purpose errors, prospective borrower errors, excess nonlocal capital, outstanding loans exceeding 15% of the capital account, interparty loans, and high outstanding loan ratios. Concerning credit union members, those who join credit unions are those who are economically disadvantaged. Each credit union operates independently and exhibits low economies of scale, scattered distribution, and low public awareness (few people are aware of the organization). Organizational problems include the lack of clearly defined managerial power resulting in the inability of managers to actively manage the organization; organizations that possess low economies of scale but complex structure; inappropriate actions by members of the board of supervisors (e.g., embezzlement); an inability of the central credit unions to regulate the overall system; and the lack of risk management and leadership to facilitate overall innovation. These are all crucial business structure problems that must be resolved by the microfinance institutions.

Low Level of Knowledge among Locals and Low Level of Expertise among Managers

Locals’ low level of compliance with regulations and managers’ low level of expertise hinder the development of microfinance institutions and may also encourage violations and deviations from institution operation. Furthermore, the general and management staff possess low levels of education. For example, concerning credit unions, statistics from 2002 indicated that only 20% of credit union members had received a college or university education while the remaining 80% had not received any related professional training. This resulted in a lack of understanding of the various areas of expertise regarding the operation and management of credit unions, particularly risk management. Although the State Bank of Vietnam continually provided credit unions with high-quality management staff in accounting and loans,
the supply was substantially less than the demand. Currently, all grass-root level microfinance institutions still experience difficulty in establishing stable and continuous training for professional personnel.

Policies and Regulations

We argue that the poor lack access to financial resources and, therefore, one crucial strategy for achieving pro-poor growth and poverty reduction is to increase the role of Micro-Finance Institutions (MFIs) in Vietnam. However, developmental economists have long noted the complexity of MFIs in providing an effective rural credit delivery system without a vibrant legal framework that creates an enabling environment. When compared to other sectors, it is extremely difficult for the microfinance sector in Vietnam to develop professionally and efficiently without some supportive government policies.

The existing regulations for the credit unions in Vietnam are no longer applicable; several of these regulations are outdated, unsuitable for the market economy, in violation of the autonomy, energy, and innovative spirit of the credit unions, or are overly regulated and thus hinder the establishment of credit unions as required by the locals. In addition, because of the lack of a stable supervision system, the basic principles of the credit unions (i.e., voluntariness, self-help, self-responsibility, and self-management) have not been fully realized or have even been denied by government regulations. These problems hindered numerous credit unions from active independent development and even forced the closure of several credit unions.

Debate about Impacts of Microfinance on Poor Household’s Education and Health

Credit may affect household demand for education and health in two ways (Armendariz and Morduch 2005). On the one hand, microcredit may help households earn higher income, which raises consumption and increases the demand for healthcare and children’s education. On the other hand, if microcredit causes higher female employment, it then may decrease children’s schooling if children have to replace mothers’ care of younger siblings or work in enlarged household businesses.

There is mixed evidence on these potentially opposing effects. Inadequate schooling in poor countries is often attributed to lack of access to credit since households facing adverse shocks and having insufficient access to credit may pull children out of schools to reduce household expenditure and increase labor income by increasing working hours, including child labor (Dehejia and Gatti 2002; Edmonds, 2006; Ranjan 2001). In addition, borrowing households may take children out of school to work in family businesses (Hazariika and Sarangi, 2008) because small loans, a typical type of loan for poor households, are often associated with higher interest rates and short-term repayment conditions; the loans therefore require high returns to repay high interest rates to lenders. To meet these requirements, poor borrowers may reduce their costs by using their own labor, which may include child labor.

However, the authors argue that the microfinance service may help keep household production stable and mitigate adverse shocks in Vietnam’s agricultural economy which may help to prevent school dropout and reduction in spending on healthcare. The positive effects on education and health are critical to sustainable poverty reduction in Vietnam since they affect the quality of the nation’s formation of human capital and the productivity of future generations.

PROVIDING THE OPTIMAL SERVICE OF MICROFINANCE IN VIETNAM

The microfinance movement can be roughly divided into two different approaches: financial sustainability-oriented and poverty reduction-oriented, although both share the same goal of improving the
welfare of the poor (Woller et al., 1999; Schreiner, 2002). The financial-sustainability approach focuses on commercialization of microfinance and increasing the breadth of service (i.e., number of clients). Meanwhile, the poverty-reduction approach focuses more on the depth of service (i.e., reaching the very poor and disadvantaged groups) despite the need for a long-term dependency on donors. The debate between the two approaches has not yet been resolved, although the financial sustainability approach has become more popular in microfinance practice in recent years.

**Balance between Poverty Reduction and Financial Sustainability**

The goal of microfinance is to improve the welfare of the poor. Therefore, poverty reduction is a good proxy to measure the fulfillment of that goal. However, because providing financial services for the poor often requires high transaction costs, microfinance practitioners need resources from donors to cover the shortfall between the revenue received from clients and the cost of the service delivery. Meanwhile, subsidy resources are scarce and the interest of donors in microfinance in the future is uncertain. Therefore, financial sustainability is the key factor that allows the poor, especially the poor of the future, to receive the financial services that they need. Thus a successful microfinance operation must meet both poverty reduction and financial sustainability requirements. This paper, therefore, takes the middle view that both financial sustainability and poverty reduction are important.

