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Housing Microfinance in Vietnam

A Report on Research Performed for

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Preface

This paper is a report on research performed for The Netherlands Development Finance Company (FMO) as part of the International Business Research 2008 project of the Faculty of Economics & Business, University of Groningen, The Netherlands. In the period of February to August 2008 we, Ms. Hanna Ruben and Mr. Charles Cornelis, two senior students at the Faculty, conducted research into the subject of microfinance for housing in Vietnam.

Our sincerest gratitude goes out towards a great number of people who have helped us in our research and in the process of writing this paper.

Firstly, our heartfelt gratitude goes to Bas Rekvelt, Brigitte Stolk and Arno de Vette of The Netherlands Development Finance Company (FMO) for all their help, advice and comments.

Secondly, we are grateful to our interviewees who welcomed us so warmly, many of whom directed us to even more interesting people. We also would like to express our special thanks to our interpreter Ms. Hanh Hoang, who provided us with vital information and was a great help when calling non-English speaking banks.

And last but not least, we would like to thank all others who stood by us and supported us. Amongst them are our supervisors Thomas de Boer and Karel Jan Alsem, who we would like to thank for their clear reviews on the drafts of our research and their guidance in Vietnam. Additionally, we express our thanks to our fellow-students of the International Business Research project who travelled with us to Vietnam and provided us with good quality time. Finally, we would like to thank our family and friends who supported us to begin this great adventure and always were near us, even when far away from home.

Hanna Ruben & Charles Cornelis
August, 2008

Executive Summary

This study was performed to acquire The Netherlands Development Finance Company (FMO) insight on Housing Microfinance (HMF) in Vietnam, hereby assisting FMO in deciding whether and how to invest in HMF. The research explores the market, both supply and demand, for Microfinance (MF), Housing Finance (HF) and Housing Microfinance in Vietnam (HMF). The main objective of this work is to undertake an evaluation of supply and demand for HMF in Vietnam. The objective is to become familiar with the main players of (H)(M)F mechanisms in Vietnam, and to assess Vietnam's low-income HMF programmes and initiatives. Also, attention is given to potential demand. In addition, it is the goal of this paper to understand the evolution and scope of HF problems in Vietnam as well as the patterns and trends of HMF in Vietnam.

The methodology of this study was to review the various relevant literature, including the major methods of this study. This also involved a review of related websites on housing, HF, financial institutions and public finance. Most importantly, face-to-face interviews with experts involved in MF, HF and HMF in Vietnam were conducted in order to acquire an up-to-date and complete overview of the market, including its most recent developments.

Concerning the different Microfinance Institutions (MFIs) a broad variety can be observed. In the public sector, the two largest formal players are the state banks Vietnam Bank of Social Policies (VBSP) and Vietnam Bank for Agriculture and Rural Development (VBARD). Additionally the People's Credit Fund (PCF) network is a large formal cooperative with many small autonomous branches. The semi-formal public actors in the MF market are many. These are Mass Organizations (MOs) such as the Vietnam Women's Union (VWU). The VWU is not a direct supplier of MF itself but owns three specialized MF funds, being Binhminh CDC, Thanh Hoa and Tao Yue May Fund (TYM), who provide MF products. Additionally, the Capital Aid Fund for the Employment of the poor (CEP) supplies MF products. In the private sector more than 50 International Non-Governmental Organizations (INGOs) are involved. Finally, the informal economy also plays a significant role in MF and used to be the most important source of MF.

In Vietnam three formal State Owned Commercial Banks (SOCBs) provide HF products for individual households. The banks in question are Vietcombank, Vietinbank and the Mekong Housing Bank (MHB). In the private sector, HF products are offered by several Joint-Stock Commercial Banks (JSCBs). Additionally, several (private) international banks have entered the scene, taking only a marginal share however.

As HMF is a relatively new concept, it is little of a surprise that those institutions currently providing true HMF-products are few. At the moment there is only one provider, CEP that has taken HMF to a significant level. To be fair, another party that could be regarded as providing HMF, be it at smaller scale, is the VBSP. More genuine HMF projects are on their way, however. TYM is very near to starting a pilot and Binhminh CDC is currently still in the process of designing a suitable HMF-product.

The HMF-products currently supplied as well as those that will be offered in the near future are quite similar, although there are important differences in some product characteristics. All HMF-products are directed at the poorest households and mainly to women and for upgrading purposes, except CEP. All require the applicant to demonstrate that he/she is the legal proprietor of land and structure, except for TYM. Loan sizes for housing-upgrading vary between 160 United States Dollars (USD) to 940 USD. Corresponding loan terms lie between 50 weeks and 156 weeks. Interest rates of the larger and longer term loans are lower than the smaller and shorter term loans. All loans are issued and disbursed at once, monthly or weekly in cash by loan officers. The repayment schedule is weekly or monthly, in cash, depending on the needs of the client. None use joint-liability group lending, but all use group setting social control mechanisms

to enhance loan security. HF products of both public and private commercial banks (SOCBs, JOSCBs) are very much traditional mortgages: large loan size, long loan term (up to 20-25 years), market interest rates (currently 18-20 per annum), collateralized by the land and/or property. Some SOCBs seem to be starting to realize the potential of the middle-income market and are thinking of ways to serve it.

When turning to the specific opportunities for HMF on the Vietnamese market, we have to remark that the very limited amount of HMF-products available today stands in sharp contrast with its potential demand. Within this enormous potential market, the Vietnamese with higher-income levels and of younger age will demand more HMF. Rural and urban households could both be attractive. The answer to the question of which sub-segment is in the end most attractive depends on the objectives MFIs have. These objectives may concern impact, outreach and financial sustainability.

Regarding the future of HMF in Vietnam, most importantly the coming 5 years, the following are the most important conclusions about the expected developments of the market and its larger macro-environment.

- Firstly, not only is HMF-demand high today, there are positive signs that it will continue to be in the future.
- Secondly, on the supply side, those institutions that will become legal MFIs under the new Decree nr. 28 will be able to upscale their projects, expand their outreach and diversify their products.
- Thirdly, once more concerning supply, current HF-providers (most notably JSCBs) might move more down-market.
- Fourthly, the current high inflationary pressure is a worry.
- Finally, the turbulent boom-bust real estate market is a short term uncertainty.

Finally, here follow the recommendations on what possible paths FMO can take in diversifying its activities in Vietnam by expanding its funding to HMF-providers. We distinguish two clearly different options.

The first option is to fund a HMF-initiative of one of the specialized MF-funds that are currently planning to become a legal MFI. The target group of such HMF-products would foremost be low-income households in rural areas and/or poor to low-income households in urban areas. The advantage of this option is that great impact and outreach are most certainly achieved. The disadvantages of this option lie in the potential difficulties that may be encountered in attaining outreach and financial sustainability. There are, however, some factors that ameliorate the disadvantages op option 1. Firstly, concerning outreach: the quality of some of the existing networks that some Non-Governmental Organisations (NGOs)/MOs (thus future MFIs) have is very high. Secondly, building sustainable products promises to be much better possible under the new MF-decree.

The second option is to fund a JSCB which is willing to add HF-products to its portfolio that are directed significantly more down-market than is currently the case. Such a H(M)F product would be targeted at households with a stable job and income. It would therefore be best to focus on urban areas, where these households can be found most. Advantages of this strategy are that more outreach as well as larger degree of sustainability can be attained. The main disadvantages of option 2 are that impact and outreach are certainly less when providing such a product.

Thus, two clearly different possibilities to fund a HMF-provider in Vietnam are set out, representing two different strategies. For FMO, or any financial supporter of MFIs, it is the task to set priorities on these objectives first, and then choose the target group, the product, and the MFI that suits these objectives best. After these choices are made, to discover whether success is attainable or whether adjustments need to be made, a preliminary pilot project seems to be a good advice.

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List of Abbreviations

ACB	Asia Commercial Bank
ADB	Asian Development Bank
ANZ	Australian and New Zealand Banking Group Limited
ASCA	Accumulated Savings Credit Association
BIDV	Bank for Investment and Development
BTC	Belgium Technical Cooperation
CCF	Central Credit Fund
CEP	Capital Aid Fund for the Employment of the Poor
DB	Deutsche Bank
DW	Development Workshop
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FMO	The Netherlands Development Finance Company
FU `	Farmers Union
GDP	Gross Domestic Product
GSO	Vietnam General Statistics Office, Government of Vietnam
HCMC	Ho Chi Minh City
HF	Housing Finance
HFH-I	Habitat for Humanity International
HFH-V	Habitat for Humanity Vietnam
HFI	Housing Finance Institution
HMF	Housing Microfinance
HMFI	Housing Microfinance Institution
INGO	International Non-Governmental Organization
IPO	Initial Public Offering
IZ	Industrial Zones
JSCB	Joint Stock Commercial Bank
MDGs	Millennium Development Goals
MF	Microfinance
MFI	Microfinance Institution
MHB	Mekong Housing Bank
MO	Mass Organization
NGO	Non-Governmental Organization
PCF	People Credit Fund
ROSCA	Rotating Savings Credit Association
SBV	State Bank of Vietnam
SEP	Social-Economic Plan
SNV	Stichting Nederlandse Vrijwilligers
SO	Social Organization
SOB	State Owned Bank
SOCB	State-Owned Commercial Bank
TYM	Tao Yue May Fund
UN	United Nations
USD	United States Dollars

VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
VBSP	Vietnam Bank for Social Policies
VND	Vietnam Dong
VWU	Vietnam Women's Union
VYU	Vietnam Youth Union
WB	World Bank
WTO	World Trade Organization

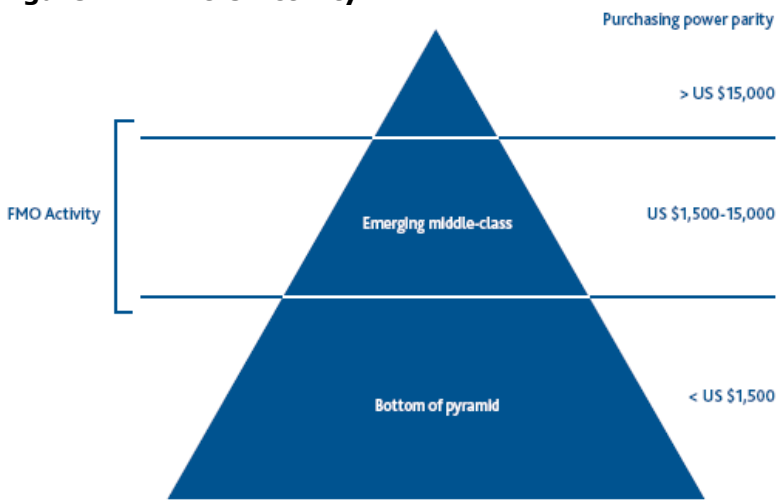
I: Introduction

1.1 FMO

The Netherlands Development Finance Company (FMO) is the international development bank of the Netherlands. FMO invests risk capital in companies and financial institutions in developing countries. FMO's investment portfolio is currently EUR 3,4 billion, and FMO is one of the largest bilateral development banks worldwide. Thanks in part to its relationship with the Dutch government, FMO is able to take risks which commercial financers are not - or not yet - prepared to take. FMO's mission is to create flourishing enterprises, which can serve as engines of sustainable growth in their countries and its aim is to make sure that impact is positive, and not just in terms of economic development. Therefore FMO determines investments based on social and environmental development criteria. Development impact is important to local communities because it means building a job market, generating taxes, increasing skills levels, adding reliable infrastructure and more, while still paying due regard to corporate governance, environmental and social standards.

Furthermore, FMO has an additional and catalysing role. The first role entails that FMO aims to serve markets in which commercial actors are not (yet) willing to operate. Therefore they choose to serve the emerging middle-class and not the upper or lower classes, which can serve themselves or are served by other organizations respectively. When serving the emerging middle-class, however, FMO is drilling down into the 'pyramid' (see figure 1.1) as far as possible.

Figure 1.1: FMO's Activity



Source: FMO

Secondly, by investing on an additional basis in such markets, FMO aims to encourage other private investors to follow suit. In playing such a catalysing role, FMO can contribute to the building of markets for the middle-class and in this fashion to the development of a country.

To fulfil its mission of economic development, FMO is a significant investor in microfinance funds worldwide. Recently, FMO has put more emphasis on housing microfinance (HMF), with its attention to Vietnam as a possible investment opportunity.

1.2 Housing Microfinance

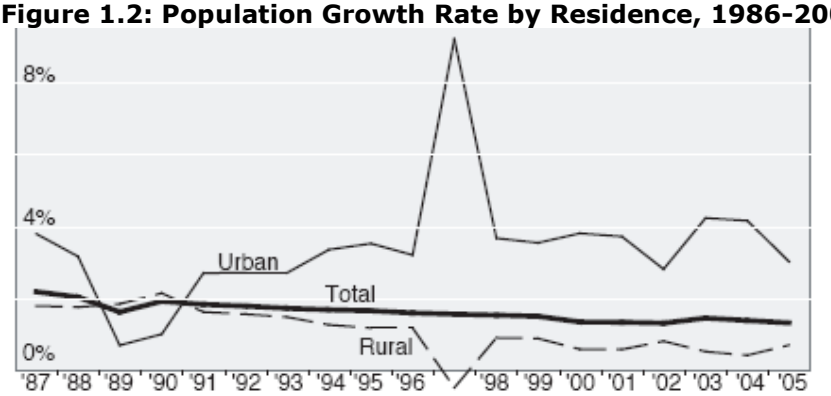
Proper shelter meets a basic human need and can present a major capital asset for poor families. HMF provides families that are not considered to be bankable with the opportunity to construct or upgrade their homes by means of small loans. Although still only recently in practise as compared to traditional forms of Microfinance (MF), HMF is increasingly employed by public institutions and Non-Governmental Organizations (NGOs). Additionally, private institutions are increasingly attracted by the promise that HMF can have considerable impact and outreach for lower income groups while remaining financially sustainable[1].

1.3 Vietnam

Vietnam is a large, complex and miraculous country. Its 86 million (2007)[2] population is mainly rural, but the development of a substantial industrial sector over the last twenty years has pulled millions from the countryside into Vietnam's urban industrial areas, profoundly altering the profile of the country. Policymakers are rushing to keep up with the economy and the population but are still far behind, producing at best, fractured, uncoordinated, solutions that fail in implementation.

Demographics
The total Vietnamese population grows on average with 1.5% annually, but the urban population had a much higher growth rate of about 3% (over four times the growth rate of the rural population (0.70%). The government has tried to slow down population growth, but failed as the growth rate is rising again. The Socio-Economic Plan for 2006-2010 (SEP) sets a target of "about 1.14%", with the population remaining under 89 million by 2010.

Figure 1.2: Population Growth Rate by Residence, 1986-2005



Source: Vietnam General Statistics Office (GSO)

Household size is generally shrinking even though the overall population size is increasing. Three fundamental factors drive this. First, urban migrants often leave their family home in rural provinces to move to the city, doubling the number of households occupied by that family. Second, the population is young: in 2007, 40% is under age 24 and many are just starting households of their own. Finally, with its young generation, cultural preferences are shifting towards smaller households.

[1] Further discussion on the concepts of impact, outreach and sustainability of (housing) microfinance will be left for Section II.
[2] Source: http://www.worldbank.org.vn

This basic demographic shift will increasingly pressure housing stocks, especially in urban areas, over the next two decades, tightening urban land markets and driving growth of suburban areas. As housing prices go up, more people will be priced out of home ownership.

Economy
Vietnam's broader economic growth over the last two decades is reshaping the nature of poverty and housing. Main factors driven by economic growth are urban migration, increasing income inequalities (especially between urban and rural households), driving up the cost of land and housing, and generating an urban renting class.

