

**Evaluation
Report**

**Technical Review and Impact
Assessment of Women's Credit
Funds and District's Trust Fund
in CanLoc District, HaTinh
Province**

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Can Loc, September 2002*

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Abbreviation

VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
WCF	Women's Credit Fund
DWUTF	District Women's Union Trust Fund
S&C	Savings and Credit
PC	People's Committee
WU	Women's Union

1. Background to the Evaluation

1a. Objectives

- To assess the financial and organisational strengths and weaknesses of the Commune-level Women's Credit Funds (WCF) and the District Women Union's Trust Fund (DWTF).
- To assess the capacity of Women Union in relation to the implementation of savings and credit programs.
- To assess the benefits of members of CWAF in comparison with other financial service providers.
- To assess most significant impacts of the program on the beneficiaries.
- To make recommendations on steps to be taken for the full phase over of programme ownership to local partners by end 2005.

It should be noted that the scope of the report does not include the following issues:

- Verification and certification of the accuracy and reliability of concerned microfinance programs' financial statements (because this report is not an audit report);
- Impact assessment based on quantitative method as well as baselines data.

The methodology employed in the report focuses on both the institutions (CWAF and DWUTF) and members of CWAF. In terms of institutions, the report emphasizes the organizational as well as financial strengths and weaknesses of CWAFs and DWUTF.

In terms of CWAF's members, this report focuses on the assessment of benefits and disadvantages of savings and credit services provided by WCFs in comparison with those of other local financial service providers like VBARD, VBP. The benefits and disadvantages mentioned in this report include the scale, cost, accessibility and the flexibility of existing savings and credit services. This report also attempts to make qualitative socio-economic impact assessment of WCFs on members and program staff by ways of semi-structured questionnaires.

1b. Methodology and Work done

The interviews with existing members, drop-out members are conducted by the evaluation team which includes the consultant, AAV staff in HaTinh and DWUTF staff. This report is prepared by the consultant.

An initial meeting was held on the 5th of September 2002 for team members to discuss and agree the methodology to be used in the assessment. A meeting was then held with the AAV HaTinh staff.

Field work was conducted between 6th and 9th September 2002 in four communes – Thuong Loc, Dong Loc, My Loc and Nhan Loc. These communes were selected to represent newer and older WCFs, as well as a variety of social and economic conditions.

On the morning of 7th September 2002. a meeting was held with the Chairman of CanLoc District People's Committee.

On 9th September 2002, the consultant participated in a cluster's meeting (Cluster No.4 of NhanLoc WCF) for fact-finding an actual cluster's meeting.

The field work tasks were divided into the following categories.

Interviewing WCFs members. Interviews were held with 65 current members of the scheme to solicit their views on the benefits and disadvantages of the scheme as well as actual organization and operations of the scheme.

WCFs	No. of interviews
Thuong Loc	22
Dong Loc	16
My Loc	19
Nhan Loc	8
Total	65

Interviewing WCF drop-outs/ex-members. Interviews were held with 14 people who used to be members of WCFs. The aim was to ascertain which aspects of the WCF's financial services they did not like and why they decided to leave.

WCFs	No. of interviews
Thuong Loc	3
Dong Loc	5
My Loc	5
Nhan Loc	1
Total	14

Household poverty assessment. Household poverty surveys conducted in early 2002 by AAV HaTinh in 4 communes: Thuong Loc, Dong Loc, My Loc and Nhan Loc have been employed to assess the level of participation in the scheme by richer, middle and poorer households.

Analysis of the financial situation of the WCFs and DWUTF. The financial statements of the 7 WCFs (after the transformation) and DWUTF were examined. Discussions were also held with WCFs' staff (BOR, Management Board and Supervisory Board), cluster heads and group leaders in 4 communes: Thuong Loc, Dong Loc, My Loc and Nhan Loc, as well as DWUTF staff (DWUTF Manager who is the cashier concurrently and the Accountant).

Analysis of the management and institutional strength of the WCFs and DWUTF. Discussions were also held with WCFs' staff, cluster heads and group leaders in 4 communes: Thuong Loc, Dong Loc, My Loc and Nhan Loc, as well as DWUTF staff.

Assessment of significant impacts of the S&C program on the members of WCFs, staff of WCFs and DWUTF by ways of interviewing and discussing with WCF staff in 4 communes: Thuong Loc, Dong Loc, My Loc and Nhan Loc as well as DWUTF staff, Party leaders and representatives of People's Committees in CanLoc District and 4 communes: Thuong Loc, Dong Loc, My Loc and Nhan Loc.

2. Overview of the savings and credit program in CanLoc District

2a. The history and development of savings and credit program

AAV started savings and credit program in Tra Son zone of Can Loc District, Ha Tinh Province in 1995. The programme was designed by Mr Stuart Rutherford, an expat consultant with the objective to *"help poor households build up their own capital through the formation of independent savings groups with simple, convenient and easily applicable financial service mechanisms appropriate to the poor. Once this has been achieved, to facilitate poor households' access to external financial services"*.

The programme started in My Loc commune in 1995, and expanded gradually to Nhan Loc commune (1996), Thuong Loc and Son Loc communes (1997), Dong Loc commune (1998), Nga Loc commune (1999) and Phu Loc commune (2000). The key partner are Women Unions at District and commune level. Originally only 25% poorest households were eligible to joint the programme and since 1997 middle-ranked households and since 2000, better off households are allowed to joint the programme.

From 1995 to 1999 the programme was operated through so called self-help groups – AAV staff help their partners and beneficiaries build and manage groups of poor and since 1997 middle households. There was in average 20-25 groups of 10-25 members in each commune. The operation mechanism was quite simple – groups elected group leaders and accountants from their members. The groups held regular monthly or fortnightly meetings at which they mobilised savings and provided small loans to group members. After two months in operation the groups were eligible to receive a loan from DWU Fund (AAV deposited US\$30,000).

In 1999 AAV decided to shift the model of self-help groups to the model of Women's Credit Fund (WCF) with pilot activities in My Loc commune. By June 2002 all 7 communes in Tra Son zone have their WCFs established. Parallely a DWU's Trust Fund was established in 2000 to provide technical and financial support to the commune WCFs.

Commune-level WCFs	Establishment time of the self-help group model	Establishment time of the Women's Credit Fund model
My Loc	1995	8/1999
Nhan Loc	1996	9/2000
Thuong Loc	1997	8/2001
Son Loc	1997	3/2001
Dong Loc	1998	2/2002
Nga Loc	1999	5/2002
Phu Loc	2000	3/2002*

* started to operate as Women's Credit Fund since July 2001 but the general members' meeting was postponed to March 2002.

2b. Policies and Loan Product

Loan Policies:

- Collateral is not a requirement but members should strictly follow established regulations and disciplines as well as group's rules
- Only members who conform to the disciplines can get access to the loan fund.
- Lending is implemented on accelerating loan size basis, starting from small loan size.

Loan Products:

Four different loan products are offered by WCFs:

a. General loans:

- Loan purpose: for income generating activities in general
- Eligible borrowers: Members of the WCFs who properly follow all regulations and disciplines.
- Loan term: 25 fortnight installments. Principal repayment and interest payment is paid by installments in 25 cluster's meetings. Early repayment of the loan is allowed.
- Loan size: According to program's regulation, loan sizes increased on an accelerating basis, the loan size of the next borrowing circle is larger than the existing loan size. Maximum loan size and loan size of correspondent circles are not the same in all WCFs. For instance, MyLoc WCF's maximum loan size is 2.5 million VND while the maximum loan in other WCFs is 1-1.5 million. According to MyLoc WCF manager, members can get large loans even in the initial borrowing circle if they have a feasible plans.
- Interest rate: 1.2%/ month on declining balance basis
- Fee: 1%
- Effective interest rate (fee included): 1.36% per month

b. Supplementary loans:

- Loan purpose: for projects that require additional funds at the middle of the loan cycle or for subordinate projects.
- Eligible borrowers: active general loan borrowers having good record of principal repayment and interest payment
- Loan term: 3 months, interest and fee are paid at the beginning of the loan term and principal repayment is made at the end of the term
- Loan size: fixed at 300,000VND
- Interest rate: 1% per month
- Fee: 0.5%
- Effective interest rate (fee included): 1.21% per month

c. Seasonal loans:

- Loan purpose : to meet the needs of seasonal work.
- Eligible borrowers: Members who have joined the program for more than two year and have good character
- Loan term: 6 month; interest and fee are paid at the beginning of the term and principal repayment is made at the end of the term
- Loan size: fixed at 300.000VND
- Interest rate: 1% - 1.2% per month
- Fee: 0.5% - 1%
- Effective interest rate (fee included): 1.16% or 1.25% or 1.46% per month

According to the program's regulation, only borrowers with good record of repaying general loan can get seasonal loan. This loan product, however, seems suitable to members' need and thus, many members applied for this loan only and were approved.

d. Medium term loan: So far, amongst 7 WCFs, only My Loc WCF has been offering this loan product.

- Eligible borrowers: members with good credit history for general loan and other loans.

- Loan term: 8 installments (3 months each). Principal and interest are repaid through 3- month installments.