Moreover, the authors postulate that the development of a microfinance institution experiences certain stages such as infancy and maturity. Priorities placed upon the two main objectives of microfinance institutions differ in each stage. For example, in the infant stage registered MFIs need a subsidy from donors to cover establishment and operational costs. However, in the mature stage, it is required that a registered MFI be able to produce profit. It is therefore expected that the financial efficiency of these MFIs increases as they become more mature.

**Progressive Lending**

To reach sustainability and effective results on poverty reduction, an MFI should increase the outstanding loan size and client growth. It is necessary to ensure that as great a proportion of available funding as possible reaches the hands of the poorest. But they have to be able to maintain a strong loan portfolio quality. Progressive lending, which provides for increasing maximum loan sizes as borrowers progress from one loan cycle to another, is critical for both poverty-reduction and the attainment of self-reliance. But the maximum loan size of subsequent lending cycles should be linked to the repayment performance in the existing cycle. The subsequent loan size declines by a pre-determined amount for each dropped repayment and, after a number of dropped repayments, the borrower is no longer eligible for a subsequent loan.

**Fulfilling the Target Groups’ Needs**

To reach sustainability, a microfinance institution should attract new clients and maintain the commitment and participation of existing clients. This means that the financial services being offered must be designed to meet the needs of the target group. No identical replications of existing schemes are advisable. A successful experience can be a total failure if copied into another context. The schemes should have possibilities for personalized services. Not all clients will progress at the same speed. There should be different loan and savings products for clients of differing abilities and with different demands. A scheme must be a flexible instrument that easily can be adapted to local circumstances and demands.
Loan and saving products should be checked regularly to see if they still meet the demand and, if necessary, new loan or saving products should be introduced.

**Procedures Efficiency**

Complicated and time-consuming procedures to obtain loans from the formal sector are considered as a major obstacle for poor people. In many developing countries, ‘cheap loans’ schemes at subsidized interest rates have been introduced by the formal sector intended to reach the poor. But in practice, these often don’t reach the poor. Low-income entrepreneurs have shown willingness and ability to pay interest rates higher than commercial banks for services that fit their needs. It seems that the poor value access to credit more than the low cost of credit. If people need money, they generally need it urgently. Just because of the easy access, people often tend to find informal moneylenders more convenient and flexible than formal commercial or state institutions, even the former charge much higher interest rates. Therefore, microfinance services should be easily accessible. The credit should be “nearby” and easy and quick to get. But not only the access to credit is important for the borrowers, what they really need is a combination between financial and non-financial services. These non-financial services should include information and training.

**Administrative and Staff Efficiency**

Access to timely, accurate, and detailed information on the overall performance of a micro finance institution is required if sustainability and self-sufficiency are to be reached. Therefore, Management Information Systems (MIS) should be introduced in every program, which is the piloting tool of the financial institution. They can be manual, computerized through spreadsheet, or computerized through advanced computer software. A cost-effective MIS should generate both financial and operational information. Moreover, well-managed micro finance institutions have administration cost rates ranging from 15% to 25%, regardless the lending methodology. These include aspects such as travel costs, reporting system, equipment maintenance, and salaries. Salary and salary-related expenses usually represent a significant bulk of total administrative costs. The staff must perform as productively and efficiently as possible, while maintaining the quality of their work. Managers should carefully monitor and measure field staff performance and productivity. The best practice indicator for micro finance institutions ranges from 300 to 500 clients per field staff member, irrespective of the lending methodology.

**Balance between the Quality and Quantity of Credit Service**

Finally, organizations providing credit to poor have to find the balance between the quality and quantity of credit, the capacity of the poor to utilize the credit in an efficient way, the local situation and existence of other formal or informal schemes in the region. Microfinance in Vietnam needs and deserves great assistance. Expansion of existing schemes offering cheap credit would require vast funds. More realistically, experimenting with and expanding sustainable schemes is important. Coordination and the exchange of ideas and experiences can help identify what works best in Vietnam. Making a scheme truly sustainable is a much more difficult business than setting up and running a subsidized scheme. Expansion, however, can be constrained by the legal status and regulatory environment for such schemes. Thus it is all needed: funds, a microfinance-as-business vision, and a supporting legal framework.
CONCLUSION

In sum, microfinance system contributes to the development of the agricultural economy and the reduction of poverty in rural communities in Vietnam. The microfinance service is one of the effective solutions to reduce the gap between the poor and the rich in Vietnamese society through providing low-interest loans to farmers, providing business management advice to local residents regarding, for example, how to use investments to promote the small-medium enterprises and socioeconomic projects, as well as creating employment opportunities in the local regions. Moreover, microfinance institution is also an effective tool to maintain the stability in agricultural financing in Vietnam through three major financial systems including the Agribank system, the Vietnam Bank for Social Policies (VBSP), and new credit cooperatives network of People’s Credit Funds (PCFs). However, some critical issues need to be addressed and solved in this realm, such as increasing the economies of scale and market share of microfinance institution in Vietnam’s microeconomic environment and capital market, improving regulation deficiencies and releasing limitation from current laws and regulations, encouraging rural people’s participation and commitment, providing competent authority, and training professional managerial personnel from the locals. Finally, the authors provide six mechanisms to provide optimal service and create a sustainable microfinance system in Vietnam, which include two balance perspectives, two efficiency strategies, and two tactics of designing microfinance loan schemes.

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