In 1986, Vietnam began a series of economic reforms known as "Doi Moi" ("renovation"). These reforms included allowing foreign direct investment (FDI) in particular sectors of the economy, especially industry. Vietnam became a member of the World Trade Organization (WTO) in January 2007, and it plans to further liberalize its economy.

Following the lead of other industrialized East Asian countries, the Vietnamese government established special areas called export processing zones (EPZ) and industrial Zones (IZ). Investors who establish factories receive favourable terms, such as exemption from export duties. These zones are concentrated in and around Ho Chi Minh City (HCMC) and Hanoi. The economy has responded to these reforms extraordinarily well. In the seven years between 1998 and 2004, per capita gross domestic product (GDP) increased over six times, and the economy has become diverse and reasonably steady.

In addition to its industrial growth, agricultural yields have increased substantially.
Vietnam is now the world's second largest exporter of coffee (behind Brazil) and rice (behind Thailand).

Since 1986 – and despite overall growth in the sector – agriculture's share of the nation's GDP has shrunk from a third to a fifth, first to growth in the service sector and then to industry. Further, agricultural growth has been slowing. Government planners set a target of less than 50% of the labour force employed in the agricultural sector by 2010. With most industrial growth concentrated in four major areas, and especially in and around Hanoi and HCMC, Vietnam's economic future is urban.

Thus, Vietnam can rightfully be called one of the economic miracles of the past decade where the Millennium Development Goals (MDGs) – especially the poverty reduction goal - are high on the agenda as the government has used financial services for the poor as a powerful instrument in poverty alleviation, particularly in the rural regions[3].

1.4 Research Objectives

The objective of the research is to provide FMO with vital information which can help it decide which HMF product it could provide in Vietnam, either in collaboration with an available institution or by a newly set-up partner.

To fulfil this objective we formulate the following purpose of our research:

To provide FMO with insight into the market structure and market dynamics for housing microfinance (HMF) in Vietnam.

[3] Source: http://www.bwtp.org

The research is divided into three overlapping research questions. First of all a scan is made of the public and private parties that offer MF products. Secondly, (some of) these parties will be investigated. Furthermore, opportunities for private institutions that consider entering the Vietnamese market are explored. To address all these issues the following research questions were formulated.

1. Which MF institutions are active on the Vietnamese market?
- *1.1 Which publicly owned microfinance institutions (MFIs) are active on the Vietnamese market?*
- *1.2 Which private owned MFIs are active on the Vietnamese market?*
- *1.3 Which publicly owned MFIS are providing housing products on the Vietnamese market?*
- *1.4 Which publicly owned MFIs are providing housing products on the Vietnamese market?*

2. How can the HMF products of public and private parties be described?
- *2.1 What are the different opportunities for HMF that the individual public parties offer? (duration, guarantees, spending restrictions, interest rates)*
- *2.2 What are the different opportunities for HMF that the individual private parties offer? (duration, guarantees, spending restrictions, interest rates)*
- *2.3 Which conditions have to be fulfilled by Vietnamese low-income families to get a housing credit from a public institution?*
- *2.4 Which conditions have to be fulfilled by Vietnamese low-income families to get a housing credit from a private institution?*
- *2.5 How many housing loans are provided by each of the selected public institutions?*
- *2.6 How many housing loans are provided by each of the selected private institutions?*

3. What are specific opportunities for private institutions to offer HMF on the Vietnamese market?
- *3.1 Which HMF products offered by locally operating finance institutions are consumed most by the Vietnamese low-income families?*
- *3.2 Which geographical regions are the most attractive to start providing HMF?*
- *3.3 How is the market for HMF expected to develop within the next 5 years?*

1.5 Methodology

This part explains how the research of this report was conducted. The research consisted consist of three phases; the desk research in The Netherlands, the field research in Vietnam and the reporting phase in the Netherlands.

In the first phase – the desk research – research was done on Vietnam in general and then focused on MF, Housing Finance (HF) and HMF on the whole. Therefore literature, other secondary data and interviews with mostly academics were utilized. Simultaneously, contacts and appointments were made for the field research. During the second phase, the field research in Vietnam, the interviews were the most important source of information. Many experts of several kinds (academics, practitioners at banks, NGOs, property development agencies and local families) were interviewed and a field trip was arranged. Furthermore, writing of the report was started in parallel.

During the interviews with the academics information on the legislation for foreign MFIs, future prospects for the Vietnamese economy and the MF, HF and HMF market in Vietnam was gathered and new contacts were derived from the interviewees. The interviews with practitioners at banks and NGOs focused mostly on the supply side. HMF

product characteristics were identified and filled in for the different institutions. Furthermore, more information on the governmental and regulatory environment concerning (H)MF was collected.

As many academics and practitioners at property development agencies had different opinions, a statement was considered true when heard a minimum five times, weighted by the earlier read secondary data. At all banks and NGOs the same checklist was used to identify the product characteristics (see Table 2.2). A family was chosen to interview on a non-random basis due to time constraint and a priority set on interviews with experts.

In the last phase – the reporting phase – the report was finished and the results were presented (written and orally) to the FMO.

The role of the supervisors during all three stages was to keep a close eye on the quality of the research and report. In the first stage, they gave classes on performing research, interviewing and reporting. In addition, they guided the creation and development of a sound research proposal and project planning. In the second phase, they travelled along to Vietnam where they supervised the progress and helped solving problems.

1.6 Report Structure

The following section will deal with HMF by beginning at its MF and HF roots and then relating these to HMF. The third section will deal with market developments and challenges for the upcoming five years. The next section exists of a supply analysis on the different products offered by MFIs in Vietnam. The section distinguishes MF-, HF- and housing microfinance institutions (HMFIs) and their different products offered. After that, in section V, the report will turn to the demand analysis, segmenting by income, age and area of residence (rural/urban). Each section from II to V will conclude with a brief discussion on the main implications of the findings of that section to MFIs and their funders. Finally, a concluding section will follow on the opportunities and threats concerning HMF in Vietnam and FMO's possible role in that.

II: Housing Microfinance

In this section of the report we explain the concept of Housing Microfinance (HMF). HMF can best be understood by explaining its roots: Microfinance (MF) and Housing Finance (HF). After that, we will turn to how HMF relates to MF and HF – and what makes it unique. This will lay the theoretical basis on which our market research on HMF in Vietnam rests.

2.1 Microfinance

MF is the provision of financial services to the poor. This is a deceivingly simple explanation for a phenomenon which lacks a universally accepted definition (Khawari, 2004). But a good general description would be that MF is the provision of a broad variety of financial services such as payment services, money transfers, insurance, but more typically deposit-facilities and loans for groups or individuals in lower income groups and their households or micro-enterprises.

2.1.1 Financial Exclusion of the Poor

Providing the poor access to credit or other financial services to help them smooth consumption or invest in their future is generally seen as an important contribution to poverty reduction in developing economies. Indeed, it is seen as essential in achieving the Millenium Development Goals (MDGs) on poverty reduction as set by the United Nations (UN) (Hermes & Lensink 2007). The poor are in need of such services like anyone, but fall out of the traditional market. This is due to the fact that they usually cannot put up (acceptable) collateral and because the costs and risks associated with selecting and monitoring creditworthy candidates are simply too high for commercial banks and their traditional products.

Any credit-issuing institution, whether operating in developing or developed economies, has two types of risks to account for when screening and monitoring clients or enforcing contracts. The first is the risk that the borrower may act in ways that undermine his/her capacity to repay, which is known as moral hazard. The second risk is that of adverse selection: the selection of clients that are bad risks. Both risks are the result of information asymmetries: the borrower knows more about his ability and willingness to repay than the lender, i.e. primary information from the borrower to the lender may be incorrect. In developed economies such information asymmetries can be circumvented by the collection of all sorts of secondary information - at acceptable cost. In many developing economies, especially when it concerns the poor, secondary information on the nature of incomes as well as property rights to *de facto* possessions is wholly or largely of informal nature. Information is therefore imperfect to the lender, which creates difficulties in screening, monitoring and enforcing contracts that are insurmountable by traditional methods.

2.1.2 Microfinance Mechanisms

MF was pioneered in the 1970's by several projects, of which those of the Grameen Bank of Bangladesh are best known to have reached scalability. Since then it has evolved to incorporate various techniques / mechanisms to cope with (or make acceptable) the risks and costs associated with such asymmetric, imperfect and informal information (as described above). Simultaneously, new institutions evolved or existing institutions adapted to incorporate theses mechanisms. As put by Morduch (2000): "the MF movement exploits new contractual structures and organizational forms that reduce the

riskiness and costs of making small, uncollateralized loans"[4]. The following is a brief overview of the general mechanisms employed by microfinance institutions.

- *Peer selection*
  The usage of group lending is a method often practiced and has been researched extensively. In group lending, credit is only provided to groups of individuals who are jointly liable for each others debts. The idea is that, in this way, individuals who know of each other to be good debtors will form groups. Social capital is hereby leveraged to overcome the risk of adverse selection.
- *Peer monitoring*
  The practice of group lending has yet another effect, namely that within such a group there will be social control (peer pressure) between one another to be a good debtor. As a result, the risk of moral hazard is reduced.
- *Dynamic incentives*
  Dynamic incentives for repayment can be provided by so-called linked- and/or progressive lending: only after successful repayment of one small loan may a client take up another loan – one that is often larger in size and/or longer in required repayment term. Such non-refinancing threats therefore make high moral hazard risks visible, reducing the risk of adverse selection in the portfolio as a whole and so increase repayment rates (Armendariz de Aghion & Morduch, 2000).
- *Regular repayment schedules*
  Additionally, it has become common in MF to require monthly or even weekly repayments, so that considerable discipline is required of the borrower and that potential problems may emerge early. Once again, moral hazard and adverse selection risks are reduced. Especially when such regular repayment schedules are combined with dynamic incentives, bad risks can be much more effectively identified at an early stage with minimal harm done.
- *Other Collateral substitutes*
  Finally, microfinance has introduced several different substitutes for traditional physical collateral (such as a house or land). For example, individuals can be required to save a certain amount/percentage of the loan up front or set it aside during the lending term. Such mandatory savings can also be used in group lending, when the savings take form of a group fund. Additionally, individuals can be required to have co-signers on the contract.

2.1.3 Finding Best Practices

By using above mechanisms as their guidelines, Microfinance Institutions (MFIs) worldwide try to find the set of best practices in their financial services, thus those firm and product characteristics that suit the local/regional situation, the firm's objectives, and the MFI's target clientele best. Two questions then arise. Firstly, which institutions can be considered MFIs? Secondly, when can a MFI be considered "successful", i.e. what are the objectives by which it can measure itself?

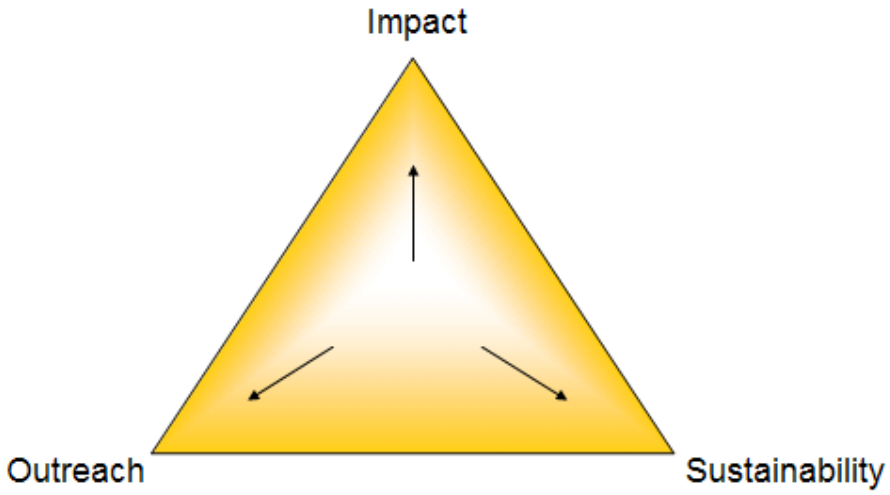
Concerning the first question, in general 3 types of MFIs can be distinguished: formal, semi-formal and informal MFIs. Formal MFIs can be *any* private or public (i.e. state-owned) institution that can issue credit and falls under all banking laws such as state banks, commercial banks and credit unions (cooperatives). Semi-formal MFIs are usually (private) Non-Governmental Institutions (NGOs), Mass Organizations (MOs) or Social Organizations (SOs) of any ownership type or governmental/public programs, e.g. by Ministries concerning rural development. Informal MFIs are families, friends or communities who together save and invest without interference of formal or semi-formal

[4] Morduch, J. (2000), "The Microfinance Schism", World Development, 28/4: pp 617
To this quote we would like to note, however, that – in our opinion – the term "uncollateralized" should be interpreted as "uncollateralized in traditional ways",

market actors. In literature these are often known as Rotating / Accumulated Savings Credit Associations (ROSCAs, ASCAs), where groups of individuals save money together and either rotate the funds between them or accumulate it for common purposes. Thus in general, any public or private (or mixed ownership) institution offering financial services to poor or lower income groups can be considered an MFI. The actual type of services provided and the clientele reached can differ significantly with the MFIs degree of formality and ownership structure, depending on its objectives, to which we turn next.

Turning to the second question, we can say that an MFI´s success can be determined by the degree to which it reaches three objectives: impact, outreach and (financial) sustainability. Impact refers to the effect upon the client's quality of life; outreach to the extent of the poor reached, both in numbers and depth of poverty; sustainability to meeting operating and financial costs in the long term (Zeller & Mayer, 2003). The ideal is to achieve all three objectives to the fullest. In reality, however, there may exist tradeoffs, which is why it is known as the "critical triangle" (see Figure 2.1). Particularly achieving sustainability together with large impact and/or outreach has been proven a challenge, thus "the win-win proposition (i.e. that impact and outreach can be achieved sustainably) turns out to be far more complicated than it would seem at first"[5]. Even so, the concept of the triangle is still valuable: it shows how an MFI may have to prioritize one or two sides of the triangle – although striving for all three. In Figure 2.1, this tension between the three objectives is expressed by the arrows pointing towards either corner.

Figure 2.1: Critical Triangle of Microfinance – adapted from Zeller & Mayer (2003)



This prioritizing choice which an MFI may have to make is of course dependent on many possible factors in the external environment it which (wishes to) operate. Country or even region-specific circumstances can make a world of difference[6]. But internally, it is dependent on its formal/semi-formal/informal background and ownership structure (as discussed in the previous two 2 paragraphs), for these factors in turn determine (a) the aims (objectives) of the organization as well as (b) the source(s) of the means (i.e. the funds) available. For example, a (non-profit) private NGO with large donor support may achieve large impact and outreach with its MF programs, for it can subsidize its services by these donations. But at the same time is reliant on this donor support. By own means,

[5] Morduch, J. (1999), "The Microfinance Promise", Journal of Economic Literature, 37/12: pp. 618 --- inset in square brackets […] implemented by the authors.

[6] As we here setting the theoretical framework for a case study on Vietnam, we will for now refrain from further specifying external/environmental factors of influence for an MFI. Instead, those environmental factors (e.g. economic, governmental) that are of specific importance in Vietnam will be addressed in Section III.

it may not be completely sustainable. A private bank, on the other hand, with a desire to contribute the development of the poor, but without "free" donor support, may have to trade off some impact or outreach to be sustainable in its operations.

Despite the described "impossible" triangle of MF[7], a Lapenu & Zeller (2001) report on a 1999 survey that in that year MF programs across the globe reached 54 million members, 44 million savers and 23 million borrowers in 85 countries. By providing these poor or low-income families and individuals financial services which they could otherwise not have received, they have been able to improve their quality of life.