- Interest rate: 1,2% on declining balance basis

- Fee: 1%

- Effective interest rate (fee included): 1,23%

However, based on medium term-loan repayment schedule obtained from My Loc WCF to calculate (in this schedule, each 3-month installment is composed of 250,000VND principal repayment and 14,000VND interest payment, the final interest payment is 10,000VND), the effective interest rate (fee included) is 0.47% per month. It means there are mistakes in interest rate calculation of medium term loan.

Loan appraisal:

Members who want to get loan should firstly raise their request and discuss with other members in the corresponding group. Group members consider the loan requests, then the application forms with repayment commitment are handed out for the requesting members to fill in. The application forms must have signatures of the member's husband (or eldest child), other group members and of the group leader and then these forms will be submitted to the cluster head in a cluster's meeting. After appraising submitted application, the cluster head will write down his/her opinion, sign in the form and make a list of borrowers for final approval by the manager. The manager considers and makes final approval with reference to WCF staff who is in charge of this cluster. If funds are available for disbursement in that day, approved borrowers will go with the cluster head to the WCF office to get the loan directly. If funds are not available at that time borrowers should have to wait until next cluster's meeting.

2c. Savings Policies and Products

Compulsory savings

Scheme has a compulsory savings requirement of 3000 VND per fortnight cluster's meeting, which means 6000 VND per month (particularly, compulsory savings in My Loc is 5000VND/month, the 1st meeting: 2000VND and the 2nd: 3000VND). WCFs pay interest of 0.5% per month on compulsory savings balances. Interests on compulsory savings are monthly capitalized.

Due to the lack of a clear regulation on compulsory savings withdrawal of members who donot borrow or have repay all loans. Therefore, the actual treatment is different from WCF to WCF. For instance, the requirement on member's minimum compulsory savings balances is not the same in all WCFs.

Voluntary savings

WCFs also offer voluntary saving services. The interest rate is 0.5% per month and monthly capitalized. There is no minimum or maximum level on voluntary savings. However, whether

large savings amount (7-10 million VND) are accepted is decided by WCF depending on the current loan fund demand. Savings are withdrawable if noticed in the previous meeting (15 days in advance). There are some limits on withdrawal in case of large borrowers.

2d. Cluster's meeting

Before the shift to WCF model, the S&C scheme already had regulation on group meeting (15-20 person groups) but at that time, the content of group meeting only focused on principal repayment, interest payment and savings contribution. When scheme is changed to the WCF model, these groups are restructured into 5 person groups and cluster level is established with cluster's meeting mechanism. Cluster's meeting, as experienced by many community financial institutions, is an important activity. Among the 3 key components of the S&C scheme, this is the critical factor impacting staff's organizational, management skills and member's observance of credit disciplines. At present, in almost all WCFs in Can Loc district, the cluster's meetings have been held regularly with high level of attendance. According to most of respondent, cluster's meetings are necessary because:

- Cluster's meeting strengthens the solidarity and attendance of members;
- Cluster's meeting saves cluster head's time and helps to open issues relating to the cluster and members (such as principal repayment, loan assessment...);
- Cluster's meeting is a place for sharing experiences.

3. Financial strengths and weaknesses of WCFs

The assessment of financial strengths and weaknesses of WCFs is conducted on the basis of "Prudential standards for community financial institutions in Vietnam"¹, which includes the following 6 aspects(14 standards): Protection, Effective financial structure, Assets Quality, Rate of return and costs, Liquidity and Signs of Growth. These prudential standards are established on the basis of the PEARLS system (38 ratios) which are developed by WOCCU and are applied in assessing performance of credit unions. Therefore, when using these prudential standards for conducting financial assessment of WCFs, the following differences should be noted:

- At present, WCFs are microfinance programs conducted by Women's Union at the community level and thus they are not "legal entities" like credit unions or credit cooperatives;
- The ownership structure of these microfinance programs are not clear as that of credit unions or credit cooperatives;
- The scope and contents of operations of WCFs are much simpler than those of credit unions or credit cooperatives;

3a. Asset quality

According to delinquency reports that the evaluation team obtained in the field, 4 visited WCFs and the 3 other WCFs have no delinquency or overdue loan. Few members have delinquency for 1 fortnight period but no case of 1 month (2 fortnight periods) delinquency.

This good repayment performance of WCFs may be explained by following reasons:

- Prudent loan appraisal

¹ Jointly developed by ActionAid Vietnam, MRDP and WOCCU (April 1999)

In 4 communes included in the field trip of the evaluation team, most respondents told that loan application forms must be approved at group level, then at the cluster level before the manager of the WCF make the final approval. In some cases, loans are approved with reference to WCF's staff in charge of the cluster. At 5 person group assessment level, following factors are most important: prompt savings; repayment capacity, income generating capacity, effective use of loan, prompt and full loan repayment; prompt attendance at meetings; signatures of wife and husband in the form; make no troubles for the group and cluster.

- The understanding of cluster head with regard to cluster's members: most respondents said that their cluster head has good knowledge of their circumstances and use of loan.
- The cluster head has responsibility for his/her members' repayment. In case of delinquency the cluster head is obliged to cover that late payment.
- Role of 5 person group: most respondents are aware of their responsibility for promptly repayment of other group members and their obligation of covering late payment in case of delinquency.

WCFs' repayment rate of 100% is an encouraging result in Can Loc. However, interviews with some members raise the concern that, in order to repay a loan, some members simply get another loan or get loan from other sources such as private lenders, their friends...

3b. Protection of assets

Adequate protection of assets is critical to long term financial sustainability. The protection is assessed with the comparison of loan loss reserve levels to late payments outstanding. Adequate protection means a microfinance institutions have adequate loan loss reserves to cover 100% of over-12 month delinquent loans and 35% of 1-2 month delinquency.

Inadequate loan loss reserve levels result in the lack of funds to cover overdue and bad loans. However, generally microfinance institutions are very reluctant to make provision for loan loss particularly when they are still not financial self-reliant due to the fear of higher cost and lower net income.

Since 2000, WCFs in Can Loc have made loan loss reserves equal 2% of total outstanding loans at the end of December. Up to 31 December 2001 there are 5 WCFs (My Loc, Nhan Loc, Thuong Loc, Son Loc and Phu Loc) had to make loan loss reserves but only 2 of them (My Loc and Nhan Loc) had made adequate reserves; the loan loss reserve maintained by Son Loc WCF fell short of amount required; Thuong Loc and Phu Loc WCFs did not make any loan loss reserve.

Loan loss reserves/Total outstanding loans (up to 31/12/2001)

WCF	Total outstanding loans (VND)	Loan loss reserves (VND)	Loan loss reserves/Total outstanding loans
My Loc	375,487,300	8,210,000	2.19%
Nhan Loc	342,822,300	6,900,000	2.01%
Thuong Loc	45,398,000	0	0%
Son Loc	158,521,000	3,100,000	1.96%
Phu Loc	51,552,000	0	0%

As loan loss provision is only made at the end of December each year, loan loss reserves of July 2002 remain unchanged from the previous year end.

The accounting for Loan loss reserves is conducted in accordance with international standards, which means it is booked as a contra-assets item.

The comparison of loss reserves levels with actual portfolio at risk (outstanding balance of loans on which there are late payment due) helps to show WCFs' protection of assets. However, as mentioned above, the current provision of 2% can be considered as adequate given the fact that there is no delinquency and overdue loan.

According to some WCF management staff, the provision of 2% is quite high but in consultant's opinion, this minimum level should be maintained given Hatinh Province is vulnerable to natural disasters like storms and floods.

3c. Signs of Growth

Because most WCFs have launched new model since 2001 (except My Loc WCF was established in the form of WCF since August 1999), the growths in term of assets, outstanding loans, savings balances and institutional capital are calculated on data at 31 December 2001 and at 31 July 2002.

Growth of Assets, outstanding loans, savings balances and institutional capital (from 31 December 2001 up to 31 July 2002)

WCF	Total Assets	Outstanding loans	Savings balances	Institutional Capital
My Loc	60.44%	60.72%	92.48%	87.6%
Nhan Loc	41.36%	40.21%	65.84%	126.3%
Thuong Loc	95.87%	77.25%	106.29%	76.3%
Son Loc	60.44%	60.72%	92.48%	87.57%
Phu Loc	270.51%	271.8%	148.5%	188.9%

All signs of growth ratios reflect upward trends in almost all WCFs, particularly positive changes in savings mobilization and lending of Thuong Loc. High growth in savings mobilization is noted in almost every WCFs, demonstrating members' confidence in WCFs as well as great potential for local savings mobilization.

Changes in the number of members also show the rapid expansion of WCFs' outreach. As of 31 July 2002, actual number of 7 WCFs' members in Tra Son zone is 3,558, increased by 48,7% in comparison with that of 31 December 2001. This increase is owing not only to the new establishment of Dong Loc and Nga Loc WCFs in the early 2002 but also to the increase in members of other existing WCFs.

Member Changes (accumulated)						
	31-12-2001			31-07-2002		
Commune	new	drop-out	actual	new	drop-out	actual

			numbers			numbers
My Loc	666	50	616	699	65	634
Nhan Loc	625	21	604	707	26	681
Son Loc	403	3	400	507	19	487
§ong Loc	0	0	0	500	16	484
Thuong Loc	306	3	303	425	32	393
Nga Loc	0	0	0	405	11	394
Phu Loc	472	3	469	538	53	485
Total	2472	80	2392	3781	222	3558

Changes in the numbers of groups and clusters are in the similar trend of the growth of members.