2.2 Housing Finance

Traditional HF markets are well established in developed economies and tend to reach households in nearly all income groups. An individual's historic income and credit-record as well as his/her predicted future income streams form the basis of assessing the creditworthiness of the client for a bank. In developed countries, banks and other credit institutions can easily access reliable secondary information to make such an assessment thanks to the large degree of the formality of the financial flows in the economy (transactions, tax payments, etc.). Moreover, the housing asset purchased by the individual by means of the loan (a mortgage) can serve as collateral to that same mortgage. This is due to security of asset-value and property rights that exists in the economic and regulatory environment in these countries.

In developing countries, the picture is often more complicated. The formality of the economy is (much) lower, unpredictable macro-economic circumstances reduce the security of asset values and property rights may be insufficiently or unclearly protected by regulation. This is especially unfavourable for the poor and lower income groups in these economies. Since particularly the poor are active in the informal economy, these people are the most vulnerable to economic downturns, affecting their daily income. The poor often do not have legal ownership over (less valuable) land and property, e.g. due to rapid urbanization or due to the transition from a non-market based economy. Thus, when applying the same mortgaging-techniques in developing countries as in developed parts of the world, especially the poor fall out of the market.

2.3 Housing Microfinance

Our above discussion on MF explained by which mechanisms MFIs attempt to provide financial services to the poor and lower income groups which would otherwise not be available to them. Many types of services have evolved from theory, but in practice financing loans to entrepreneurs of micro-enterprises has become most common. Our discussion on HF subsequently described how in HF markets the problems in developing countries are similar to those of other financial services, once more putting the poor and lower income groups out of the playing field. It becomes clear then, that there is a need for HF on a MF-scale.

[7] As an alternative to the "critical triangle" concept, a different (though not conflicting) way to view the objectives of microfinance is the "financial systems" versus "poverty reduction" approach. See Hermes & Lensink (2007).

2.3.1 Defining HMF

HMF aims to fill in that need; to bridge this gap. Like with the concept of MF, there is no precise definition of HMF. A good start would be, however, to say that HMF is the application of techniques/mechanisms from the MF revolution to HF solutions. Thus, in this perception HMF is the area of overlap between HF and traditional MF. This overlap applies to products (including their target clientele) as well as institutions. Turning first to products, as put by Christen (2004): "We are undoubtedly seeing a blurring of the line between the low-income household and the microenterprise as the primary target of microcredit"[8]. Indeed, "many microenterprise loan programs find that roughly 20 percent of their lending goes de facto for housing"[9], so MF clients had already decided for themselves that they are in demand of HMF. Turning then to institutions (providers), the "overlap-definition" applies too: MF providers may add housing products to their portfolio but just as well may HF providers aim to reach more down-market by adding HMF products.

A more intricate way to define HMF is a two-fold approach, namely to distinguish a product-based definition and a provider-based definition of HMF (Daphnis, 2004). The product-based definition focuses on the *distinguishing characteristics* of HMF products, rather than the type of organization offering the product. The provider-based definition focuses on MFIs offering *any housing-focused financial service* – including those offered which "appear to deviate from MF orthodoxy"[10]. Similarly, the product-based definition takes into account *any institution* offering a product that may be called a HMF product, while the provider-based definition takes into account *any product* provided by MFIs that may resemble HMF products. Thus, more simply said, the choice of definition determines the "glasses" you wear when looking at HMF: the product-based definition leaves room for alternative institutions and the provider-based definition for alternatives products – i.e. alternative from the traditional HMF overlap-definition paradigm. Or as Ferguson & Haider (2000) say about how HMF relates to MF and HF: "It shares characteristics with both, but also demonstrates some important differences"[11]. So, while ample area of overlap between HF and MF exists, there is also a certain degree of uniqueness to HMF.

Recognizing both the overlap and the uniqueness of HMF to HF and MF, we graphically represent our theoretical concept of HMF as in Figure 2.2 Note how the HMF rectangle (green) not only consists out of the overlap between MF (yellow) and HF (blue), but also out of a part that falls outside of these latter two, representing the part of HMF which is unique. For even further clarity, lines of the MF and HF area are dotted there were the concept of HMF overlaps. This "overlap + uniqueness-view" of HMF that we employ can be applied to the whole HMF market. That is, both to the supply-side (HMF providers and their products) and the demand-side (clients). Therefore, at the outset, as a theoretical approach to our further research regarding the supply side, we will consider both existing HF and MF providers and products when examining the market for HMF in Vietnam, as well as alternative ones. Likewise, as an approach towards our further research regarding the demand of HMF we will consider both existing clients of MF and HF as well as alternative ones.

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[8] Christen, R.P. (2004), Foreword, in Daphis F. & Ferguson, B. (eds. 2004), "Housing Microfinance: A Guide to Practice", Kumarian Press, Bloomfiel, CT, USA, pp. xiv

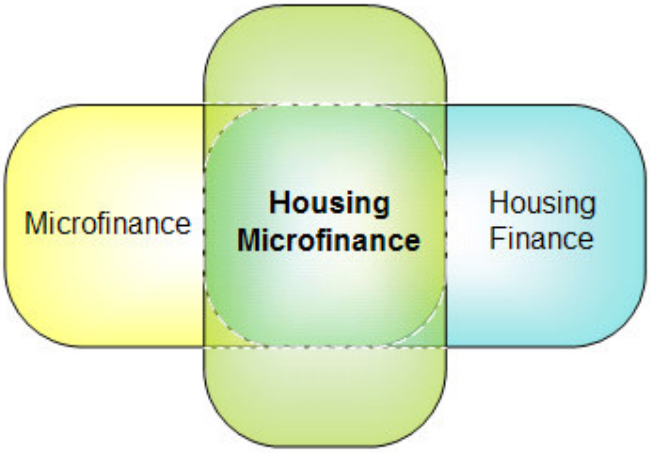
[9] Ferguson, B. & Haider, E. (200), "Mainstreaming Microfinance of Housing", Housing Finance International, 15: 11 pp.8

10 Daphnis, F. (2004), Housing Microfinance: Toward a Definition, in Daphnis, F. & Ferguson, B. (eds. 2004), "Housing Microfinance: A Guide to Practice", Kumarian Press, Bloomfield, CT, USA, pp. 4

[11] Ferguson, B. & Haider, E. (2000), "Mainstreaming Microfinance of Housing", Housing Finance International 15: pp.3

Figure 2.2: Conceptual Model of Housing Microfinance

- adapted from Daphnis & Ferguson (2004b)



2.3.2 The HMF Market in Developing Economies

Let us further apply the "overlap + uniqueness-view" to the (potential) market for HMF in developing economies. Firstly, we will theoretically apply this view to HMF demand (clients), secondly we will do so for supply (providing institutions and their products).

Looking at demand, the potential market lies with existing MF and HF clients but also with new alternative clients. Let us briefly describe these three groups.

- Firstly, existing MF clients may be (potential) HMF-clients. As noted before (see previous paragraph), a large part of microcredit loans is already effectively used for housing purposes, with varying estimates up to 20% (Christen, 2004; Daphnis, 2004; Ferguson, 2004). A better loan product tailored to the specific situation of new housing construction or housing upgrading may be able to better fulfill these needs – better for the lender as well as the client. Additionally, MF clients who have successfully repaid a micro enterprise loan and have succeeded in increasing their income level may feel the need and confidence to improve their housing situation by a loan.
- Secondly existing HF clients may fall under the market for HF because they do already have a traditional mortgage but at terms and conditions that are hardly beneficial to their welfare. This may be, for instance, because their income has unexpectedly fallen drastically, or because mortgage conditions changed unfavorably, making mortgage repayments a heavy burden. The extra burden may only just outweigh the loss of losing a home, but a different loan-product may be better suited for them.
- Thirdly, demand for HMF may also come from low-income individuals who before were not a MF client, nor had a mortgaged house, but would want to buy a new house or improve their current home if a suitable loan-solution would be offered to them.

Turning to the supply side of HMF in developing economies, first consider (possible) HMF providers. Like in our discussion on MF in general, HMF products can be offered by any institution, no matter its degree of formality (formal, semi-formal, informal) or its ownership structure (public, private, mixed). Existing HF- en MF-providers may consider adding HMF-products to their portfolio or alternative providers may add them – in which case the provider would fall into the HMF "area of uniqueness" in Figure 2.2[12].

[12] The authors would like to note, however, that in their opinion, the HMF "area of uniqueness" seems to be more obviously applicable to HMF products (discussed in the following) than to HMF providers.

HMF products, although the provision of these is only of recent origin, have evolved to entail certain characteristics that indeed make it both resemble traditional MF (microenterprise) loans and traditional HF mortgages. In general, the target clientele, the loan size, the loan term and the person(s) held liable are somewhere in between the two products. This general comparative picture is displayed by Table 2.1 below. Note how the different characteristics overlap, but also how traditional HF-loans are typically significantly larger than HMF-loans in developing economies. In the next part of the chapter, we examine HMF products more closely.

Table 2.1: A General Comparison of Microfinance, Housing Finance and Housing Microfinance Products in Developing Economies

	Microfinance	Housing Microfinance	Housing Finance
Target clientele	Poor & low-income groups	Poor & low- to moderate-income groups	Moderate- to high income groups
Loan size	(very) small	Small to medium	Large
Loan term	Short-term	Short- to medium-term	Medium- to long-term
Group / individual	Groups, individuals	Mostly individuals	individuals

2.3.3 HMF Product Characteristics

Based on literature research and further findings during the research, we conceptualize a HMF product to consist of a set and several subsequent subsets of characteristics. At the highest level, we consider a HMF-product to consist of eligibility requirements and loan conditions. The former are the requirements which a potential client has to comply to in the first place before being eligible for a housing loan; the latter the way in which the loan-part of the product is build up. An overview of all by us identified eligibility requirements and loan conditions, including all their subsequent characteristics can be found in Table 2.2 (see next page). Before that, however, we will here further elaborate on the eligibility requirements and loan conditions.

The eligibility requirements concern (a) the target clientele, (b) the loan purpose and (c) property rights. The target clientele may be gender based (e.g. directed at females only – a common practice in MF), is very likely dependent on his/her income level (specifically: what income *range* is targeted?), may be centered on rural or urban areas only or finally even on a specific region. Regarding the loan purpose, MFIs may only provide HMF for the purpose of new construction, only for upgrading, or both. Finally, regarding (c) there may be certain requirements as to property rights before a client is eligible for a housing loan. It may be required that he/she is able to demonstrate that he/she is the legal, thus *de jure* (and not solely de facto), owner of the land[13]. Even if the house is not set up as official collateral in the contract, i.e. the loan is not actually secured by a mortgage, many experienced MFIs do require such formal home or land ownership (Escobar & Merrill, 2004).

[13] The formulation in Table 2.2 of "property/use" rights of land and property rights in the overview is because of the fact that in some economies in transition from non-market based history legal status concerning property rights is somewhat different. Often, the official owner of the land remains the state.

Table 2.2: HMF Product Characteristics

A. Eligibility Requirements	B. Loan Conditions
A.1 Target Clientele A.1.1 Gender based A.1.2 Income client A.1.3 Rural/urban A.1.4 Region **A.2 Loan Purpose** A.2.1 New construction A.2.2 Upgrading **A.3 Property rights** A.3.1 Land property/use rights A.3.2 Structure property/use rights	**B. Loan Conditions** **B.1 Loan specifications** B.1.1 Loan size (min.) B.1.2 Loan size (max.) B.1.3 Disbursement shedule B.1.3 Disbursement method B.1.4 Loan term (min.) B.1.5 Loan term (max) B.1.6 Repayment shedule B.1.7 Repayments collection method B.1.8 Interest-rate B.1.9 Fees **B.2 Loan Security** B.2.1 Collateral B.2.2 Savings/deposit up-front B.2.3 Group vs Individual B.2.4 Linked vs stand alone B.2.5 Progressive linkage? **B.3 Loan Services** B.3.1 Technical assistance B.3.2 Budgeting assistance B.3.3 Other services

The loan conditions concern (a) the loan specifications, (b) the loan's security-characteristics to the lender and (c) services complimentary to the loan.
Firstly, loan specifications are the minimum and maximum loan size (in local currency). Disbursement schedule refers to the installments in which the client receives the borrowed amount (at once, in a few weeks/months) while disbursement method refers to the way in which it is outpayed (in branches, by loan officers or by other means). Other loan specifications are the min. and max. loan term (in months) as well as the repayment schedule for the client (e.g. weekly, monthly, what amounts?) and the way in which these repayments are collected (e.g. cash, or by automatic payroll deductments).
Finally, loan specifications are of course the interest rate (per month), and possible one-time fees (in local currency).
Secondly, loan security for the lender is demonstrated by the ability of the borrower to bring forth physical collateral or other forms of non-traditional collateral. Physical collateral in traditional mortgage financing is the land or house. In HMF, borrowers are usually not required to set their housing and/or land asset as collateral, even though they may still be required to be legal owner of it to be eligible for the loan (see above). Still, in HMF possibly another form of physical collateral may apply. Non-traditional collateral may be in the form of a required up-front savings or deposit to demonstrate saving discipline. Another form of non-traditional collateral is group-lending (when all group members are held jointly liable for the whole loan), which in HMF usually takes the form of co-signers on the contract. Yet another form of loan security can be provided by providing dynamic incentives: possibly a HMF-loan applicant will need a successful credit history at the MFI in question. Thus, its HMF-loan is linked to previous loans at the MFI.

What is more, in case the loan is indeed linked, it may be linked to (a series of) smaller loan(s), in which case the HMF-loan is progressive additionally to linked.
Thirdly, regarding (c), the loan may be complemented by obligatory technical construction assistance on the new construction or upgrading of a house, so as to ensure that the loan is truly value enhancing to the house and its owner. Budgeting assistance in buying material etc. is another possible complementary service. Finally, we left some open space for possible other less common loan services.

Comparing the previously discussed MF mechanisms (see 2.1.2) with the above discussed HMF product characteristics it becomes clear to the reader how HMF products employ all familiar MF mechanisms to a finance housing needs for the poor and lower income groups. Additionally, there is some uniqueness to HMF. Lending to groups (although as far as known to the authors this is only existent in the form of co-signing in HMF) appeals to the peer selection and peer monitoring and alternative collateral principles. And the same applies to the linked- and progressive product characteristics, which additionally provides dynamic incentives to the borrower. Alternatively, repayment schedules provide dynamic incentives. Finally, specifics such as loan terms and interest rates, but more strikingly loan services such as construction assistance create a whole new unique dimension to HMF products. In the model of Figure 2.2, a product characteristic such as construction assistance – which does not origin from HF or MF common practices – would fall under the area of HMF which does not overlap HF or MF.

2.3.4 The Role of HMF to MFIs

An MFI or other institution that considers providing HMF products should make the same consideration as it would have to do with any financial service: does HMF fit with our objectives (impact, outreach, financial sustainability) and our ability to achieve these? If the answer is positive, HMF can be a valuable addition to a MFI's portfolio.

As HMF is only an emerging practice, empirical investigation into the ability of HMF to achieve impact, outreach and sustainability is scarce. Like with MF in general, an conclusive set of best practices does not seem to exist, for these may differ depending on factors both internal (e.g. the institutional form & licenses, ownership, funding, etc.) as well as external to the firm (e.g. the legal environment, macro-economic & social developments, etc.). Like with MF in general, especially combining financial sustainability with substantial impact and outreach seems to be the biggest challenge. Therefore, "it is critical to document and analyze how cutting edge practitioners make their operations profitable"[14] (Ferguson & Haider 2000).