Group changes (accumulated)						
	31-12-2001			31-07-2002		
Commune	new	disbanded	actual	new	disbanded	actual
My Loc	109	0	109	117	0	117
Nhan Loc	122	0	122	134	0	134
Son Loc	79	0	79	93	0	93
§ong Loc	0	0	0	99	1	98
Thuong Loc	61	0	61	78	0	78
Nga Loc	0	0	0	83	0	83
Phu Loc	472	3	469	538	53	485
Total	843	3	840	1142	54	1088

Cluster changes (accumulated)						
	31-12-2001			31-07-2002		
Commune	new	disbanded	actual	new	disbanded	actual
My Loc	24	0	24	26	0	26
Nhan Loc	22	0	22	23	0	23
Son Loc	21	0	21	23	0	23
§ong Loc	0	0	0	22	0	22
Thuong Loc	17	0	17	21	0	21
Nga Loc	0	0	0	19	0	19
Phu Loc	21	0	21	21	0	21
Total	105	0	105	155	0	155

3d. Effective Financial Structures

WCFs' financial structure is a key factor determining their potential growth, profit making capacity and their financial strength.

Liability structures

There are 3 major sources of funds: members' savings, loans from DWUTF and institutional capital.

- **Savings:** Savings balances to total assets ratio indicates the proportion of total assets derived from members' savings. In case of a cooperative microfinance institution, the higher the better the ratio is because it demonstrates institution's independence and members' mutual cooperation. At the end of July 2002, savings of all 7 WCFs accounted for 45.46% of the total assets. It ranges from 30% (in Son Loc and Phu Loc) to 62% in Nga Loc. Though still some way off the 70-80% target of PEARLS system, the current figures on savings mobilization achieved by those WCFs are an encouraging result in comparison with other microfinance programs in Vietnam and they demonstrate a great potential of local savings mobilization.

However, the savings mobilization of WCFs has reach higher level because of the following possible reasons:

- Many members of WCFs are borrowing also from other sources such as VBARD, VBP or relatives, friends.... and thus, every month they have to set aside sustantial parts of their income for debt repayment;
- Interest rates WCFs paid for DWUTF loans and for member savings are the same and therefore, the WCFs' management staff has not pay adequate attention to savings mobilization;
- WCFs' management staff was concerned about the excess of saving mobilization to local loan demand.

In the context that State Bank of Vietnam liberalized interest rate on 1 June 2002, bank deposit interest rates are raised to higher level in almost every banks and now stay around 0.6%-0.7% per month for over 3 month deposits. Therefore, in order to accelerate savings mobilization and avoid the decline in the savings to total assets ratio due to the transfer of large deposits (deposits of more than 1 million VND) from WCFs to banks, DWUTF should make careful research to design and offer appropriate voluntary savings products with more attractive interest rates.

- **External borrowings.** External borrowings to total assets ratio indicates the proportion of total assets derived from external borrowings. In case of WCFs in Can Loc, external borrowings officially consist of only loans from DWUTF. Some WCFs mobilized funds from other sources (non-member savings, funds of mass organizations kept by individuals) but booked as members' savings. For My Loc WCF, as of 31 July 2002, non-members' savings balances (of 17 clients) amount to 71,183,400 VND, accounted for nearly 30% total savings.

Generally, external borrowings cost is higher than that of members' savings but in case of WCFs in Can Loc, these two costs are the same. It should be noted that borrowings from DWUTF is easier to handle than members' savings because these borrowings have no specific term, no withdrawal pressure as savings and WCFs just have to fulfill monthly interest payment obligation. Another feature affects the portion of WCFs' external borrowings is that newly established WCFs have priority to get loans from DWUTF and thus, once the WCFs have borrowed from DWUTF, they have incentive to keep on that borrowings. Besides, the fact that chairwoman of DWU and AAV Development Area manager are joint account holders of the

rotating loan fund account opened at the district VBARD makes funds withdrawal procedures complicated and therefore the loan demand of WCFs are not satisfied promptly. WCFs donot want to repay DWUTF loans and replace them with savings maybe due to above reasons, they are concerned about difficulties in borrowing from DWUTF when necessary.

At the end of July 2002, nearly 40% total assets of WCF is derived from DWUTF loans. In 2 WCFs (Son Loc, Phu Loc), this ratio nearly reaches 60%. With the target of 20 -30%, these figures reveal that WCFs now still relies on external borrowings and this affects their economic independence.

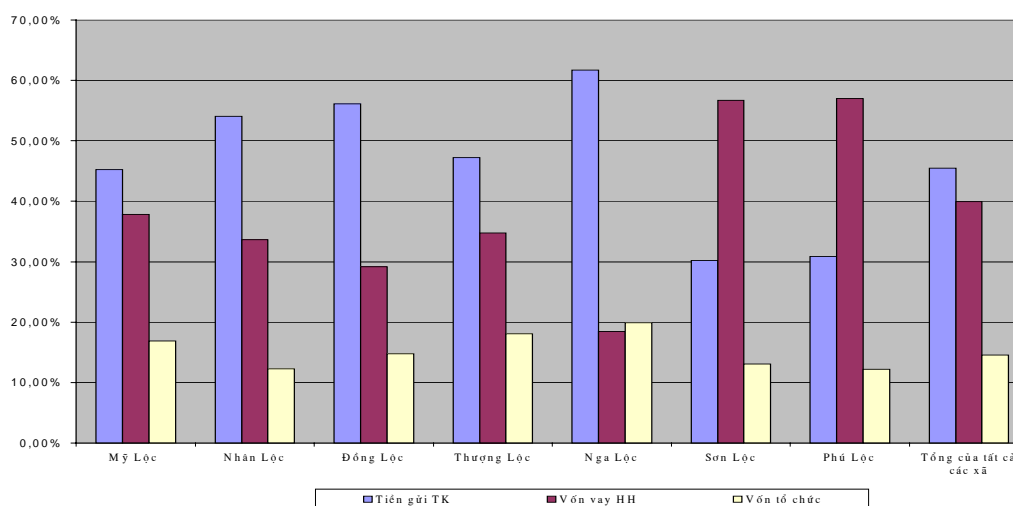
In general, older WCFs account for a large portion in total WCFs' borrowings from DWUTF, except Thuong Loc (due to the decline in the number of members and outreach after transforming to the WCF model). Three WCFs in My Loc, Nhan Loc and Son Loc account for 70% of total loans from DWTUF.

DWUTF Outstanding Loan to WCFs

WCFs	31.12.2000	31.12.2001	31.7.2002
My Loc	52.93%	41.54%	28.63%
Nhan Loc	47.07%	30.06%	23.02%
Son Loc		20.88%	20.58%
§ong Loc		3.34%	4.46%
Thuong Loc		4.18%	15.83%
Nga Loc			5.76%
Phu Loc			1.73%
Total	100.00%	100.00%	100.00%

- ***Institutional Capital.*** Institutional Capital to total assets ratio indicates the proportion of total assets derived from institutional capital (in case of WCFs, institutional capital consists of members' shares and accumulated retained earnings, including AAV subsidies for operational costs). This is one of the most important ratios, it demonstrates institution's financial capacity.

Institutional capital accounted for 14.55% total assets of WCFs. All WCFs achieve the target of 10-20%. Members' shares accounted for nearly 40% institutional capital and are stable sources of funds. In WCFs that had high institutional capital, net income is significantly improved because this source has no financial cost and its interests on loans derived from institutional capital contribute to the increase of the rotating loan funds.



Asset structure

Loans to members are the major assets of WCFs. This structure is the same in every WCFs. Most WCFs seek to maximize loan outstanding proportion in total assets because it helps to increase interest incomes from loans.

WCFs	Net lending to total assets	
	31/12/ 2001	31/7/2002
My Loc	83,31%	99,72%
Nhan Loc	99,84%	99,61%
Thuong Loc	99,72%	90,24%
Son Loc	98,93%	99,85%
Phu Loc	98,92%	99,27%
Dong Loc		83,10%
Nga Loc		99,72%
Total	92,59%	97,86%

Overall, as of 31 July 2002, general loan outstanding accounted for nearly 50% total loan outstanding. Supplementary loan outstanding and seasonal loan outstanding are nearly the same as a percentage of total loan outstanding and both are above the level 20%, demonstrating high demand on small and short-term loans and demonstrating that diversified loan products were designed suitable for members' needs.

As of 31 July 2002, only MyLoc WCF offers medium term loans therefore it takes a little part as a percentage of outstanding loans (8.75% of My Loc WCF's total outstanding loans and 2.71% of total outstanding loans of all WCFs).

Types of loans as percentage of total outstanding loans

As of 31/07/2002

Commune	General loans	Supplementary	Seasonal	medium term
---------	---------------	---------------	----------	-------------

		loans	loans	loans
My Loc	53.61%	21.41%	16.23%	8.75%
Nhan Loc	41.05%	31.89%	27.06%	0.00%
Son Loc	47.60%	18.49%	33.91%	0.00%
§ong Loc	50.56%	12.88%	36.55%	0.00%
Thuong Loc	53.77%	7.83%	38.40%	0.00%
Nga Loc	100.00%	0.00%	0.00%	0.00%
Phu Loc	46.52%	22.17%	31.30%	0.00%
Total	49.98%	21.98%	25.33%	2.71%

3e. Liquidity

Overall, WCFs keep liquid assets (cash) at a quite low level: 4.71% of total savings balance at the end of July 2002. This is low compared with the target of at least 15%. However, it is different from WCF to WCF, ranging from 0.62% in My Loc to more than 30% in Dong Loc (*According to some WCF management staff, there is times when WCFs intentionally retain cash for next cluster's meeting's disbursement instead of repaying DWUTF and that is the reason for the high liquidity level in some WCFs - for further information see reasons of high level of loans from DWUTF*).

In practice, so far WCFs haven't had to pay much attention to liquidity management because:

- Savings withdrawal should be given notice a fortnight period in advance.
- Most of savings are small, therefore withdrawal demands can be met with installments and savings collected every fortnight meeting.
- In case of large deposits (5-10 million VND), WCF management staff usually make an agreement with savers on term of these savings and notification in advance in case of early withdrawal.
- WCFs' management staff gives liquidity priority to savings withdrawal, therefore large withdrawal demands are always met even by delaying approved loan disbursement. Although this practice favors savers, it has negative impacts on borrowers whose loans are already approved but delayed. This practice should not be continued in the long term.

Liquid Assets/savings balance

WCFs	31.12.2001	31.7.2002
My Loc	34,64%	0,62%
Nhan Loc	0,34%	0,71%
Thuong Loc	0,62%	20,67%
Son Loc	4,26%	0,50%
Phu Loc	2,34%	2,38%
§ong Loc		30,12%
Nga Loc		0,46%
Total	15,31%	4,71%

In relation with liquidity management, there are some concerns with cash management in WCFs:

- There no limit on cash at vault and therefore cash kept at WCFs is quite high (the case of Nhan Loc WCF)
- Physical conditions (WCFs' offices) donot ensure security for cash safe and therefore cash still has to be kept in cashier's house.
- Actual cash kept at WCFs did not match with cash balance booked in the balance sheet (in My Loc, cash balances reflected in the balance sheet as of 31 December 2001 is 64 million VND but in fact this amount of cash was used to buy fertilizer)
- There is cash book reconciliation between accountant and cashier under WCF manager's examination but there is no cash safe examination minute.

3f. Rate of return and cost

Because just My Loc and Nhan Loc WCFs have operated through the year 2001, the analyses of income and cost are focused on these two WCFs.

Net income

In PEARLS system, rate of return (net income to average total assets ratio) is used to measure profitability. However, this ratio will result in misleading assessment on WCF because most of WCFs' operating cost is covered with AAV grants. Excluding incomes derived from AAV grants, we get adjusted net income/average total assets ratio, this ratio will be used to assess WCFs' financial self-reliance.

Income statements of WCFs state quite high net income levels.

Net income/Average Assets

Commune	31.12.2000	31.12.2001	31.7.2002
My Loc	-14.42%	10.85%	6.84%
Nhan Loc	4.38%	2.35%	4.66%
Son Loc		6.31%	6.25%
§ong Loc			7.84%
Thuong Loc		3.64%	7.61%
Nga Loc			5.97%
Phu Loc		4.20%	8.18%
Total	-6.14%	6.84%	6.30%

The high income levels are achieved mainly thanks to AAV grant support for WCFs' operational costs. If AAV makes no grant to WCFs to cover their operational costs, figures will change significantly and just 4 WCFs remain in positive net income list.

Adjusted net income/Average total Assets

WCFs	31.12.2000	31.12.2001	31.7.2002
My Loc	-14.42%	-6.53%	2.39%
Nhan Loc	4.38%	-9.99%	1.78%
Son Loc		-19.61%	1.92%
§ong Loc			-19.30%
Thuong Loc		-31.05%	-31,68%
Nga Loc			-39.88%
Phu Loc		-12,34%	3.45%
Total	-6.14%	-10.21%	-1,49%

As of 31/7/2002, 4 WCFs (My Loc, Nhan Loc, Son Loc, Phu Loc) have a positive ratio of adjusted net income to average total assets, demonstrating their self-reliance. This is, however, data of the first 7 months of 2002 and therefore this does not reflect all annual costs, particularly loan loss provision costs as well as annual meeting, bonus expenses. Further analyses on main components of net income will show things to do to ensure and maintain WCFs' sustainability.

There are 2 components significantly impacting WCFs' net income: total incomes and total expenses. To increase net income, WCFs should increase income and decrease costs, especially operational costs.

Income

Incomes can be derived from two sources:

- Income from loans to members: interest and fee. In case of self-reliant WCFs, this income must be able to cover all financial expenses, loan loss provision expenses and operational expenses.

At present, different types of loans (general loans, supplementary loans, seasonal loans, medium term loans) bring different interest incomes, and interest rates, fees charged on a type of loans also seem to differ from one WCF to another.

Effective interest rate (fee included) at some WCFs

WCFs	General loans	Supplementary loans	Seasonal loans
My Loc	1.36%	1.21%	1.25%
Nhan Loc	1.36%	1.21%	1.16%
Dong Loc	1.36%	1.21%	1.49%

Interest rates and fees at some WCFs

WCFs	General loans		Seasonal loans	
	Interest rate	Fee	Interest rate	Fee
My Loc	1% per month	0.5%	1% per month	0.5-1%
Nhan Loc	1% per month	0.5%	1% per month	0.5%
Dong Loc	1% per month	0.5%	1.2% per month	1%

The application of different interest rates and fees in different WCFs creates difficulties in standardizing scheme's disciplines as well as supervising, monitoring, training and producing pre-print forms.

- Special income from AAV- in kinds (stationary, books,...) and in cash (to cover staff salary, training, supervising and evaluation costs and equipment expenses,...)

As mentioned above, WCFs have been receiving AAV grant supports to cover their operational expenses. Since January 2001, these supports have been included in their financial statement as a non-operating income item. Financial statement 2001 and in the first 7 months 2002 revealed that AAV grant supports accounted for 48.43% và 45.24% of total income of WCFs. In case of longtime-established WCFs as My Loc, Nhan Loc, Son Loc, AAV grant supports decreased significantly as percentage of total income, demonstrating their strong potential for self-reliance. Thuong Loc WCF has quite high level of non-operating income, demonstrating its high dependence on external supports although this is one of longest-established WCFs.

WCFs	non-operating income/total income			non-operating income/total expense		
	31.12.2000	31.12.2001	31.5.2002	31.12.2000	31.12.2001	31.5.2002
My Loc	0.00%	44.41%	29.95%	0.00%	61.45%	55.46%
Nhan Loc	0.00%	41.67%	26.30%	0.00%	45.26%	45.80%
Son Loc		65.30%	32.43%		77.65%	60.97%
§ong Loc			73.10%			92.67%
Thuong Loc		87.13%	79.65%		95.88%	94.19%
Nga Loc			86.18%			97.07%
Phu Loc		74.71%	30.73%		92.22%	65.50%
Total	0.00%	48.43%	45.24%	0.00%	60.11%	71.32%

Expenditure:

There 3 types of expenses:

- Financial cost includes interest paid on savings and interest paid for loans from DWUTF.
- Operational cost includes staff salary, allowances for cluster heads, training costs, stationary, photocopy and books expenses, monitoring and evaluation.
- Loan loss provision cost – as current rules, WCFs have to maintain loan loss reserves equal to 2% outstanding loans. Loan loss provision is made at the end of December each year.

Financial costs

WCFs now pay interest rate of 0.5% per month for loans from DWUTF, while interest rate paid on savings (both voluntary and compulsory) is 0.5% per month. Saving interest payments is properly monitored through regulation on monthly interest capitalization. Current monthly interest rate of 0.5% that DWUTF charges on loans to WCFs also reflects a certain level of subsidy for WCFs given the fact that, at present, savings interest rates offered by banks like VBARD are higher than this rate. Therefore, for self-reliant WCFs, if their source of funds overdepends on loans from DWUTF with subsidized interest rate, their self-reliance will suffer adverse impacts when DWUTF interest rate is set at market rate.

In addition to savings mobilized from members, some WCFs (such as My Loc) also mobilized non-member savings with interest rate of 0.5% per month (saving interests are paid upon withdrawal and not capitalized monthly). According to MyLoc WCF's manager, because there is no rule on monthly interest capitalization, these savings are favoured in term of financial cost. According to current regulation, savings interests are monthly capitalized but fact findings in Nhan Loc cluster No. 4's meeting, reveal that in case of large savings amount (over 1 million VND), savings interests are capitalized even when the duration of depositing that amount is just a fortnight.

Operational costs

Before 2001, operational costs were not included in income statement. Since 2001, income statements have properly included costs that are directly covered by WCFs as well as those covered by AAV grant supports and thus accurate operational costs have been reflected.