According to Ferguson (2003), "HMF offers MFIs in many developing countries the ability to expand their loan volume to achieve financial sustainability and grow"[15]. In his view, HMF is a *key* to MF expansion. Due to HMF's high potential to be sustainable, or even profitable, impact and outreach of traditional forms of MF that have more difficulty to achieve sustainability can be increased. Thus, the role of HMF to an MFI may not only be additional, but also complementary.

[14] Ferguson, B. & Haider, E. (2000), "Mainstreaming Microfinance of Housing", Housing Finance International, 15: 20 pp.17
[15] Ferguson, B. (2003), "Housing Microfinance – a key to improving habitat and the sustainability of microfinance institutions", IADB, Small Enterprise Development,14/1: pp.25

III: Market Developments & Challenges

This section will give a descriptive overview of the developments and challenges in the Vietnamese market. To do this, we first will give a general overview of the strategy the government has chosen and the issues that are important when examining the establishment and potential expansion of Housing Microfinance (HMF). After that, we will turn to the economic developments and challenges, followed up by the social and the political and legal developments and challenges. It should be noted that the different subsections cross each other now and then and that the reader is advised not to consider the dynamic analysis of this section as separate from section IV and V, which describe the current supply and demand respectively.

3.1 General Overview

Vietnam has been remarkably successful in achieving economic growth over the past fifteen years. The challenge now is how to make that growth sustainable for everybody. The key part of that will depend on how and how well Vietnam responds to challenges of integrating into the global economy and how macro-economic plans and policies are implemented. To adapt, a Socio-Economic Development Strategy for the first decade of the 21st Century was formulated, which foresees a Vietnam that:

- has an economy with sustainable and rapid development;
- aspires to be a just and stable society with a high quality of life for all of its people;
- maintains the best of Vietnamese culture and traditions;
- aims to become a socialist market economy, fully integrated into the global economy, and competitive internationally; and
- intends to have the characteristics of an industrialized and knowledge-based society within twenty years.[16]

As part of creating a just and stable society with a high quality of life for all of the people, proper housing meets a basic human need, making it a crucial element. As HMF can play a significant role here, it is important to understand in which environment the potential for expansion of HMF is greatest. According to Ferguson (2003), this potential is largest in countries where:

- macro-financial conditions create high real interest rates (10 percent and above) that make traditional mortgage finance affordable to only a small share of the population;
- land tenure problems are widespread, and the legal structure makes taking and/or executing mortgage liens difficult, costly and rare;
- the great bulk of the population is low- to moderate-income;
- urbanization is fast and, hence, housing problems are great;
- a high share of the population has rights to land short of full legal title via purchase or invasion; and
- a strong Microfinance (MF) industry exists.

While writing the upcoming chapter these ideas will form the basis.

[16] Steer, A., Agrawal, N. & Turk, C. (2001), "Vietnam 2001: Entering the 21st Century", Joint Report of World Bank, Asian Development Bank and UNDP, downloaded May 21 2008 at: www.adb.org/Documents/Reports/VietNam_2010/Overview.pdf

3.2 Economic Developments & Challenges

For an emerging economy as Vietnam the economic developments and changes are of great importance. Besides reforms in the financial market, Gross Domestic Product (GDP) growth and income distribution, attention will be paid to inflation and interest rates as well as the real-estate market and the demand for HMF/MF/Housing Finance (HF). In the end the ongoing equitization of state-owned banks (SOBs) is discussed.

3.2.1 World Trade Organization & Reforms in the Financial Market

In general, two major factors have contributed to Vietnam's remarkable performance. The first is the steady process of transition from central planning to an open market-based system, which has set the stage for the private sector to play an increasingly dominant role in the economy.

The second factor is the ever increasing integration with regional and global markets. This can be seen in the efforts of the government to attract record amounts of Foreign Direct Investment (FDI) and the access to the World Trade Organization (WTO) in 2007. This last development is one of the continuing efforts to improve the economy's market orientation and will undoubtedly provide Vietnam with enhanced opportunities for rapid economic development and sustained poverty reduction in the coming years.

However, as the authorities clearly recognize, a number of challenges remain, and the outlook is not without risks. Investors in the capital market need to be wary about the risks posed by irrational exuberance. Sizeable foreign participation, in particular, while desirable in principle as a way to improve the structure of financing and corporate governance of Vietnamese firms, could also increase the economy's vulnerability to changes in market sentiment down the road. To enable the economy to reap the full benefits from increasing global integration, macroeconomic management will need to be increasingly vigilant and financial system regulation and supervision upgraded.

The forthcoming liberalization of entry of foreign banks under the terms of WTO agreements is expected to increase competitive pressures on domestic banks, and the urgency of banking sector reform. To place SOB operations on a sound commercial basis, their managers would need to be given increased operational autonomy. The new market environment also calls for a strengthening of risk management capacities and prudential regulation of all banks. The increase in banks' minimum capital requirements, and the State Bank of Vietnam's (SBV) ongoing efforts to upgrade its supervisory functions, are welcome steps in this direction.

Vietnam's forthcoming WTO accession was an important milestone. Faster integration into the global economy should facilitate the objective of lifting Vietnam from the ranks of low-income countries by 2010. However, the unfinished reform agenda still is long, and the timetable for completion will need to be compressed as exposure to global competition progressively increases.

3.2.2 GDP growth and Income Distribution

Vietnam is known for its great GDP growth in the last ten years. For the upcoming years a GDP growth rate of 7.5-8% is expected (given the current situation) with a GDP average per capita of 1,050-1,100 United States Dollars (USD) by 2010. If domestic and international conditions are more favourable, higher GDP growth rates should be possible[17].

[17] Le Viet Duc, 2006

While the above figures give the overall picture, different distribution scenarios are possible. Figure 3.1 shows the real expenditures for 1998 and the estimated expenditures for 2010 (in two different situations). The first 2010-scenario shows an equal distribution of GDP growth and therefore an emerging middle class originates, which – as several of our interviewees recognised - would be very willing to get a housing loan and are not yet served at this moment. A gap seems to originate which could be filled in with help of the The Netherlands Development Finance Company (FMO). The second scenario shows unequal distribution of the growth in GDP. In this case a big part of the population stays under the poverty line where HF and HMF is less suitable. The government is in part responsible for the development of the distribution of the income.

Figure 3.1: Per Capita Expenditures in 1998 and 2010

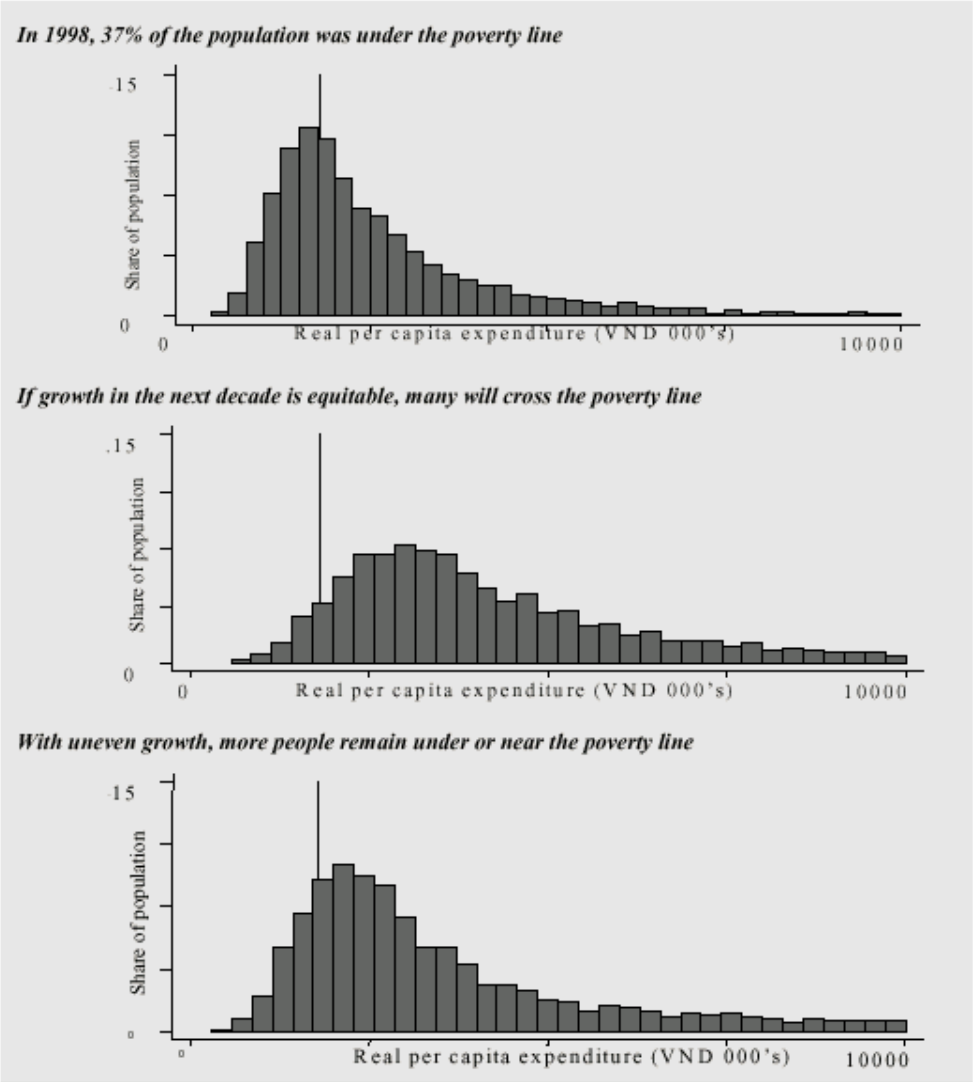


Figure 2: Histogram of per capita expenditures, 1998 and 2010

3.2.3 Inflation Rate & Interest Rate

The short-term outlook for growth and the external finances is positive, but medium-term prospects are subject to some uncertainties. The average rate of inflation in 2007 was 10 percent (versus an average of 6.3 percent in other Asian countries[18]). For 2008, so far prospects are worse. In the first quarter of the year inflation reached 16 percent[19], leading the SBV am to target a maximum of 20% for the year.

On May 19th 2008, the SBV increased its base rate to 12 percent from 8.75 percent, and allowed commercial banks to offer depositors rates of up to 150 percent of the benchmark rate, or 18 percent[20]. This measure shows the monetary policy of the SBV, aimed to stabilise currency value, control inflation, partially boost the country's socio-economic development, assure national defence, security, and improve people's living standards, as stated in the 1997 Law on the State Bank of Vietnam[21]. Besides increasing the interest rate, the SBV has issued Vietnam Dong (VND) 20,300 billion (United States Dollar (USD) 312,500[22]) worth of compulsory bonds, raised the compulsory reserve ratio, and has been purchasing foreign currencies at a moderate level in order to control the inflation. Also aiming to curb inflation, the SBV has asked commercial banks to limit loans for real estate and securities investments, and tighten consumer credit.

3.2.4 Real estate Market

In the beginning of the 1990s the real estate market in Vietnam boomed and several projects were realised, mainly in the high-end sector (i.e. office building, big apartments, hotels). During the Asian Crisis in 1998, a lot of these foreign enterprises left the country. In 2002 a second boom originated. These time condominiums and housing were high on the agenda. The strong demand for real estate in Vietnam at that time was driven by:

- Increased standard of living and rapid urbanization
- Current lack of supply
- Urban infrastructure development
- Increased availability of mortgages
- Growing remittances from over 3 million overseas Vietnamese
- Large young population looking to buy their own homes
- Strong growth in tourism
- Developing of a real estate legal framework

Opportunities seem to lay in the strong residential demand for newly weds, as there is significant latent demand driven by the rising income of the burgeoning middle class. The young profile of the population means that many are at an age when they wish to marry and have their own home and it is estimated that there is a need for 60 million square meters of urban residential space – almost doubling the current stock. With prices ranging from USD 900 per square meter upwards in the mass market and USD 1,200 upwards in the luxury sector, there is still no shortage of purchasers.

The challenges for Vietnam lay in the fact that it is an emerging market and transparency is not yet all it might be. Politics still play a role in economic decisions and delays can

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[18] Microfinance Information Exchange (2007), "Benchmarking Asian Microfinance 2006", Report from THEMIX

[19] http://www.forbes.com/markets/feeds/afx/2008/04/23/afx4922198.html

[20] Hong Phuc & Thuy Trieu, "SBV removes rate cap, raises basic rate", Saigon Times, May 19th, 2008

[21] http://vietnamese-law-consultancy.com/english/content/browse.php?action=shownews&category=&id=64&topicid=801, May 22nd, 2008

[22] Exchange rate used is USD:VND 16000:1 of 01-01-2008. From here on, this will be the rate used throughout the paper. Recognising the Dong's fluctuations before and after 2008, however, the authors would like to request the reader to interpret these Dollar-conversions somewhat cautiously.

arise for reasons which are difficult to understand. However, the new laws and their implementing regulations are improving matters and while projects may progress more slowly, if they are properly structured and funded and designed within the known planning parameters, they should eventually receive the licenses and permits required. In many cases it is an advantage to have a local partner who can assist with relocation issues and steer the project through the various statutory and licensing processes and that choice of partner is, as in any emerging market, critical. Similarly, time and effort spent on diligence, or parting the curtains, and not necessarily accepting everything at face value, is time well spent.

At this moment the real estate prices are very high, too high for the middle incomes and a downturn in the real estate market has begun. Prices dropped with more that 30 percent. Mr. Turk of CB Richard Ellis, says there is no crash, just a healthy downturn and that within 12 months the market will cool down.

3.2.5 Demand HMF/HF/MF

The demand for HF and especially HMF is high and will grow even more in the upcoming five years, according to several of our interviewees. At present, about 4 million households have taken advantage of the service, far below demand[23]. Experts say that the demand for MF programmes is increasing, mostly in the rural areas. Another reason is that more and more people are getting a bank account and come in good contact with the bank and therefore are willing to lend money in order to create better living[24]. A different explanation for the greater demand could be the higher education level and the corresponding knowledge about the lending system.

3.2.6 Privatization of State-Owned Banks[25]

In 1990, Vietnam adopted the Ordinance on the State Bank and the Ordinance on Banking, Credit Cooperatives and Financial Institutions in order to create a legal framework for the banking system. Since then the banking system in Vietnam has made considerable progress. The reorganization of the banking system in May 1990 has strengthened the role of the SBV (ie. regulatory body in charge of development policies, licensing) and transferred the credit function to the state-owned commercial banks (SOCBs).

Vietnam's banking reform roadmap, prepared by SBV, entails fundamentally rewriting the law on credit institutions and the law on the SBV which is in compliance with the WTO commitments. These laws were approved in 2007 and are effective from 2008 and are designed to transform the SBV into a modern and independent central bank charged with executing monetary policy and supervising the banking system. The supervision functions of the SBV will be separated from its management functions in relation to SOCBs and the operation of SOCBs on a commercial basis will be ensured.

The organizational and financial restructuring of the SOCBs is to support their commercial orientation and is expected to happen alongside their equitisation, which is expected to be completed by 2010. Two SOCBs, VietcomBank and the Cuu Long Mekong Housing Bank (MHB), were equitised in 2007 through Initial Public Offering (IPO). Once the equitisation is completed the state's shareholding in those SOCBs will be 51% in 2010.