Total operational costs/Average total assets

WCFs	31.12.2001	31.7.2002
My Loc	18.31% (12 months)	5.06% (7 months)
Nhan Loc	18.53% (12 months)	3.09% (7 months)
Son Loc	12.96% (10 months)	4.33% (7 months)
§ong Loc		13.57% (6 months)
Thuong Loc	17.34% (5 months)	39.30% (7 months)
Nga Loc		22.92% (3 months)
Phu Loc	16.54% (6 months)	4.74% (7 months)

These figures are rather high in comparison with target of less than 10%. Overall, this ratio is usually higher than the target in newly-established time and decreases gradually in following years. However, fact findings in My Loc, Nhan Loc, Thuong Loc reveal an important reason of that high ratio, it is construction expenses for WCFs' offices.

Total office construction expenses (supported by AAV)

WCFs	Amount	Time of occurrence
My Loc	12.500.000 VND	8/2001
Nhan Loc	12.500.000 VND	6/2001
Dong Loc	15.000.000 VND	5/2002

Loan loss provision cost

The level and adequacy of loan loss provision was mentioned in Protection part.

4. DWUTF's Financial and organizational strengths and weaknesses

4a. Financial strengths and weaknesses

Growth

Loan expansion with sources from AAV's loan fund supports and high growth in retained earnings over period from March 2001 to July 2002 resulted in DWUTF's assets growth. From March 2001 to 31 Jul 2002, loan fund supported by AAV is increased 2 times at May 2001 (form 600,365,000VND to 710,304,500VND) and May 2002 (from 710,304,500VND to 960,304,500VND)

Financial structure

DWUTF's assets are focused mainly in loans to WCFs and bank deposits. As of 31 July 2002, outstanding loans to WCFs is 695,000,000VND, accounting for 85.7% of DWUTF's total assets. However, this figure is quite low at the time when DWUTF has just received AAV loan fund supports, reflecting the undisbursed amounts. Overall, DWUTF's outstanding loans to WCFs has slight fluctuation because once obtaining loans from DWUTF, WCFs tend to treat these loans as a stable source of funds for lending to members.

DWUTF has no explicit policy on how much to lend to each WCF. Amounts lent depend primarily on WCFs' demand and DWUTF's cash availability.

DWUTF has intermediated virtually no savings among WCFs during the period under examination. Therefore, in fact all assets of DWUTF have been derived from AAV loan fund supports.

Income and expenditure

DWUTF's financial income is derived from interests on loans to WCFs and bank deposit interests. In the first 7 months 2002, loan interests accounted for more than 96% DWUTF's financial income and nearly 75% total income. As current rules approved by AAV, 50% loan-interest incomes is kept to cover DWUTF expenditures.

DWUTF's Net income and Adjusted net income

	<i>first 7 months 2002</i>
<i>Net income (VND)</i>	11,568,925
<i>Non-operating income (VND)</i>	5,991,000
<i>Adjusted net income (VND)</i>	5,577,925
<i>Average total Assets</i>	662,662,938
<i>Net income/Average total Assets</i>	1.75%
<i>Adjusted net income/ Average total Assets</i>	0,84%

Like the case of WCFs, DWUTF's operating costs are included properly in financial statement. The DWUTF's financial statements have included AAV's grant supports and thus reflects accurately the real operating costs of DWUTF.

Net income of DWUTF in the first 7 months 2002 accounted for 1.75% its total assets. However, if AAV's grant supports are excluded, the ratio of net income to average total assets falls to 0,84%. This reveals that DWUTF seem to be able to cover its operating costs without AAV's grant supports for operational costs¹.

4b. Organizational strengths and weaknesses

DWUTF's staff consists of 3 persons: Chairwoman of BOR, manager (concurrently cashier) and accountant but only the accountant works on the full-time basis. Because Chairwoman of the BOR and manager, at present, are the chairwoman and vice chairwoman of the District Women Union, their working time for DWUTF is unavoidably affected. These two DWU staff have

educational background of 10th grade and also been trained on political issues but not on basic financial management and accounting skills. This disadvantage influences their task of monitoring and training WCF staff as well as checking DWUTF accountant's work.

DWUTF's accountant has showed her good skills on such tasks as book-keeping, data synthesizing, report making, training for WCFs' staff.

So far, AAV has paid due attention to staff training for DWUTF. AAV has not only provided frequent training but also created favor conditions for the staff to learn experiences of other programs through workshops and the participation in evaluation teams. These are effective methods but still have limited impact due to the lack of full time staff.

Although DWUTF plays a key role regarding WCFs through important tasks such as formulating regulations and rules, arranging personnel, monitoring/supervising, training... but their work performance is very limited and overdependent on AAV's staff due to limited human resource.

5. Assessment on WCFs' organizational strengths and weaknesses

5a. Legal status:

WCFs have just been recognized by local authorities but their legal status is still unclear in the context of existing legal framework, and therefore they are not "legal entities". This legal obstacle is a challenge not only for S&C programs in the form of WCFs conducted by Women's Union in CanLoc district but also for all microfinance programs conducted by socio-political organizations (Women's Union is the key player) throughout Vietnam. In the absence of an explicit legal framework, on January 2000, the Prime Minister had formal opinions on microfinance programs conducted by VWU, and afterward, SBV has issued Official Letter No. 699/CV-NHNN1 on July 2000 recognizing and giving VWU the responsibility of managing the microfinance activities in the form of women's savings groups with the principles of "effectiveness, sustainability and non-profit". Consequently, WCFs' activities, on legal aspect, can be recognized to a certain extent as S&C programs operated by WU in the form of women's savings groups.

5b. Organizational model:

Current WCF model is designed with reference to both PCF's model and Grameen Bank cluster-group model. WCF model takes after PCF model in organizational structure with general member meeting, BOR, Supervisory Board và Management. However, PCF ownership is vested in its members while WCF ownership is still unclear despite that each WCF member has to contribute a founding share of 30,000VND when joining the scheme. Besides, while PCFs deliver credit and savings services directly to clients, WCFs deliver their services through the system of groups and clusters similar to Grameen's group lending approach. This approach has the advantages of lowering operational costs, making use of social pressure in replace of physical collateral.

5c. Organizational structure

WCFs' general meeting of member representatives composed of founding member representatives (eg., in case of Dong Loc, the general meeting consists of 110 delegates representing 450 founding members) is held when establishing WCFs to elect members of BOR, Supervisory Board. In theory, general meeting is very powerful because it plays a decisive role in electing elect members of BOR, Supervisory Board as well as in other important issues of the WCF. However, because the general meeting is just held only one time when establishing WCF and members of BOR, Supervisory Board are pre-selected through negotiation, the general meeting is merely a formal step. At present, there is neither regulation nor concrete guideline on the authority and role of the general member meeting.

Chairperson, vice chairperson and other members of BOR as well as supervisory board members were elected by general member meeting. Then the BOR appoints management staff that includes manager, accountant and cashier.

In general, BOR consists of chairperson and vice chairperson (who normally are chairperson of communal people's committee and chairwoman of the commune women's union) and manager. Duties and responsibilities of BOR, supervisory board and management staff are developed with reference to PCFs' rules and are included in training materials.

WCFs' BOR now plays a limited and vague role because the current governance capacity of BOR members fails to meet the requirement of setting up policies and making strategic decisions relating to the WCF's organization and operations. These tasks now overdepend on AAV staff and external consultants. However, in the current context of unclear legal status, with the composition of BOR as mentioned above, WCF can take advantage of communal PC chairperson's support to achieve a recognition and to protect the legitimate rights of WCF when necessary (for instance when enforcing loan repayment).

In terms of WCFs' management, all WCFs have 3-member management team (total of 21 management staff; each management team includes 1 manager, 1 accountant and 1 cashier) and therefore the work assignment is clear, ensuring the work separation between accountant and cashier as well as the overall management and supervision of the manager. Each management staff is also concurrently in charge of several clusters. At present, 2 managers amongst 7 WCF managers work on full-time basis, the remaining 5 managers work on concurrent position basis (one is chairwoman and the other 4 are vice chairwomen of communal Women's Union). Consequently, their working time for WCFs is limited and, affecting their ability to fulfil required duties and responsibilities.

As mentioned above, the delivery of lending and savings services of WCFs are conducted through the system of groups and clusters that provide linkage among members. A cluster consists of 4-6 groups and a group consists of 5-7 members.

The group of 5 members is the smallest unit of WCFs and each group has a group leader elected by group members. In some cases, the group can include 7 persons.

Through interviews with WCF members, 100% of respondents said that groups are established on the voluntary basis and expressed their satisfaction of the current small size of groups because of following reasons:

- Easy to make agreement; too many people makes agreements very hard;

- Consideration and voting of loan application can be conducted more quickly; loans can be appraised more carefully.
- More care, more concession, more unified, more responsible and more mutual support,
- Have better understanding of each other and priority of getting loans is given to right persons.
- Easy handling.

All members understand functions and duties of group leader and cluster head. The difference in the number of members of each group, however, creates difficulties for form designing. For example: application form for general loan just requires 4 signatures of group's members, and therefore it doesn't fit 7-person groups.

Clusters are grassroot unit of the WCF because all WCF's transactions are done at cluster level. Each cluster has a cluster head who chairs fortnight meetings. Cluster head is elected by cluster members and recognized by WCF's manager.