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[23] http://english.vietnamnet.vn/social/2007/06/703116/ , May 23, 2008

[24] See also chapter 5.3 on Social Developments & Changes

[25] This paragraph (3.2.6) is adapted and edited from: European Union Economic and Commercial Counsellors (2007), "2007 Report on Vietnam", European Union Working Group Green Book, pp. 73

The 1st of April 2007 was an important date for the banking sector of Vietnam to show its ability to comply with WTO commitments. From this date, Vietnam started allowing foreign banks to locally incorporate on the condition that there must be an agreement between the SBV and the financial services supervision authority of the foreign banks home countries.

3.3 Social Developments & Challenges

In a country with a deep inherited culture, such as Vietnam, social developments and challenges should be recognised. This subsection will provide information on the family structure and the important concept of keeping face and the changes in these.

3.3.1 Family Structure

The Vietnamese household traditionally followed the extended multi-generational pattern. The parents, their sons/daughters and their wives/husbands, their children, and unmarried siblings usually constituted a Vietnamese household. In this structure, frequent contacts were maintained, and this constant closeness to family was emphasized from childhood and continued to be important to Vietnamese throughout their lifetime. In these extended families, the most important expectation was respect for the elders and family decisions were made by the parents and grandparents. These last two were in charge of the (borrowed) money and the 'physical saving pot'. When one member of the family wanted to do a big expenditure, a family meeting was organised in which eventually the eldest decided what should be done. As banks often were not in their surroundings which led to unfamiliarity, distrust was common and people were afraid of formal finance.

In the rural areas this pattern still is very common and traditional values still remain strong. In the urban areas, where the French introduced Western values of individual freedom and sexual equality, family structures have changed into more Western patterns in which nuclear families live together and are independent. The higher educational level and the familiarity with banks led to higher trust in formal finance and higher rates of people taking up a bank account. The ongoing urbanization leads to even more individualization and changes in attitudes towards banking services.

3.3.2 Keeping Face

As with many other Asian nations, the concept of face is extremely important to the Vietnamese. Face is a tricky concept to explain but can be roughly described as a quality that reflects a person's reputation, dignity, and prestige. It is possible to lose face, save face or give face to another person.

The concept is very important in the financial sector as traditionally, Vietnamese were more likely to save money instead of borrowing, being afraid somebody would get notice of the shortage someone had. Vietnamese still do not want anyone to know their creditworthiness, as they feel this is face losing, and therefore will never show their wealth (although this is changing with the upcoming 'nouveau riche'). Therefore, also lending is not a great issue under the Vietnamese, although this is rapidly changing in, mostly the urban areas. The use of MF helped to fight the negative attitude towards lending in Vietnam, although it must be noted that the MF (and HMF) market are underdeveloped in Vietnam[26].

[26] U.S. Agency for International Development – USAID, Kruize, A.D. (2007), "Habitat for Humanity Vietnam Partnering with MFIs to Improve Housing for the Poor", MicroNOTE 35, pp. 3

3.4 Political & Legal Developments & Challenges

Zeller & Mayer (2003) say that the state has a direct role in supporting MF, for example by helping with start-up costs for Micro Finance Institutions (MFIs) and creating favourable regulatory and supervisory systems. The state also should have an indirect role in setting overall policy to stimulate economic growth; in creating legal systems, land registries, and inheritance laws that enforce contracts and protect property rights, especially for women; and in removing the traditional development policy bias against agriculture, rural areas, and small businesses. Education, health care, and infrastructure development are also essential for creating a pro-poor environment for MFIs and their clients.

In general it could be said that the whole conduct op policies of the government in Vietnam is insufficiently transparent. The development and progress of new policies often is very unclear until it reaches the National Assembly. Even then it is not quite sure when the new decree will be passed and how it will be implemented by the relevant ministry.

The direct role of the government becomes clear in the decree on the regulation and supervision of MF, which has been supported by the Asian Development Bank (ADB). The decree[27], enacted in May 2005, states that Non-Governmental Oragnisations (NGOs) and other social organizations (SOs) are allowed to establish independent MFIs in Vietnam under an operating license delivered by the SBV. Capital requirements for MFIs providing credit and requiring compulsory savings is fixed at 500 million VND (USD 32,000) per client, while MFIs offering voluntary savings services it is fixed at 5 billion VND (USD 320,000). Licenses are provided for operations at provincial level, and do not have national coverage. The decree mentions that the SBV will supervise licensed MFIs, and provide additional directives on savings to loan ratios, extensions of licenses and reporting.

The establishment of a deposit-taking MFI (i.e. taking savings) requires stricter conditions, including higher minimum capital, at least three years of experience in mandatory (forced) savings collection, and three years of sound performance, fulfilment of prudential rules, etc. Hence, deposit-taking MFIs will have to be established as non-deposit-taking MFIs first in order to demonstrate three years of sound operations before a deposit-taking license can be granted. Non-deposit-taking MFIs can be established without having to operate as an NGO initially. However, the establishment of both types of MFIs requires the participation of either mass organizations (MOs) or local NGOs as the license-applying organization.

The decree appears not to allow for foreign and domestic private-sector ownership of MFIs. Only MOs and local NGOs are allowed to establish MFIs. Although entities other than MOs and NGOs are allowed to contribute capital, it is not clear if they could have an ownership stake or any decision-making power. Under this new law, non-deposit-taking MFIs are still allowed to collect mandatory savings from borrowers, while deposit-taking MFIs are allowed to take public deposits. Both types of MFIs are also allowed to use donor funds for specific on-lending purposes (these are called *entrusted funds* in Vietnam) and to borrow from domestic and foreign entities, although prior approval from the SBV is required for foreign loans. MFIs are allowed to provide loans, savings, and limited remittance services, and they may serve as agents for insurers. The loans can be for productive or consumption purposes, as long as they are given to improve the living standards of the poor.

The decree has a (and still is expected to have more) significant positive impact on the development of the MF sector in Vietnam. For the first time, independent and dedicated

[27] See Appendix II, Decree No: 28/2005/ ND – CP, Decree of the Government on organization and operation of micro finance institutions in Vietnam

MFIs are allowed to be established. In that sense, the decree has addressed the most critical need for the development of the sector. Operating as independent entities, MFIs will have the opportunity to develop professional business practices and to have access to larger donor funds and commercial borrowings to expand outreach. The decree, however, appears to be restrictive in some key areas such as ownership structure, scope of operations, etc. The current decree appears not to allow private-sector ownership of MFIs; instead, only MOs and local NGOs are allowed to establish MFIs.

In Vietnam, the government also has an indirect role. The state still is owner of all the land but Vietnamese people can lease the land in perpetuity, while foreigners can lease the land for 50 until 70 years. When the land is leased the person gets a 'red book or certificate' and when build on it they get the 'pink book or certificate'. These books are needed when land and property is transferred. Estimates about the amount of people who would have these books are vary varied, from 50 to 90%[28]. The state also plays a big role in the land-use plan. The role of the government can also be seen in the subsidized credit programs managed by government departments and public banks that distort the financial market and prevent the development of sustainable MF in Vietnam. Even if credit institutions (since 2002) are free to set their own interest rates (with the exception of Vietnam Bank of Social Policies (VBSP)), in practice, only a limited number of organizations charge market-based interest rates.

3.5 Challenges & Developments: Implications for MFIs

Vietnam's rapid changing economy, the reaction of the government on these changes and the arising transformation in social norms and values are important to take in mind, when consider entering the Vietnamese market for HMF.

In general, it could be said that the country is moving in Western direction leading to regulations, governmental intervention and an attitude towards lending that are all in favour of HMF. This could lead to the expected growing demand for HMF in the future. Though it is needed to keep a close eye on the inflation rate and development of the real-estate market as uncertainty is high.

[28] See also 5.1.2

IV: Supply Analysis

This section focuses on the supply side of the Housing Microfinance (HMF)-market in Vietnam. The supply side analysis is based on The Netherlands Development Finance Company's (FMO) willingness to provide funds for a HMF product to a financial institution in Vietnam in the future. The suppliers to take in consideration are current Microfinance Institutions (MFI) , Housing Finance Institutions (HFI) and Housing Microfinance Institutions (HMFI) that provide products and services in Vietnam.

The goal of this chapter is twofold: (a) to give an overview of the suppliers of Microfinance (MF), Housing Finance (HF) and HMF in Vietnam and (b) to analyze the different HMF products offered by the HMF suppliers.

In the following pages, first a broad picture of the supply for MF and HF is given. After that we turn to the suppliers of HMF in Vietnam and their product characteristics. Finally we will turn to the implications for MFIs.

4.1 Supply of MF and HF in Vietnam: The Broad Picture

In order to provide a clear picture, we will shortly describe the different MF and HF organizations and banks in the formal, semi-formal and informal sector in Vietnam. Because the difference between public and private still seems to be clear and still important in Vietnam due to the communist history, this section will split both on MF and HF institutions and within that into public and private institutions.

4.1.1 Public MF Institutions

The *formal* public sector includes MF activities of financial institutions regulated by the law on Credit Organizations. The Vietnamese government used financial services needs of the poor as a potentially powerful instrument in poverty alleviation, once it recognized acute poverty. The two public banks offering these MF services are Vietnam Bank for Agriculture and Rural Development (VBARD) and Vietnam Bank of Social Policies (VBSP), followed by People's Credit Funds (PCFs) using a credit union methodology. There are also a smaller number of credit cooperatives.

VBARD

Established in 1988, the Vietnam Bank for Agriculture and Development (VBARD) is the major financial provider in rural areas, and also the biggest commercial bank in the country, with an extensive network in the 61 provinces of Vietnam. VBARD provides rural credit through individual lending and joint-liability groups, using conventional banking methods. VBARD works with Mass Organizations (MOs), such as the Vietnam Women's Union (VWU) and the Farmers' Union (FU) to deliver micro credit to groups. Even if VBARD does not directly target the poor, it is estimated that 47 percent of its clients are poor, representing approximately 3.3 million low-income households[29].

VBSP

The Vietnam Bank for the Poor (VBP), established in 1995, was set up to serve the poor that could not be reached by VBARD. It virtually operated as a fund, using VBARD staff and network of branches. VBP was renamed Vietnam Bank for Social Policies (VBSP) in March 2003, and started to develop its own network of branches, while serving a much broader population including students, disable people, and micro- and small entrepreneurs. VBSP was established to take over the poverty-targeting programme run by VBARD and consolidate all governmental programs lending to the poor and other

[29] www.vbard.com , May 28th 2008

vulnerable social groups. VBSP is based in Hanoi and has 61 branches and 600 offices throughout all 64 provinces of the country.

It provides subsidized credit (due to government funding) without requiring formal loan collateral. In theory, VBSP borrowers have to be listed as "low income household" to obtain a loan, in practice; local committees nominate borrowers to VBSP, which include a number of well-off people attracted by the subsidized interest rate. VBSP is supervised by the State Bank of Vietnam (SBV). At this moment almost 5 million people are reached[30].

PCFs

After the collapse of an earlier cooperative system, the PCFs were established in 1993 as savings and credit cooperatives and at this moment there are about 1000 PCFs in operation.

The PCF Network is organized in a two-tiered structure, with the Central Credit Fund (CCF) as the apex institution, and the individual PCFs working at retail level. PCFs are autonomous, small financial institutions operating at commune level and set up as member-owned organizations. PCFs usually operate in economically active regions, and better off areas, and do not target directly the poor.

PCFs are among the few organizations in Vietnam that aims to mobilise savings from members, in addition to provide credit from the fund accumulated. In result, PCFs do not rely on external subsidies, as 66% of their resources come from mobilised savings.

The *semi-formal* public sector is relatively small and covers between 5 to 10% of the overall credit market. As of May 2008, the major programs in the semi-formal public sector were managed either by MOs (VWU), or by several specialized MF funds which are part of relatively independent sub-organizations or programs of MOs (Capital Aid Fund for Employment of the Poor (CEP), Tao Yue May Fund (TYM), Binhminh cdc and TCVM Thanh Hoa)[31].

Mass organizations

MOs are state-controlled bodies that provide social and economic services to their members. They are represented at all administrative levels: national, provincial, district and commune, and reach thousands of people at the grassroots level. They provide credit services to their members, implement credit programs for International Non-Governmental Organizations (INGOs), or form credit groups for formal financial institutions (VBARD, VBSP), as they have direct access to communities and long experience in social mobilization. The main organizations are the VWU, FU and the Vietnam Youth Union (VYU) [30].

Vietnam Women Union (VWU)

The VWU, established in 1930, is a MO representing the rights and interests of women through an extensive network of members, from central to commune level. VWU has approximately 11 million women members, which is more than 50% of the female population over 18. VWU is committed to provide support to its members in a range of areas, such as family planning, literacy, nutrition, economic development and financial assistance, including MF. VWU manages funds from 4 different types of sources, ie. public banks (VBARD, VBSP), government programs, international organizations (INGOs, bilateral donors, World Bank (WB), Asian Development Bank (ADB)) and members' savings. Most INGOs and programs will use VWU to channel their funds and mobilize their members through credit and savings groups[30].

[30] www.vbsp.org.vn, May 28th, 2008
[31] www.bwtp.org, May 28th, 2008

Specialized microfinance funds

Only two major specialized MF-focused funds exist in Vietnam that operate in several provinces. These are CEP, working in Ho Chi Minh City (HCMC), owned by the HCMC Labour Confederation, and TYM Fund (Non-Bank Financial Institution) owned by the VWU, operating in mostly rural areas in the seven Northern provinces. Although they are both owned by a MO, they enjoy relative autonomy from their owners. TYM fund reaches more than 22,000 clients and calls itself a financial institution with a social mission. CEP operates in urban areas and is considered the most successful MF organization in Vietnam, reaching more than 70,000 clients and having reached operational self-sufficiency. It has made substantial investment in institutional development (training, standardization). Under the new Microfinance Decree (as described in section III) these two specialized MF funds will apply in the hope to become a limited liability company[32].

In addition to CEP and TYM fund, two locally operating specialized MF funds, Binhminh CDC and TCVM Thanh Hoa, are active on the Vietnamese market. The first one, founded in 2003, with the mission to improve living standard, life and social skills and reduce risk for households, especially women and low income persons by providing appropriate, convenient and friendly MF products and services to a wide market with professional staff, reaches almost 4000 clients. Binhminh is also applying to the new MF decree. TCVM Thanh Hoa reaches 6000 people in one of the poorest provinces in Vietnam, since its establishment in 1998. The program's mission is to provide sustainable financial service to disadvantaged women in rural areas through developing a financially and institutionally sustainable MF institution that could provide client-oriented MF services to a large number of poor women in the Thanh Hoa province[33].

4.1.2 Private MF Institutions

The private sector consists of several INGOs. There are more than 50 INGOs involved in MF, focusing on credit and applying various lending models (village banking, Grameen Bank, solidarity groups), to target mostly women. Despite the success of some schemes operated by INGOs, they only reach 5% of the microcredit market in Vietnam.

INGOs implement MF projects through MOs, in particular the VWU. They channel funds received from external sources through projects and provide technical support to local partners. They bring experience and knowledge of international MF best practices, and as a result a number of programs have shown excellent results with 98-99 percent repayment rates on average and use of sustainable commercial interest rates. Although they do not provide direct products or services to the client, we name some of them to give an overall view.

Save the Children US manages two microfinance projects targeting women and Stichting Nederlandse Vrijwilligers (SNV) works in rural areas in partnership with VWU, to implement a village banking model, also integrating training and market research assistance. At this moment it is using MF loans for biogas installations.

Other INGOs have substantial MF programs such as World Vision, Plan International, Action Aid and AFAP. CARE International collaborates with VWU and the FU in supporting credit and savings groups, through technical assistance and capacity building.