WCFs' personnel numbers + cluster head <i>(As of 31-07-2002)</i>				
Commune	WCF	Management Committee	Cluster head	Total
My Loc	5	3	26	34
Nhan Loc	6	3	23	32
Son Loc	6	3	23	32
§ong Loc	5	3	22	30
Thuong Loc	5	3	21	29
Nga Loc	4	3	19	26
Phu Loc	4	3	21	28
Total	35	21	155	211

5d. WCFs' staff capacity

Fact findings in 4 WCFs reveal that:

Most of WCF managers have educational background of 10th grade, and this has facilitated them to grasp necessary knowledge and skills through training and study tours.

WCFs' management staff has mastered the following tasks and skills: book-keeping, calculating interests, and intermediating savings mobilization for making loans.

WCFs' management staff still lacks the capacity for: analyzing financial statement, appraising loans and designing savings products, managing liability.

The WCFs' management staff is very enthusiastic with their work and has detailed monthly schedules. Their books are neat and accounted in detail. Books and reports are promptly prepared.

The WCF managers have demonstrated their working ability, understand their duties quite well and have good knowledge of the operational situation of the WCF. Specifically, the WCF managers are capable of: checking and comparing cashier's book with accountant's book; making records and making reports; intermediating mobilized funds (savings, borrowings from DWUTF) to meet members' loan demand; training cluster heads, group leaders and members; appraising loan applications.

Accountants are experienced and have good knowledge of basic accounting skills. In spite of few training on accounting, the accountants have fulfilled quite well such work as clear book-keeping, prompt reporting. All 4 WCFs under examination have male accountants with good knowledge on basic accounting.

Regarding cluster heads, evaluation team has learnt that most cluster heads well fulfil their work, only few have weak book-keeping skills and some old persons that require replacement.

5e. System of operational procedures and regulations:

At present, no WCF has documented charter or organizational and operational regulation. Most of rules and operational procedures are established in the form of training material and therefore have weak enforcement power, leading to the over-flexibility and inconsistency in actual application of some WCFs and posing difficulties for supervising and monitoring.

5f. Human resources management:

- Recruitment: WCF management staff is usually recruited from efficient cluster heads as well as persons have experience or education in accounting skills. DWUTF, however, plays a minor role in the recruitment of WCF management staff. In Dong Loc, when transforming to the current model, an enthusiastic, efficient, well-trained cluster head was recruited to be full-time manager instead of WU's staff.

- Training: AAV has paid due attention to training and focussed on 3 types of trainees:

- + WCF Management's staff, BOR and Supervisory board member(s).
- + Cluster heads, group leaders.
- + Members.

Trainings for WCF management staff, BOR and supervisors are held by AAV, District Women's Union as well as WOCCU.

Members are primarily trained during the preparatory period for establishing WCF, and therefore, new members do not have opportunities to join these trainings, instead they are instructed by WCFs' management staff or cluster heads. In case of establishing new cluster, cluster heads are also not timely trained (My Loc WCF).

Along with training, AAV has paid due attention to creating favourable conditions for exchanging and sharing experience among WCFs as well as organizing study tours to other microfinance schemes such as TYM, CEP, An Giang PCF, and good results are achieved: WCFs' management staff has learnt many experiences on book-keeping, regulation establishing and the skills to organize cluster's meetings,.... to improve their own WCF's operation.

- Salary, allowances:

WCF management staff's salary and cluster heads' allowances are covered by AAV's grant support and set out as follows:

	Manager	Accountant	Cashier	BOR and Supervisor	Cluster head		
					>=30 members	25 members	20 members
Dong Loc	200,000	190,000	180,000	50,000	17,000	15,000	13,000
My Loc	220,000	210,000	200,000	50,000	20,000	20,000	15,000
Nhan Loc	220,000	210,000	200,000	50,000	20,000	15,000	10,000
Thuong Loc	200,000	190,000	180,000	50,000	17,000	15,000	13,000

5g. Management Information system

Accounting and voucher system:

Since the transformation to WCF model, accounting and voucher systems are improved several times, and gradually satisfying the supervision and monitoring requirement. Accounting book system include detailed books and summary books at cluster's and commune's level. At present, World Council of Credit Union (WOCCU) is implementing "community financial institutions" project with the objective of establishing a standardized accounting and internal control system congruent with international and Vietnam accounting standards for microfinance programs operated by women's union of Can Loc, Cam Xuyen, Ky Anh districts of Ha Tinh province,. Therefore, accounting book system of WCFs in Can Loc is under the transformation to the new system designed by WOCCU. In comparison with microfinance programs in Cam Xuyen and Ky Anh, required changes in Can Loc's accounting book system is not much except the shift to a double entry accounting system. This demonstrates that so far WCFs' operational procedures and their accounting book system have been developed in a professional way.

Payment and receipt vouchers are applied to almost all financial transactions. However, some concerns remain:

- There are case where the cashier temporarily advanced cash at vault for paying salaries and allowances to management staff and cluster heads without completing necessary procedures for advancing cash (there is no advance payment documents, no entry in the cash book).
- Cash at vault was used to buy fertilizer and that fertilizer is used to make in-kind loans to members without proper advance payment receipt..
- The cash payment and cash receipt transactions relating to AAV's grant supports (receiving AAV cash subsidy for paying salaries and allowances) is not booked in the detailed book and cash book. Besides, there is also no payment or receipt vouchers relating to these transactions.

Loan portfolio management system:

Loan records (application form/repayment commitment) were kept neither in good order nor systematic manner. Many loan application forms that were approved and disbursed, did not have necessary signatures, for instance, signatures of the group members, group leader, cluster head, and even the approval signature of the manager (the case of Nhan Loc).

Report requirement:

Reports are rather adequate and include followings:

- Reports by manager:

- + Progress report
- + Disbursement report
- + 6 monthly or annual summary report (in few WCFs)

- Reports by accountant:

- + Cash flow statement (removed under newly-applied system designed by WOCCU)
- + Credit and savings summary report
- + Balance sheet - income statement

Reports are made in 2 copies, one sent to DWUTF and the other kept at WCF. Reports sent to DWUTF are signed by accountant (or manager) and the supervising person (usually WCF's supervisor), the the reports kept as archives are not signed, therefore responsibility of those reports' author and supervisor is not clearly determined, especially in case of inaccuracy or mistake.

5h. Internal control system

At present, WCFs' internal controls are conducted through following channels:

- Clear separation of responsibilities between accountant and cashier. Accountant regularly reconciles balances in detailed accounting book with balances in cashier's cashbook and then counter-signed if balances are matched.
- The manager monitors the cashier and accountant by: comparing cash balance in the cashbook with actual cash at vault; reconciling cashier's book with accountant's book and signing in accountant's books if balances are matched.
- WCF's supervisor examines books of accountant and cashier, and cases of problem borrowers.
- The loan appraisal is discussed openly and explicitly in cluster's meetings.

However, the existing internal control system has not addressed the issue of lending to insiders of WCF, such as management staff, BOR members, supervisors as well as cluster heads. Such regulations are essential for preventing abuse of power and working position to get loans in violation with rules and disciplines of the WCF.

5i. External supervision (DWUTF, AAV Coordinator at the commune)

WCFs are now under external supervision of DWUTF and AAV commune coordinators. However, the existing external supervision still has following weaknesses:

- No concrete examination schedule is established;

- No specific supervisory criteria and no examination form are set up;
- Supervision and examination focus on book-keeping but not on cash management and loan records.

6. Client/member benefits

6a. Market penetration and client profile

As of 31 July 2002, 7 WCFs in Tra Son zone have 3,558 members, showing significant role of WCFs in Can Loc district's rural financial market, particularly in meeting the poor women's needs for small loan and savings services.

Gender: most members are female, only few is male. For instance: in Thuong Loc 3/408 members are male, in My Loc 3/634 members are male, in Dong Loc 6/484 members are male.

Ethnicity: All members of WCFs are Kinh.

Data from survey on wealth ranking status of households in communes My Loc, Nhan Loc, Dong Loc, Thuong Loc conducted in April-May 2002 is used for assessing the participation in WCFs of poor households.

Commune		All households		WCF members		WCF members as percentage of all households
My Loc	Richer	201	13.5%	76	13.0%	37.8%
	Middle	746	50.2%	311	53.3%	41.7%
	Poorer	539	36.3%	197	33.7%	36.5%
	Total	1486		584		39.3%
Nhan Loc	Richer	259	18.6%	113	19.5%	43.6%
	Middle	645	46.3%	297	51.2%	46.0%
	Poorer	488	35.1%	170	29.3%	34.8%
	Total	1392		580		41.7%
Dong Loc	Richer	160	16.8%	23	4.6%	14.4%
	Middle	481	50.4%	207	41.6%	43.0%
	Poorer	314	32.9%	267	53.7%	85.0%
	Total	955		497		52.0%
Thuong Loc	Richer	253	20.9%	74	20.8%	29.2%
	Middle	582	48.2%	163	45.8%	28.0%
	Poorer	373	30.9%	119	33.4%	31.9%
	Total	1208		356		29.5%
4 communes	Richer	672	18.9%	210	14.7%	31.3%
	Middle	1708	48.0%	667	46.5%	39.1%
	Poorer	1175	33.1%	556	38.8%	47.3%
	Total	3555		1433		40.3%

Following observations can be made on the basis of wealth ranking result of the 4 communes:

- The level of overall participation on WCFs varies considerably from 29.5% in Thuong Loc to 52% in Dong Loc. Taking the 4 communes as a whole, 40.3% households take part in WCFs.