4.1.3 Other MF Institutions

Under the other MFIs the informal sector plays a big role. It comprises financial assistance from family, friends, moneylenders, and through traditional Vietnamese Rotating savings and credit associations (ROSCAs) such as Ho (in the North) and Hui (in the South) and Phuong groups. Some of these ROSCAs are created for special purposes such as weddings, funerals or New Year's celebrations. Informal financing mechanisms

[32] www.mixmarket.org, May 28th, 2008
[33] www.mixmarket.org, May 28th, 2008

used to be the most important sources of rural credit. Loans from relatives typically carry either zero or low interest rates.

4.1.4 Public HF Institutions

In Vietnam there are five formal state-owned commercial banks (SOCBs) in operation. Although these banks have been equitized, 51% of their shares will remain in government possession. Of these five, three provide HF products for consumers and two do not. The latter two are the Bank for Investment and Development (BIDV) and the VBARD. The former three will be described briefly below.

Vietnam Foreign Trade Bank (Vietcombank)

Established in 1963 as a State-Owned Commercial Bank (SOCB), the Vietcombank, is the oldest commercial bank for external affairs in Vietnam. The bank engages in commercial banking business for (high-end) individual and corporate clients. Its main services are lending and borrowing activities, international clearing and trade financing, cards issuance, treasury, correspondent banking, securities services, leasing, asset management, and equity investment. Vietcombank provides some subsidized housing loans, through individual lending and joint-liability groups, using conventional banking methods with an interest rate around 11%[34].

Vietnam Industrial and Commercial Bank (Vietinbank)

Vietnam Bank for Industry and Trade, operating as VietinBank, is vetted on Vietnam businesses. Formerly known as Incombank, VietinBank is one of the country's largest SOCBs, with about 140 branches and 700 transaction centers and total assets accounting for over 20 percent of the market share of the whole Vietnamese banking system. It offers deposit products, and loans, as well as trade finance and foreign exchange services. The company was established in 1988, when it was separated from the State Bank of Vietnam[35].

Mekong Delta Housing Bank (MHB)

In 1997 the Housing Bank of Mekong Delta (MHB), a SOCB, was established as a financial institution. Compared to other SOCBs, MHB is the youngest, yet the fastest growing one. After just one decade of operations, MHB has become one of leading banks in Vietnam with the seventh-ranked total assets of nearly Vietnam Dong (VND) 30 trillion (United States Dollar (USD) 1,875 billion), an increase of 100 times compared to the commencing day. MHB's branch network is the fourth largest among the banks in Vietnam with 160 branches and sub-branches spread over 32 key provinces and cities nationwide. In pursuit of its new strategy to adequately serve the fast growing demand for housing and infrastructure construction, particularly in the Mekong delta, it offers several mortgage products with a maximum loan term of 20 years[36].

4.1.5 Private HF Institutions

As in most developing countries, a lot of private commercial banks (commonly known as Joint Stock Commercial Banks, or JSCBs) are active. Vietnam is known for its expanding banking system and a lot of new banks, national and international, open their doors. In order to give a clear overview of the market we will describe the common known national banks and just name operating international banks for the complete overview.

Asia Commercial Bank

Asia Commercial Bank (ACB) is a Vietnam-based financial institution and the largest in Vietnam. The Bank provides consumer and corporate banking services, including deposit accounts opening and maintenance, capital and money market activities, corporate and consumer lending, trade financing, treasury services on commodities and foreign

[34] www.vietcombank.com.vn, May 29th, 2008
[35] www.icb.com.vn, May 29th, 2008
[36] www.mhb.com.vn, May 29th, 2008

exchange, as well as international settlement and clearing. Through its subsidiaries, ACB is also involved in underwriting and portfolio management, corporate advisory, asset management and leasing, together with other investment services. As of December 31, 2007, 50 percent of loan amount was consumer loans, and 74.32 percent of lending fund was borrowed byHCMC-based clients. With an interest rate of 19 percent per year, it has one of the highest[37].

Sacombank

Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank) is a Vietnam-based commercial bank. The bank primarily offers banking services for corporate and consumer clients, including deposits and accounts opening, lending activities, treasury and settlement, trade financing, and minor investment banking activities. Through its subsidiaries and joint venture, it is also engaged in brokerage, asset management, leasing, real estate investment, and fund management. The bank's main clients are from HCMC, and almost 50 percent of loan portfolio is lent to individual customers. Headquartered in HCMC, the bank has 211 branches and point-of-sale in Vietnam, and seven associated companies[38].

Techcom Bank

Techcombank is taking banking to the businesses of Vietnam. The bank (also known as Vietnam Technological and Commercial Joint Stock Bank) serves primarily the country's small to medium enterprises, offering them deposit products, loans, leasing, cash management, and other services. Techcombank also serves about 250,000 individual customers (who represent more than a quarter of the bank's total loan portfolio) and to a lesser extent, government entities and large businesses. The key products and services for the individual customers are consumer loans and housing mortgages. Besides normal mortgages, they have a special mortage-programme with the ADB with an interest rate of 8 percent a year. The relatively young bank (founded in 1993) has more than 120 branches throughout Vietnam. It plans to operate 200 branches countrywide by 2010[39].

Habubank

As the first JSCB in Vietnam, Habubank was established in 1989 with the initial purpose to provide loans and services in housing and building development field. With an initial chartered capital of VND 5 billion (USD 312,500), the bank had been permitted to provide banking products and services for 99 years. With more than 18 years in business, the bank now has a chartered capital of VND 2000 billion (USD 125 million) with a steadily-broadened branch network. Doing business with a long-term outlook, the bank has been consecutively graded A in the last 8 years and recognized as one of the safest, most efficient and stable banks by the SBV[40].

International banks in Vietnam providing housing finance are, among others, ABN AMRO Bank, Citibank, HSBC, Deutsche Bank (DB), Société Générale Bank and the Australian and New Zealand Banking Group Limited (ANZ).

4.2 Housing Microfinance Institutions

During our field research, we visited several banks and MFIs in order to get a clear view of the supply of HMF in Vietnam. This section will describe the different suppliers of HMF, again segmented into public and private and other institutions, and new potential suppliers who we came across.

[37] www.acb.com.vn, May 29th, 2008
[38] www.sacombank.com.vn, May 29th, 2008
[39] www.techcombank.com.vn, May 29th, 2008
[40] www.habubank.com.vn, May 29th, 2008

4.2.1 Public Institutions

Vietnam has only one public HMF institution, namely CEP. It is a HCMC based Vietnamese Non-Governmental Organizations (NGO), established in 1991 to create employment and income generating opportunities for poor families through the provision of credit and has been successful in expanding its product offerings. At this moment CEP offers seven different products, among which HMF (upgrading and building new houses) is one of the smallest. Upgrading is done in cooperation with the WB and the building of houses in done with the Belgium Technical Cooperation and Habitat for Humanity Vietnam (HFH-V). In the upgrading project 1492 clients are being served and in the building the new houses 76 clients are involved of the total 70,000 clients. Beside the lending product, with an interest rate of 7-10 percent per year, CEP offers technical assistance, budgeting assistance and a combination of an income-generating and a housing loan to guarantee payback.

Besides the CEP, loans from other public institutions, mainly of the VBSP, are used for HMF purposes, as Mr. Pahn Cu Ngan of the VBSP mentioned. At this moment the VBSP is running a large housing resettlement project in the Mekong Delta, where the government obliges the people to move from the river banks. Furthermore, TYM is willing to provide HMF loans in the near future. At this moment they are thinking about running a HMF project in the near future with loan sizes of 2.5 million VND (USD 156) with a maximum loan term of 100 weeks and an interest rate of about 12 percent per year. Binhminh CDC is also willing to enlarge their portfolio with a HMF product with an interest rate of 21 percent per year and a loan term of 80 weeks. For more information on the products offered see section 4.3.

4.2.2 Private Institutions

At this moment there are no private institutions that offer HMF products. During the research, all the banks and (I)NGOs recognized the housing and HF problem in Vietnam but were not willing to serve these group at this moment. Banks are still thinking that less wealthy people are not a profitable sector and INGOs are willing to provide HMF products, but focus on other, more important living products instead. Although it must be said that commercial banks are seeing that the emerging middleclass could be a target mass group in the future.

TechcomBank and SacomBank both told us that they are willing to provide HMF products in the near future. The first is already doing a HMF project with funds from the ADB. They target people with an income between $100 and $400 per month throughout the whole country. Loans can be both used for upgrading and new house building. Interest rate is based on 8 percent per year (subject to quarterly changes).

4.2.3 Other Institutions

Besides the public and private institutions, Habitat for Humanity-International (HFH-I), an INGO, operates under the name HFH-V in Vietnam since 2002. HFH-I builds, rehabilitates and repairs simple, decent houses with the help of homeowner (known as "partner") families, volunteer labor, and donations of money and materials. Architects, engineers, bricklayers, mason, carpenters and other professionals and skilled workers are employed for specialist jobs. HFH-I houses are sold to home partner families at no profit. Home partners repay through affordable, no-profit, inflation-adjusted mortgage loans. Mortgage lengths vary from four to 30 years, though most are around six to eight years. Their monthly mortgage payments go into a local revolving fund to be used to build still more HFH-I homes. Partner organizations contribute expertise and/or financial resources, and often volunteer labor to strengthen the impact of HFH-I programs. Other groups, particularly NGOs and government-linked bodies, contribute services and facilities that HFH-I home partner families need to live fully transformed lives in thriving and secure communities[41]. At this moment 6 projects throughout the country are being run from the

[41] www.habitat.org, June 2nd, 2008

3 offices in Hanoi, HCMC and the Mekong Delta (near Rach Gia) and more than 3500 households have been helped through these programmes. This Mekong Delta Rainbow Village project provides housing plus a loan for those who have to relocate because of slum eradication. Belgium Technical Cooperation (BTC) runs a look-a-like programme in cooperation with Development Workshop (DW), a French NGO, near Hue, where the government uses nation-wide policy to remove temporary housing and either upgrade these homes or relocate the households. As part of the program, residents in Hue were compensated for this, but insufficiently. DW provided additional credit for these households.

4.2.4 Comparing Vietnam and Cambodia

As Vietnam is not the only emerging economy in Southeast Asia, a closer look at a surrounding country as Cambodia is welcome.

Cambodia is a young and poor country. After a decade of relative political stability, its economy has begun to take off, and the country is beginning to see incomes rise and health improve. Cambodia has experienced double-digit Gross Domestic Product (GDP) growth over the last three years, thanks to the growth of its garment industry and tourism.

In combination with the rapid growth of the economy, the MF market started booming in 1994, meaning that Cambodia's MF market is relatively mature, competitive and very large (25 percent of all financial services in Cambodia are MF). Reasons for this growth are the country's good, "pragmatic" legal framework and the role of the government that is not interested in playing a role in financial services as in Vietnam (i.e. subsidizing interest of state banks loan products targeted at the poor). Besides, the government does hardly run a sophisticated and certainly not a generous social security and welfare policy so that MF can fill in this gap. Finally no large foreign player entered the market and therefore no dominant player can be found.

In contrast, the MF environment in Vietnam is very demanding, says Vincent Wierda of BTC. The market is still quite immature and non-competitive and financial services in general in Vietnam are not well diversified. The reason for this is that a competitive level playing field and a supportive legal framework are missing.

The non-existence of a competitive level playing field is inhibiting the growth and diversification of the MF market. The main disturbances are the subsidised credit schemes to State Banks. They may still be part of Vietnamese social/development policy for quite some years, however, though Ms. Quach Tuong Vy of the SBV mentioned that they were developing a draft decree that proposes to make the market more competitive by reducing the subsidies for the VBSP.

As a result of the non-existence of the competitive playing field and supportive legal framework, current (semi-formal) private MF providers are small, and provide little diversified products, while Cambodian MF providers diversify a lot more. Another factor not helping the MF market to diversify is donor influence. As MFIs have to compete with cheap credit from State Banks, many rely largely on donors. As donors want to know what happens with their money, they have certain influence in what products are funded with it. As a result, there is a somewhat supply-driven MF product market in VN in contrast to Cambodia where as Cedric Javary of BTC mentioned the market is more demand-driven.

4.3 Product Specifications

This section describes the specifications of HMF and HF products of the different suppliers described earlier. Some HF products are included as some banks are not yet providing

HMF products at this moment but are willing to do this in the near future. Also, there will be some attention for other institutions that are involved in HMF, although not taking the role of direct financial liaison. Appendix I provides a detailed table in which all specific product characteristics of these HMF and HF products are given (derived in the way we introduced in Section II). Here follows a description.

4.3.1 Public Institutions

As mentioned earlier, the only public institution that offers real HMF-products currently is CEP. With a total outstanding loan portfolio of 206 billion VND (USD 12,875 million), about 5 percent (1492 clients) is used for upgrading loans and less than 0.5 percent is used for new construction loans (76 clients). CEP offers non gender-based loans for the urban and rural poor in mainly the southern provinces. Both land rights and the structure rights are required for legal purposes, though these are not collateralized. Other collateral and up-front savings are not required and as interaction between the loan officer and the client is considered very important, disbursement is done through loan officers. Maximum loan size for upgrading is 15 million VND (approximately 900 USD) with a maximum loan term of 3 years and for new houses 70 million VND (approximately 4400 USD) and 5 years. Interest rate lies around 7 percent per year and cash disbursement is used. In some project areas, technical assistance is provided by partner organizations (on which more below) and budgeting assistance is provided by CEP itself.

TYM is running a pilot at this moment with HFH-V. Loans are only available for upgrading, but the future could bring new construction loans. The upgrading loans will have a maximum loan size of 2.5 million VND (approximately 160 USD). Interest rate will be around 12 percent per year and technical assistance will be delivered by HFH-V. Maximum loan term for this product is 100 weeks and repayment will be based on the needs of the client, though monthly repayments will be the most common used.

Binhminh CDC is developing a HMF upgrading product that will be implemented in the near future. The loan will have a maximum term of 80 months and the maximum loan size will be $625. Repayment will be on a monthly basis, through loan officers, who will disburse payouts and retrieve payments on the smallest community level (hamlets) in group settings. Yearly interest rate will be 21 percent. Binhminh uses group lending through these hamlets and asks upfront deposits, but no collateral is needed. Though land use and property rights are eligibility requirements for legal purposes.

Other public MF institutions, as the VBSP, give MF loans that in theory could be used for housing. Indeed, the VBSP indicated us to be aware that it this is in fact happening, but misses accurate statistics on this. VBSP reacted to these developments with a housing programme for the Mekong region. For this product maximum loan term is set higher than CEP's and Binhminh's term, namely at 10 years, but interest rate lower at 3 percent per year, which is thanks to subsidization. The maximum loan size of 9 million VND (approximately 560 USD) would implicate that only upgrading is possible. SOCBs such as the MHB, Vietcombank and Vietinbank, offer HF products with bigger loan sizes (200 million VND / 12,500 USD), longer terms (20 years for new housing, 5 years for upgrading) and higher interest rates (10-13 percent).

Overall it can be seen that public HMF institutions offer small loan sizes, with a very low interest rate (partly subsidized by the state) and a medium loan term. The public MFIs (whose loans can be used for housing purposes) offer small loan sizes, lower interest rates and longer terms. The public HF suppliers operate as commercial banks, with relatively low interest rates, but still higher than those of the HMF and MF. Loan term and size are much like private institutions (JSCBs) and therefore relatively high in respect to other public MF and HMF products.

4.3.2 Private Institutions

The private sector does not offer real HMF products at this moment. As said before, they observe the potential of the emerging middleclass, but do not target them at this moment, as they do not perceive them to be profitable. Slowly and carefully, changes seem to be on their way, though, as Techcom Bank and SacomBank both are developing new products for these middle-income people. Besides, Habubank is growing fast, thanks to their new approach of reaching the emerging middleclass, hence setting an example.

The 'normal' housing products offered by most of the private banks provide loan terms between one and 25 years, with an average of 15 years. The interest rate lies around 18-20 percent per year (i.e. around the current competitive market rate) and loan sizes are up to 70 percent of the value of the house (with the exception of Trustbank who provides loans for a maximum of 85 percent of the value). All the loans are given to individuals and some sort of collateral is needed, mainly land use rights and property rights or other valuable goods like gold or a saving account. Most of the banks do not offer any technical, budgeting or other kind of assistance.

Techcom Bank is now running a pilot with the ADB. In this pilot loan sizes are maximised at $20.000 for new building and at $3000 for upgrading. Target income is $100-$400 per month and loan term lies between 5 and 20 years. Although they seem to recognize the profitability in this sector, there are some difficulties with repayment and the compulsory insurance that the ADB requires. Besides, loan sizes seem to be too small, given the prices in the real-estate market nowadays.

(I)NGOS are active on the Vietnamese market as well, though mostly in partnerships with local organizations as a good network is needed. The (I)NGOs for most of the part provide funding and the local organizations provide the network, serve the clients and provide information about the market tot the (I)NGO.

4.3.3 Other Institutions

HFH-V is one of the biggest housing institutions in Vietnam. It helps several local partners (CEP, TYM, Binminh) in reaching more than 3500 people. International partners include the Red Cross and American Standard. The product HFH offers is not a complete HMF-product, but can best be seen as possible addition to it, as they use their partners as implementers of the credit services. They help these partners with management training and technical support. HMF-products of HFH's partners are mainly loans for upgrading and only some for new construction. Mainly women are being targeted as the biggest partner is the VWU. Land use rights and property rights are not required and loan size lies between $130 and $400 with an interest rate between 5 and 12 percent per year (depending on the partner organization) and a loan term between 4 and 30 years. Collateral is not required, though some upfront saving is needed. Also BTC is active in the Central regions of Vietnam. It provides technical assistance, as HFH-V does.

HFH-I is well-known for its technical assistance during their projects. "While technical assistance may decrease the risk of default, it is also important for the safety and soundness of the improvements paid for through housing microfinance loans" (USAID 2007). However, Daphnis (2004) says that "construction assistance does not appear to be a predictor of financial performance"[42] (in terms of repayment rates). Yet another opinion was voiced by Mr. Dat of CEP who uses technical assistance and budget assistance (from HFH-I). He explained us that technical assistance is neither good nor bad for CEP, but certainly good for the clients themselves. Overall, we could say that while technical assistance does not seem to provide big advantages for a HMF-provider, there is probably no harm in it either.

[42] Daphnis, F. (2004), Housing Microfinance: Toward a Definition, in Daphnis, F. & Ferguson, B. (eds. 2004), "Housing Microfinance: A Guide to Practice", Kumarian Press, Bloomfield, CT, USA, pp. 10

4.4 Supply of HMF: Implications for MFIs

The acute poverty situation in Vietnam has focused the attention of the government on the financial services needs of the poor as a potentially powerful instrument in poverty alleviation. Thus, the Government has used state-owned banks to provide subsidized loans to poor households, and has regulated interest rates through the SBV to achieve poverty alleviation objectives. The international donor community, as represented in Vietnam, has also expressed the belief that microfinance is an important tool for poverty alleviation. (I)NGOs and the donor community have been instrumental in the introduction of many innovative savings and credit schemes and are offering many MF products.

Finally we ask ourselves what are the implications of our findings on the supply of HMF and MF products for MFIs in Vietnam and their financers. In general we could say that HMF still is not high on the agenda and is currently only offered by CEP together with HFH-V. Other institutions that will likely become MFIs under the new Decree are thinking about HMF products, but still in the stage of starting up a pilot or researching into demand and suitable product specifications. National commercial banks, recognize the demand for HMF, but do not expect the investment to be profitable and public institutions focus mostly on income-generating products. There seems to be an opportunity as there is a substantial undersupply of suitable financial products to finance low- to medium-income housing and demand is high for those products (see also section V). Finally, trends and expected socio-economic developments for the future seem to encourage the supply side.

The fact that demand outreaches supply creates great opportunities. The question is which product should be provided. In order to do that, a closer look at the products offered at this moment is needed. Besides, a demand analysis is required that we will perform in section V. The HMF product offered by CEP and HFH reach (very) low income households, while HF products offered by banks reach the high income people, which results in a gap that could be filled in with a product based (more) on HMF principles.
It is therefore the task for the MFI to choose which HMF product would be the most suitable for the target sub-segment that has been chosen. These two should suit the MFI in terms of both its objectives and its internal strengths and weaknesses. For instance, if the objective is to reach as much (low-income) people as possible, lower interest rates and smaller loan sizes should be used. If middle-income households would be targeted, interest rate could be somewhat higher and also the loan size should increase.

In addition to the internal fit, an MFI considering implementing HMF-products should consider the external environment in which it (wishes to) operate. By that we are referring to both the demand for HMF (as discussed in section V) and the macro-environment (section III).

V: Demand Analysis

In this section we will turn to the demand-side of the Housing Microfinance (HMF)-market Vietnam. The goal of this chapter is two-fold: (a) to make up a general picture of HMF-demand in Vietnam and (b) to identify which groups of people in Vietnam currently can be distinguished that have different profiles and therefore different needs that can be addressed by HMF-products.

A preliminary word of caution is advised. In a developing economy such as Vietnam, great dynamics may exist regarding the macro-economic and societal situation. This naturally creates a degree of uncertainty for the future. The reader is therefore warned not to consider the analysis of this section as static, but as being subject to a dynamic environment. That is the dynamic environment of which the major trends and expected future developments were discussed in section III. Thus, this section and section III, like sections IV and III, mutually complement each other.

In the following pages, first a broad picture of the demand for HMF in Vietnam will be provided. Following this, the (potential) market-demand will be further specified by using several segmenting characteristics. Finally, we will briefly discuss some implications of the structure of HMF-demand for Microfinance Institutions (MFIs) or their financers.

5.1 HMF Demand in Vietnam: The Broad Picture

5.1.1 Delimiting Market Demand

As mentioned before, HMF demand can theoretically come from existing Microfinance (MF) and Housing Finance (HF) markets, but also from alternative individuals (see section 2.3.2). After all, the needs that HMF aims to fulfill are very similar to both HF and MF, but also to a certain degree unique. Thus, the "overlap + uniqueness-view" applies. While this difficulty in the market delimitation requires extra attention of the researchers, it also creates extra insights for the reader which might be overlooked if focus would only be on existing MF and HF needs and (corresponding) products.

Before we turn to the (most important) characteristics that distinguish *different* groups of (possible) HMF-clients in 5.2, let us first provide a broad *general* picture of demand for HMF in Vietnam. The next paragraph will be discussing this subject.

5.1.2 Demand Analysis: a General Picture

Potential demand for HMF in Vietnam promises to be very large. This message has been conveyed to us repeatedly by all our interviewees, whether bankers, academics, people at Non-Governmental Organizations (NGOs)/Social Organizations (SOs) or others.

Vietnam's impressive economic growth (especially in the last decade) has increased wealth of many low- to middle-income groups and lifted millions out of poverty. As a result more people today than before are able to sustainably finance their daily needs and therefore have money to spend for different purposes. Currently, many Vietnamese seem to spend large parts of their increased income on improving their current living standard by buying consumption goods (cell phones, fashionable clothes, scooters, etc.). Housing is partly a consumption-good, as it increases current living standard directly. For as far as a household's improved health and safety increases its future income, housing can also be considered an investment good. Currently, however, many Vietnamese treat

their housing needs largely as consumption goods. They informally save up the amount to finance the purchase of a house at once, lump sum. Of course this consumption-treatment of housing is partly of historic cultural origin, as almost all of our interviewees remarked. However, the underdeveloped nature of the market in also to blame and is inhibiting the Vietnamese to start treating their homes as an investment. All of our experts believed that a great undersupply of housing that is affordable for low- to middle income groups. This undersupply exists because of *both* a lack of suitable real estate *and* a lack of financial products (mortgages) that could alleviate the affordability of available real estate for these households. Thus, while there is huge potential demand at these income groups, both the real estate and the financial services sector are not (yet) sufficiently targeting them.

Less than 10% of the Vietnamese are estimated to have any formal relationship with a bank[43]. Indeed, spending and saving in Vietnam still happens to a large degree outside of formal markets. Traditional family and community structures play an important role in this respect. Families live on a cash basis, often with 2 or 3 generations under one roof. Their saving-behaviour takes the form of Rotating Savings Credit Associations (ROSCAs) or Accumulated Savings Credit Associations (ASCAs) (see section 2.1.3): together they save cash "under the mattress" instead of at the bank, and when a family member is in need of credit he/she can borrow the money without any bank interference. This type of informal saving happens for all sorts of purposes, including for purchasing housing needs (lump-sum, as noted above). Thus, although the saving capacity of the Vietnamese certainly exists, acquiring insight into its specifics is difficult due to its informal nature. The resulting unfamiliarity with the formal financial sector makes many Vietnamese naturally reserved towards formal financial services. Consequently, the treatment of housing as an investment by using a long term loan/mortgage is still uncommon.

As part of it reforms to move towards a market economy, formal land use rights and structure property rights were introduced. The certificates of these land use and structure property rights are known as the "red book" and "pink book" respectively. The red book (i.e. the land use rights certificate) gives Vietnamese nationals the legal right to "lease" the land perpetually as well as the legal right to sell it, or to pass it on to heirs at death. Red books are issued by local governments for a one-time fee, of which the height is determined by the local government but usually is around 10% of the total value of the land. Pink books (i.e. structure property rights certificates) are issued by local governments if the structure abides to the zoning plan. Interviewed academics judged the process of acquiring the land use and structure property rights as "not so difficult" or "relatively easy", but a Ho Chi Minh City (HCMC) local resident stated that for some (especially the lower educated) there could be difficulties in the registration process. The current penetration of these red and pink books is unclear, estimates of our interviewees ranged from "over 50%" to 80-90%, but certain is that not all Vietnamese posses these formal rights. In addition, even if formal transaction of red and pink books does take place, payment of the transaction often still happens by cash or even in gold, leaving it out of bank records. One of our interviewees estimated that merely 5% of real estate transactions in Vietnam are "wired".

Thus, the high informality of the Vietnamese HF market is partly caused by cultural and historic tradition, and partly by the underdeveloped nature of the market. Regarding the second cause, a 2008 research by McKinsey[44] sounds a positive note. It revealed that the Vietnamese's openness towards borrowing is significantly more positive than that of the people of the other emerging Asian economies: India and China. Less Vietnamese than Chinese or Indians agreed to statements such as "I believe it is unwise to borrow money

[43] Andrade, N.P., Lottner, J. & Roland, C. (2008). "How Young Consumers Could Shape Vietnam's Banks", The McKinsey Quarterly, March 2008
[44] Ibid.

except for a house" or "Borrowing is dangerous and can lead to a loss of face". Relatively more Vietnamese agreed to "Borrowing can improve my lifestyle".

Moreover, Vietnam's rapid economic growth already has and in the future increasingly will have – by the forces of factors such as urbanization and education - changed traditional cultural perceptions more positively towards financial services. As discussed before in section III, traditional family structures are changing as the young generation moves to the cities and become financially independent. Also, individualisation reduces fears of losing face, making the Vietnamese more show their wealth and be more open to borrowing.

In short, demand for HMF in Vietnam promises to be very high. This is due to serious undersupply of *both* real estate and HF services targeted at the low- to middle income groups. By this we mean that currently:

- There are too little financial products (loans) available for low-to middle income groups to finance their housing-needs (whether for new construction or upgrading purposes), given the existing real estate available. This creates huge underserved demand in the status quo.
- There is too little affordable, basic but decent real estate available for low- to middle income groups in Vietnam. Increased availability of such housing would "unlock" even further demand for HMF products.

What is more, current socio-economic trends and projections for the future indicate that the potential demand for HMF could even further increase in the future.

5.2 HMF Demand in Vietnam Segmented

The previous part of this section provided the general picture of demand for HMF in Vietnam. Several characteristics of Vietnamese individuals may alter the profile of these potential clients such that quite different HMF-products would suit their needs best – thus would fulfill the greatest demand. The most important segmenting characteristics (variables) that were identified during our research are: an individual's/household's *income*, *age* and *area of residence*. In the next paragraphs the effects of these variables on HMF-demand will be discussed. Of course, interdependencies between these variables may exist. Therefore, whenever we found such interdependencies to be remarkable (e.g. between income and area of residence), this will not be left unaddressed.

5.2.1 HMF Demand Segmentation: income

The logic behind the first segmenting variable of HMF-demand, income, is rather straightforward. Vietnamese people at the very lowest income levels (i.e. under the poverty line), although often certainly in need of better homes, will prioritize food and drink. Especially these Vietnamese will treat their homes as consumption goods. They informally save up the amount needed to purchase basic materials (wood, stone, plastics) by which they can self-build a temporary or semi-permanent home, the former obviously applying to the less fortunate. Temporary houses normally last one year or flood-season, semi-permanent homes up to around 5 years. This required the residents to find funds to repair or rebuild their homes regularly. Liquidity constraints hamper them from investing in their homes properly.

Vietnamese at the highest income levels, however, will demand traditional mortgage products which are currently available in Vietnam. Higher income Vietnamese will generally prefer finance for new construction over home improvement purposes.

Potential demand for HMF products lies in between, from low income individuals who have just risen above self-sustainability to those middle-income groups that have

difficulty finding a suitable traditional HF (mortgage) product. The general rule is that higher income individuals more often posses land use right and structure property rights. So the considered income groups here most often will, but sometimes may not have these certificates in their possession. These people may be farmers or blue collar employees, with at least some form of education or otherwise work experience. Therefore their incomes are reasonably stable and predictable, although in some cases formal credit history may be (partly) difficult to find. Sometimes they have only just entered the formal economy. Young white-collar employees of the lower income levels may also fall into this category.

Table 5.1: Income Groups in Vietnam (2007 estimates)

	Vietnam	**(nationwide)**	**Vietnam**	**(urban areas)**
	USD / yr	*VND / yr*	*USD / yr*	*VND / yr*
GDP per capita	700	11200	5700	91200
GDP per capita (PPP)	2380	38080	19380	310080
Income groups	*USD / yr*	*VND / yr*	*USD / yr*	*VND / yr*
Low (range: < ..)	350	5600	2400	38400
Medium (average)	700	11200	5700	91200
High (range: > ..)	1050	16800	9000	144000
Income groups (PPP)	*USD / yr*	*VND / yr*	*USD / yr*	*VND / yr*
Low (range: < ..)	1190	19040	8160	130560
Medium (average)	2380	38080	19380	310080
High (range: > ..)	3570	57120	30600	489600

Notes:
- All figures are the authors' estimates, based on statistics of the World Bank's World Development Indicators as well as on estimations by several of our interviewees and the authors' judgment on these estimates.
- All figures in VND are expressed in 1000's.
- VND:VND exchange rate is 16000:1; PPP:absolute figures relate 3.4:1

Table 5.1 (above) shows an overview of the income groups in Vietnam. In addition to the nationwide statistics, it portrays the figures for urban areas separately. As our interviewees commented often and as we could witness with our own eyes, income levels between urban and rural areas differ significantly. This is also confirmed by empirical research by Scervini (2005), which shows that spatial differences (i.e. between regions and between rural and urban areas) are by far the biggest explanatory source of income inequalities in Vietnam. Thus, a link (interdependency) between income and area of residence exists here.