- The proportion of poorer members to total members (38.8%) is similar to the proportion of poorer households to total households (33.1%).
- The proportion of all poorer households in the 4 commune taking part in WCFs (47.3%) is higher than the proportion of all middle households (39.1%) and all richer households (31.3%).

6b. Financial and transaction cost of WCF and VBARD/VBP loans

Financial costs

WCF borrowers have to pay interests and fee on loans. If interests and fee are all included, the effective interest rates on WCF loans are:

- General loan: 1.36% per month
- Supplementary loan: 1.21% per month
- Seasonal loan: 1.16% or 1.25% or 1.46% per month
- Medium term loan: 1.23% per month

In comparison, VBARD's lending interest rates are 0.8-0.95% per month and VBP's lending interest rates are 0.5-0.7% per month

Therefore, borrowers pay much higher financial cost on WCF loans than on VBARD's or VBP's loans.

Transaction costs

All 65 respondents did not have to pay any transaction cost on borrowings from WCFs:

- + All transactions took place at the community (at cluster's meetings), resulting in no transportation costs.
- + Free loan application forms and free savings books.
- + Communal PC's seal and certification are not required.
- + No kickback for WCF staff or cluster head.

In some way, opportunity costs of the time spent on meetings and of compulsory savings are considered as WCF members' transaction costs. However, in case of Can Loc this argument does not hold because:

- Most members are fond of meetings and do not feel inconvenient for spending time in cluster's meeting.
- Interest rate of compulsory savings is the same as that of voluntary savings and interests are monthly capitalized just like voluntary savings. Many respondents told that they would not be able to save such small savings without WCFs.

At present, in Tra Son zone, Can Loc District VBARD set up an inter-commune branch in Dong Loc commune, facilitating local people's access to banking services. WCF members that have borrowed from VBARD and VBP sources provide useful information on the borrowings from these banks. Transaction costs, in case of VBARD, include costs on forms and borrowing procedures. In case of VBP, there is no fee charged on borrowers, even certification fee of communal PC. Interviews with several VBARD borrowers reveal that borrowers have to pay some kickback to bank officers.

6c. Advantages and disadvantages of WCF loans:

<p>- Advantages of WCF loans (compared with loans from other sources):</p>	<ul style="list-style-type: none"> - Loans are repaid gradually through fortnight installments. - Loan repayment in installments are easier. - Quick appraisal - Frequent access to loans - Simple procedures - No collateral - Not much transportation. In case of bank, borrowers may have to go to the bank many times but cannot meet the credit officer - No under the table costs.
<p>- Disadvantages of WCF loans (compared with loans from other sources)</p>	<ul style="list-style-type: none"> - Loan amount of the first circle is small - Loans size is small in general. - Loan of the next circle is possible only when the previous loan is repaid promptly. - No substantial loan for doing businesses.

Information from dropout members also reveal advantages and disadvantages of WCF loans. Reasons for leaving the scheme given by 14 dropouts are:

- They donot know what to invest on, income is already improved, therefore they don't need more loan (it may due to they don't know the way to make a business or need bigger loans).
- The family has no short-term and frequent earnings, installments are too quick.
- Illness.
- Giving birth
- Group has less than 5 people due to dropout members
- Small loan size
- Being criticized for being late for meetings.

6d. Advantages and disadvantages of savings services offered by WCFs:

<p>- Advantages:</p>	<ul style="list-style-type: none"> - no substantial transportation is required, time saving, easy to make deposits at fortnight meetings. - Easy withdrawal, simple procedure with a fortnight period notification in advance. - Access to frequent savings. - Deposits of small amounts are accepted. - Interests are paid on savings. - Safe, no fear of money loss because all vouchers are booked and strictly managed by WCF staff. - Small savings can have the same interest rate as large ones - Accumulating for large savings
<p>Disadvantages</p>	<p>No disadvantage</p>

7. Significant socio-economic impacts on beneficiaries

Beneficiaries mentioned in this section are WCF members and management staff who directly involved in the scheme. The impact assessment in this report is mainly based on responses of 65 current members of the scheme and from WCF management staff as well as representatives of local authority. However, because most of interviewed members also borrow from other sources, conclusions on scheme's impact on beneficiaries, particularly economic impact such as household's income and assets should be carefully considered.

Impacts on household's income and spendings:

Impacts on household's income are expressed through the diversification of income sources and growth in household's income.

Regarding income diversification: As a rural district, economic activities of communes in Can Loc, particularly communes in the scheme, concentrated on agriculture production, other activities such as breedings, small business, services... only account for small part. Thanks to S&C program in the form of WCF, members have step by step created new jobs, expanded traditional producing activities, helping to diversify non-agriculture economic activities in rural areas.

Main income of newly-joining members is derived from agriculture and breeding activities with income cycles from 3 months to 1 year. However, that scheme rules require principal repayment, interests payment and savings twice a month urges members and members' family actively to seek for more frequent earnings.

Regarding the question of how to make money for fortnight installments, many respondents told that at the beginning they had met difficulties but then they learnt to make plans for short-term money through raising breeding hens, breeding ducks, vegetables, making small business.

Thus, although economic activities in communes under the scheme are still underdeveloped, poor women who obtained WCF loans have strived to make their living, tapped their potential in suitable investment to improve income, escape poverty and step by step getting better off. Their income-generating activities is partly diversifying non-agriculture economic activities in rural areas.

Economic activities of most respondents are successful and profitable. Calculating incomes on different sources is difficult but most respondents told that their income have improved after getting loans and its growth is usually faster than spending growth. Regarding relatively low inflation in Vietnam recently, that household income growth is considerable.

Income growth of borrowers are mainly derived from supplementary income generating activities, such as: cultivating and breeding expansion, trading, brewing,...

Case study of a beneficiary

(Tran Thi Nhan, 44 years old, Group 4 Cluster 2, hamlet So Hanh, commune My Loc):

She has 6 children, 2 died and 1 is disabled. Seven years ago, because her husband had fatal disease and died, she had to borrow 3 million VND from private source with interest of 5% pm. Then, she continued to borrow from private source with interest rate of 3% to pay the 5% interest rate debt. She borrowed 700.000VND from VBP in 1998 to pay private lenders. Afterward, she also borrowed 500.000VND VBARD to pay previous debts. She joined WCF in 1999 and got many types of loans to

raise pigs, cattle and invest in production. Now, she has 01 pregnant cow, 3 pigs and 2 newly-digged fish pond. She has now nearly paid off WCF general loans. In addition, she also borrows 1.5 million VND of medium term loans to pay debt from private source. At present, all debts from private sources have been repaid and at present, she just borrows loans from WCF with many types of loans (4 types). According to her, WCF loans have many advantages and help her to solve many issues. Particularly, WCF loans help her to develop breedings. Thanks to WCF, she has been able to save to pay up debts easily.

If loans repayment goes smoothly, she will get loans to expand her kitchen to make alcohol and breed sows. After joining WCF, she feel fit and less worried. She said "Without WCF I cannot have savings and to be better off as today. Before joining WCF I earned not enough to eat, I had to go to work without breakfast, then just 9-10 am I felt hungry and wanted to go home. Now I can afford 3 daily meals, therefore I can work until noon without hunger. Thanks to that I can work much more".

Impacts on household assets:

After successful use of loans from WCF, most borrowers have bought new furniture such as: bicycles, motors, televisions, cassette players, electric fans, electric cookers, tables and chairs, wardrobe or they upgrade, repair their houses, making house's foundation, digging well, improving garden, building water tank, building WC.

Besides, borrowers also use that money to purchase working tools and trading place such as: building restaurant; buying restaurant's equipment; setting up working capital; purchasing buffalos, breeding ducks, brewing tools, plowing machines, water pumps; buying wholesale goods for retail selling; expanding breeding facilities.

Impacts on ability of accessing formal financial sources:

For some people, before accessing scheme's loans they had no access to any other capital sources due to many reasons: fear of being unable to pay large debts, do not know how to make plans in daily life, donot know how to make ends meet for loan repayment,... Before accessing scheme's loans, their main solutions to the lack of capital are selling labor forces, borrowing from private sources, selling rice and only some can have access to bank loans. After joining WCF, many members have overcome these obstacles through the familiarity of WCF's lending services.

Although the WCF model doesnt have direct impact on the linkage of members to VBARD and VBP as the target, it partly affects members' ability in accessing formal financial sources such as VBARD's and VBP's loans through followings:

- + With a certain period joining the scheme, many members have known how to write a loan application form (donot need to write and correct repeatedly), how to make production plans when applying for loans from other sources.
- + Capital management and capital turnover skills are improved
- + Perceiving the need of savings for loan repayment.
- + More self-confident in doing business.

+ Local authorities also reveal that: WCF members with good credit history have advantage in appraisal process for getting bank loans (if local authority's verification is needed) because they already have certain credibility. According to several members, their history of prompt loan repayment help them to get commune women union's trust and the women union has facilitated them to borrow from VBP under the prestige guarantee of the union.

Another impact of the scheme is that it has set up a microfinance service provider suitable for the poor in addition to formal credit institutions such as VBARD or VBP. It is not concluded that WCFs are competitors of VBARD or VBP given WCF loan and savings products, to a certain extent, have their unique features (such as small savings, small loans diversified in types, size and payment method), and VBARD and VBP seem to have no intention of entering into competition with WCFs (in another word they pay little attention). Although this outcome (linking member-poor household with VBARD or VBP) is not the original target of the scheme, it is obviously that members' living conditions and economic situation have been improved with small savings-credit services of WCF and consequently their demand on savings and credit services is changed and they become potential clients of VBARD or VBP. This also means that members have more chance to access formal credit institutions as VBARD and VBP.

Impacts on woman empowerment:

Impacts on members:

Main impacts of credit-savings scheme are:

S&C scheme has taught poor women doing business, particularly saving and investing for their own families. This is also in accordance with Vietnam's Communist Party and Government orientation. That installments are some way similar to "put money into money box" makes women get used to saving and making plans suitable to their capacity, contributing to hunger elimination and poverty alleviation.

Regarding community relation strengthening, poor women are linked with each other, inferiority complex is removed.

Before joining the scheme, most of family borrowings are done by the husband and the wife sometimes is not fully informed about: borrowing amount, interest rate, payment method,....

That woman members can directly borrow from the scheme gives women chances to take an active position in talking with their husband, they can actively use and manage borrowings in income generating activities. Their role and position in their family have been changed.

According to many members, their husbands have given them a helping hand since they joined the scheme, such as:

- + Provide favourable conditions in terms of the time
- + Agreeing to their participation in the scheme because that brings benefits, improves family happiness and living conditions.
- + Giving them strong support, helping them to make money for installments
- + Babysitting, managing kiosk when they go to the meetings
- + Encouraging them to join the scheme and get loans for breedings
- + Taking part in making family's breeding and producing plans.
- + Reminding them to make installments promptly

- + Reminding them to go to meetings
- + Discussing investment and economic improvement plans
- + Encouraging them to join Women's union

Through training courses, trained members have been aware of the need of solidarity and cooperation in a community.

Thanks to requirement of fortnight installments, women have become more active, more creative in finding frequent income generating activities.

Impacts on program staff (including Women's union staff):

Through training courses and their direct participation in scheme management process, WU staff's capacity has been enhanced.

So far, Can Loc District Women's union and VBARD and VBP have coordinated in lending union members under prestige guarantee of the Women's union. In Can Loc, although VBP's disbursement is implemented through women's union, VBP loans are not directly managed by women's union, the women's union only play a role of prestige guarantor and payment enforcer. That District and commune Women's union directly participates in program management with a closely-monitored accounting book system has enhanced their staff capacity, particularly in leadership, organization and financial management.

According to commune Communist Party and authority, thanks to the credit-savings scheme, movements of Can Loc district women's union have had positive, plentiful and practical changes, fulfilling the task of encouraging members to join the Union's activities. The scheme's activities are also accordant with economic and politic goals of women's movements. The scheme has equipped women's union staff with economic and business-doing knowledge. The scheme has reached poor women who have little attention and access to institutions.

8. Recommendations

8a. Commune level

i) Loan types

- It should be applied same interest rate and fee for same loan type (general loan, medium term loan, supplementary loan, seasonal loan) in all WCFs.
- General loan approval should be strict in principle that loans to a member start at small size and gradually increase in size. The practice that allows members to get large loan in the first circle should be avoided.

ii) Compulsory savings

- Compulsory savings should be separately monitored and clear and concrete regulations on withdrawal.
- Compulsory savings requirement should be unified in communes.
- Regulation of monthly interest capitalization should be reviewed. Compulsory savings balances under a certain level may get no interest because this calculation burdens WCF staff's workloads.

iii) Voluntary savings

- WCF management staff should encourage the mobilization of voluntary savings from members. Voluntary savings is the local long-term source of funds that reflects the mutual cooperation of members. However, due to the lack of legal framework on social political organizations' microfinance programs, at present, voluntary saving mobilization from non-members should be avoided.
- Additional and innovative savings products, for instance, time deposits with more attractive interest rate, should be studied and designed both to meet members' demands and to be suitable with the WCF staff's management capacity.

iv) Delinquency and overdue loan tracking:

- WCFs' management staff should grasp the information on members' repayment problems before these problems get worse. Managers should be aware of cases that group members or cluster head have to make payments for members having late repayments.

v) Loan loss provisioning and Write-off policy:

- WCFs that have had inadequate loan loss reserves or made no provision must make loan loss provisioning of 2% total outstanding loans at the end of the year.
- In addition to loan loss provisioning of 2% total outstanding loans at the end of each year, regulation on additional provisioning for delinquent and overdue loans should be established as follows:
 - + 35% of total loans delinquent for up to 1 year.
 - + 100% of total loans delinquent for 1 year or more.
- Regulations on writing off loans over due more than 1 year should be established. The writing off of bad loans does not automatically remove the loan collection of overdue borrowers, it only serves to reflect accurately and prudentially loan portfolio quality of the WCF.
- A formal write-off policy for bad loans should be formulated. It is recommended that loans overdue more than 1 year should be written off. However, rigorous collection efforts after writing-off these loans should be continued. Any collection of written off loans should be included in income statements as special income.

v) Cash management policy:

- Regulations on maximum cash kept at cashier's safe should be formulated.
- All cash transactions (including advance payment, AAV's grant support,...) should be fully booked in accountant's and cashier's books with accompanying payment and receipt documents.

vi) Professionalizing management staff

- In WCFs, concurrent positions, particularly manager position, is taking a high percentage of total personnel. Management staff should be professionalized on full-time working basis. This helps responsible people to handle essential work and to improve necessary skills.

vii) Cluster's meetings

- Regular cluster's meetings are recommended to be continued and strengthened. Cluster's meeting is an important part of the scheme, influencing members' observance of rules, credit disciplines.

viii) Professionalizing liquidity management

- At present, liquidity management is adopted case by case. Although it creates favourable conditions for depositors, it has put borrowers at a disadvantage. Several approved borrowers are not disbursed, this delay is due to WCF's priority to savings withdrawal. This ad-hoc methods, in long term, can discourage borrowers and make them drop out of the scheme.

ix) Legal registration

In general, WCF institutionalization accompanies with DWUTF institutionalization as a unifying entity. The evolution of developing legal framework for microfinance activities of institutions other than credit institutions (conducted by State Bank of Vietnam with ADB's assistance) should be kept track by AAV and DWUTF for incorporating adjustments on WCFs.

In addition, regarding relatively sustainable WCFs as Nhan Loc and My Loc, transforming into People's credit funds with special operational mechanism (delivering savings and lending services through groups and clusters as present) is a possibility should be considered by AAV. To realize this idea, AAV should persuade relevant authorities (eg., SBV) to launch the above mentioned pilot specific model. In pilot period (maybe 2-3 years), AAV may play the role of a technical assistant and guarantor for those funds' operation. Those funds may be "sample" for the transformation of other eligible WCFs. This transformation, however, can not be applied to all WCFs at a time. Transferred WCF should be selected carefully, ineligible funds may continue to operate in present form under the supervision of DWUTF.

x) Financial statement

- Compulsory and voluntary savings are 2 different assets, the 2 saving balances should be separated in balance sheet.
- Financial statements, both archives and sent ones, should be signed by the author and supervisor.

8b. District level

i) DWUTF supervision

DWUTF supervision should be enhanced in order to discover WCFs' violation for prompt corrective actions. PEARLS system should be applied to assess WCF operation regularly.

Along with financial supervision DWUTF should pay due attention to non-financial factors, such as: whether WCF current members are targeted clients of the scheme.

DWUTF supervision capacity should be strengthened by reinforcing personnel working on full-time basis and by training on supervision skills.

ii) DWUTF lending interest rate

To motivate WCFs' saving mobilization, DWUTF's lending interest rate should be set at higher than the interest rate paid for member savings by WCF.

iii) DWUTF lending criteria

DWUTF should establish explicit criteria for lending to WCFs. These criteria should include:

- The quality of the WCF's loan portfolio.

- The current dependence of WCF on external capital from DWUTF.
- The institutional capital of WCF.

iv) Legal registration

It is recommended that DWUTF seeks some form of legal recognition from Provincial Women's Union given the fact that WCF activities, in certain aspect, are implemented under the women's savings group model permitted by Prime Minister.

v) Financial statements

- The preparation of consolidated financial statements for the 7 WCFs should be continued. This consolidated statement is useful for reconciliation with DWUTF statement.
- When transforming to new accounting books of accounting system, account balances must be verified, any deficits or imbalances must be acknowledged in written minutes.

vi) Regulations and rules:

- To ensure the observance to program's regulations and rules of relating people, such as DWUTF staff, WCF Management staff, cluster heads, group leaders as well as scheme members and to facilitate the supervision function, DWUTF should systemize scheme's regulations from amendments, training documents and agreements,