5.2.2 HMF Demand Segmentation: age

Secondly, age is an important determinant of HMF demand in Vietnam. As many of our interviewees indicated, there exists a huge generation gap regarding attitudes towards borrowing and formal financial services in Vietnam in general. This large generation gap is confirmed by a 2008 McKinsey Research[45]: double-digit percentage point differences (up to 29%) exist in answers on statements revealing a positive attitude towards borrowing (statements such as "Borrowing can improve my lifestyle") and modern financial services (e.g. internet banking).

To us the generation gap was most vividly illustrated by our interview with a local resident of HCMC. This middle-aged man was accompanied by his daughter and our interpreter of comparable age. When discussing several different (H)MF techniques with him that aim to make borrowing more easily accessible (regular repayment shedules; technical or budgetary assistance; progressive lending; etc.) his recurrent answer was that for him it would make no difference. When asked about what he thought of the possibility of others (friends, family) co-signing a contract, making them jointly liable as a group, he smiled broadly and said "Not possible in Vietnam". Why would he risk getting his family or friends intro his own trouble? But consistently, although on this last point not as clearly as on the others, he agreed with his daughter that for younger people all such facilitating loan characteristics might indeed make a difference. Especially, they agreed, for young families who have just moved to the city.

5.2.3 HMF Demand Segmentation: area

The third determinant of HMF-demand in Vietnam is area of residence, as was already hinted at when discussing the effect of income on demand. Chiefly, we are referring to the difference between rural and urban areas. Many reasons exist why HMF-demand may be of quite different nature in rural as compared to urban areas.

Firstly, the informality of the economy is much larger in rural than in urban areas. As labor is predominantly (self-) employed in agriculture in rural areas, and much more in industry and services in urban areas, formal track records of transactions exist far more in urban areas. The penetration of legal land use and structure property rights is relatively larger in urban areas than in rural areas, where more households (farmers) simply own their land because 'their family always has'. The laws that passed the land use and structure property rights in the early nineties did contain an interesting detail though. Namely that households who could indicate to have lived in the same home for more than a certain amount of years before could automatically apply for the certificate. Naturally, this provision should have most effect in rural areas. It remains unclear though how many rural households (farmers) actually took up the required action to receive the certificate(s). In contrast, looking at the cities, an estimated 60% of urban dwellers rent their home and only 40% possesses it, while in rural areas 80-90% own their land (whether de jure or de facto). Moreover, those migrating from rural to urban areas are having a hard time finding a residence and finance for it. These people often end up renting.

Secondly, in Vietnam demand for HMF may also come from those people who have to relocate because of government policy / programs or infrastructural projects. All over the country, especially in urban areas, large scale re-zoning projects are currently underway or in planning stage. In Hanoi, for example, the Hanoi Urban Transport Development Project will require the relocation of 730 households and the reconstruction of the homes of another 191 households[46]. In HCMC and all over the Mekong Delta in urban areas, slums and low-income housing at the river-banks are brought down due to government

[45] Andrade, N.P., Lottner, J. & Roland, C. (2008). "How Young Consumers Could Shape Vietnam's Banks", The McKinsey Quarterly, March 2008

[46] Department of Transport and Civil Works of Hanoi, Hanoi Urban Transport Development Project (HUTDP): Resettlement Plan, November 17, 2006

health and environmental policy. This latter example was brought to our attention by Can Tho University experts. They informed us that those who have to relocate and do posses their land use rights and structure property rights (if the structure abides to the zoning plan purpose) get compensated up to 60% of the value of the land, leaving them 40% short. Those who do not own the appropriate legal certificates receive less, we were told, although the problem of illegal housing along riverbanks is limited to "just some".

The precise magnitude/gravity of the situation is unclear to us. From our own examination of the formal Resettlement Plans of these government projects[47] there seem to be more generous compensation schemes than described above. The World Bank's (WB) co-funding of the Hanoi and Mekong projects makes it even more likely to us that compensation schemes are indeed proficient. We hypothesize that these different findings can be reconciled as follows: even if affected households receive *full* compensation in the form of 100% the value of their current land & structure, the land & structure prices of comparable type of housing in the area to which they are forced to move may be more expensive. This is actually the case, for example, in the area around the city of Hue, as brought to our attention by Mr. Adam McCarty of research bureau Mekong Economics. He informed us that there is a government nation-wide policy to remove temporary housing and either upgrade these homes or relocate the households. As part of the program, residents in Hue were compensated for this, but insufficiently. A French NGO named DW (Development Workshop) provided additional credit to these households.

Thus, potential HMF exists with these people who are subject to such programs as described above. Some may have been MF clients before, but none of them will have been HF-clients before. A final possible complication remains, though: the government may not (yet) be open to private sector participation in the field of financial services at such projects. An encouraging fact in this regard is the fact that Habitat For Humanity Vietnam (HFH-V) is cooperating with the government near the city of Rach Gia (in the Mekong Delta area) at the moment, as we were informed by Mr. Wesley Nguyen. The Rainbow Village project provides housing plus a loan for those who have to relocate because of slum eradication.

Thirdly and finally, although the urban Vietnamese are much richer than the rural, and therefore may be more in demand of loans for new construction than for upgrading, finding an affordable plot of land is much harder in urban than in rural areas. This creates more demand for home-improvement HMF products in the cities. On the other hand, to upgrade housing in (very) densely populated areas is often technically and regulatory-wise difficult. Thus, whether demand for upgrading or new construction is higher in urban or rural areas is unclear. Income seems to be a more important factor in this.

Additionally, aside from our above comparison of the demand for HMF between urban and rural areas, a general comparison can be made between the North and South of Vietnam. Although, of course, one always has to be careful when making such generalizations, there appears to be a distinction. (Sub-)Urban slums are developing more rapidly in the South than in the North. For instance, compare HCMC with Hanoi. About this, some of our interviewed experts remarked that possibly Northerners value their housing situation more than Southerners. This would be partly because of historic cultural tradition, but partly also because of simple necessity: whilst the tropic South knows only a dry and a wet season, the sub-tropic North can experience chilly winters.

[47] These include (at least) the Hanoi Urban Transport Development Project (HUTDP) and the Mekong Delta Water Resources Project.

5.2.4 HMF Demand: how effective is it?

Ideally, one would like to know precisely the *effectiveness* of demand for HMF in Vietnam, preferably even specified along our three segmenting variables of income, age, and area of residence. Effectiveness herein refers to the degree in which clients would actively pursue HMF products once they are available to them. In contrast, demand may also exists with individuals/household who may have needs that can be fulfilled by HMF, but are not actively pursuing such products, e.g. because they are simply uninformed or uneducated.

Unfortunately, it is very hard to say to which degree HMF-demand in Vietnam is effective. From our interviewees opinions we can derive two careful estimates, however. Firstly, in general the effectiveness of demand for HMF will be larger for individuals/households of larger incomes. This would be because at higher incomes, Vietnamese are more wealthy, can provide better in their daily needs, so will sooner actively pursue to improve their housing. Secondly, a few interviewees suggested that perhaps the effectiveness of demand for HMF is higher in the North than in the South, due to the cultural and climatologic differences between these two regions (as described above). But once again, so far these two remarks are merely conjectures. Quantitative market research into the effectiveness of the demand for (H)MF in Vietnam is necessary, but is beyond the scope of this research.

5.3 HMF Demand in Vietnam: Implications for MFIs

Finally we ask ourselves what are the implications of our findings for MFIs in Vietnam and their financers. As the general promise is that demand for HMF-products is high, things look positive. There is substantial undersupply of suitable financial products to finance low- to medium-income housing as it is. On top of that, lack of suitable available real estate exacerbates the mismatch of demand and supply. Finally, trends and expected socio-economic developments for the future seem to add to potential demand.

There appears to be not one single solution, not one single HMF-product that could serve all demand. Specifics on the income, age and area of residence of households can very much alter the type of product that would suit that sub-group best. After all, as put elegantly by Mr. Turk of real estate advisor CB Richard Ellis: "Affordability is one of the hardest things to come to terms with in Vietnam". But these three segmenting characteristics provide important insights.

Let us illustrate the implications of these characteristics by an example. Households of the lower(st) income levels, living in rural areas and wherein the head of the household is middle-aged or older will require a very different loan-product than young, (emerging) middle income, urban nuclear families. The former would probably be best served by a HMF loan-product that implements heavily many of the MF mechanisms. These loans could remain uncollateralized, be quite small (although slightly larger than micro-enterprise loans) and of relatively short term. This would keep the loan affordable for the target group in terms of interest rates. The latter sub-segment of our example could be served by HMF-loans that lean more towards traditional HF/mortgage products, albeit with notable borrowing of ideas from MF theory and practice. For example up-front savings and regular repayment schemes and (progressively) linkages to other loans could be implemented. These loans could be relatively larger and of longer term, although still smaller and of shorter term than current HF products that are offered, and still be affordable to the target group.

It is therefore the task for the MFI to choose which target sub-segment together with its most suitable HMF product in turn would suit the institution best. The target clients plus product should suit the MFI in terms of both its objectives and its internal strengths and

weaknesses. Institutions that already have (access to) a large network on the community level and cheap capital will be best at overcoming the dislike and unfamiliarity of formal financial services amongst lower income groups in rural areas. Institutions such as commercial banks that are increasingly attracting (emerging) middle-income individuals/households as their clients will be most successful in achieving large scale in provision of H(M)F loans to this target group.

In addition to the internal fit, an MFI considering implementing HMF-products should consider the external environment in which it (wishes to) operate. By that we are referring to both the current suppliers of comparable products (as discussed in section IV) and the further macro-environment (see section III).

If (potential) financers of HMF-projects like FMO understand *which* type of product would serve *what* potential demand-segments in Vietnam best, they can more accurately pick an MFI to team up with.

VI: Conclusions & Recommendations

This section will conclude the main findings of our research, thereby answering the research questions. Firstly, an overview will be given of which public and private institutions in Vietnam are active in Microfinance (MF) or Housing Finance (HF), and which are already actively providing Housing Microfinance (HMF)-products. Secondly, these HMF-products will be further examined. Thirdly, the specific opportunities to offer HMF-products in Vietnam are assessed by looking at both the (non-) fulfillment of demand for HMF and future developments and challenges in the larger environment. By concluding on these three issues several important implications for HMF and its future in Vietnam can be withdrawn. Therefore, this section will also provide recommendations for The Netherlands Development Finance Company (FMO) on the possible paths to take in funding HMF-projects in Vietnam.

6.1 Institutions providing MF, HF and HMF in Vietnam

To find which institutions in Vietnam are active in HMF, or in the future could be, we took a broad approach by considering the institutions that are currently active in MF as well as those that are active in HF. Looking at the products of these HF and MF institutions we judged whether the issuing institution could be considered as providing HMF-products. When examining these MF, HF and HMF-institutions, we segmented them on basis of ownership (private, public) and legal form (formal, semi-formal or informal).

There is currently a broad variety of different institutions providing MF products in Vietnam. In the public sector, the two largest formal players are the state banks Vietnam Bank for Social Policies (VBSP) and Vietnam Bank for Agriculture and Rural Development (VBARD). These banks have vast nation-wide networks and provide heavily subsidized credit (government funded) both to individuals and groups. Additionally the People's Credit Fund (PCF) network is a large formal cooperative with many small autonomous branches, using mobilized savings as their chief resource. The semi-formal public actors in the MF market are many, although they cover only 5-10% of the total credit market. These are Mass Organizations (MOs) such as the Vietnam Women's Union (VWU). The VWU is not a direct supplier of MF itself but owns three specialized MF funds. These are two provincially operating funds (Binhminh CDC and Thanh Hoa) as well as Tao Yue May Fund (TYM), which operates in the 7 Northern provinces. Additionally, the Capital Aid Fund for the Employment of the poor (CEP), a spin-off of the Ho Chi Minh City (HCMC) Labour Confederation, operates in both rural and urban Southern provinces. In the private sector more than 50 International Non-Governmental Organizations (INGOs) are involved, even though capturing only 5% of the microcredit market. Many make use of the VWU's extensive network, as do for example Stichting Nederlandse Vrijwilligers (SNV), Save the Children, World Vision, Plan International, ActionAid and AFAP. Finally, the informal economy also plays a significant role in MF. As part of historic cultural tradition the lending of cash by families, friends, communities etc. is very common in Vietnam. In fact, informal lending used to be the most important source of MF.

In Vietnam three formal State Owned Commercial Banks (SOCBs) provide HF products for individual households. These banks are equitized, but a majority of shares (to be downscaled to 51%) are in government possession. The banks in question are Vietcombank, Vietinbank and the Mekong Housing Bank (MHB). In the private sector, HF products are offered by several Joint-Stock Commercial Banks (JSCBs): Asia Commercial Bank (ACB), Sacombank, Techcombank and Habubank. Additionally, several (private) international banks have entered the scene, taking only a marginal share however. In general, HF products of all these commercial banks are very much traditional mortgage products in which the land and/or property is collateralized. As a result, they are targeted at mid- to high but mostly high-income Vietnamese.

As HMF is a relatively new concept in general, so it is also for Vietnam. It is therefore little of a surprise that those institutions currently providing true HMF-products are few. At the moment there is only one provider, CEP that has taken HMF to a significant level. CEP has multiple HMF-projects in which it provides two products. In one of these projects, for both products, it is working closely together with Habitat For Humanity Vietnam (HFH-V). In other projects it works together with the Belgium Technical Cooperation (BTC). These co-operations are quite satisfactory to both parties, as well as to clients. To be fair, another party that could be regarded as providing HMF, be it at smaller scale, is the VBSP. They provide loans to households who have to relocate because of government policy in the Mekong delta area. Additionally, the VBSP knows that some of their micro-loans are actually applied for housing purposes, but it misses accurate statistics on this. More genuine HMF projects by other parties are on their way, however. TYM is very near to starting a pilot, also in cooperation with HFH-V. Binminh CDC is currently still in the process of designing a suitable HMF-product, but is determined to follow through.

6.2 HMF products in Vietnam

The HMF-products currently supplied as well as those that will be in the near future certainly are quite similar, although there are interesting differences in some product characteristics. Firstly consider the target clientele. All HMF-products are directed at the poorest households. As TYM is part of the VWU and as Binminh cooperates closely with the VWU too, their loans are wholly or mostly issued to women. Binhminh and the VBSP's HMF-products are only available in a specific, rural province, while TYM's are available in 7 (mostly rural) Northern provinces and CEP's in both urban and rural areas all over Southern Vietnam. All (except the VBSP, which is a social-housing project) provide HMF for upgrading purposes. CEP is the only organization currently offering a HMF-product for the purpose of new construction – although these only concern a limited amount of loans. All require the applicant to demonstrate that he/she is the legal proprietor of land and structure (land us rights and structure property rights), except for TYM. Secondly, consider the loan conditions. Loan sizes for housing-upgrading vary from a minimum of around 2.5 Mln Vietnam Dong (VND) / 160 United States Dollars (USD) at TYM and 10 Mln VND / 625 USD at Binminh, up to a maximum of approximately 15 Mln VND / 940 USD. Corresponding loan terms are, unsurprisingly, ascending in order of loan size: 50-100 weeks, 80 weeks and 3 years / 156 weeks respectively. Interest rates of the larger and longer term loans are lower than the smaller and shorter term loans. CEP's interest is 0.6-0.8. As CEP's loan is larger in size and longer in term than TYM's, its interest rate is lower (0.6-0.8 percent per month) than TYM's (0.8-1.0 percent per month). The one new-construction HMF-product of CEP concerns an amount up to 70 Mln VND / 4375 USD and a term of 10 years. VBSP is the exemption as these loans are subsidized by the government, so the interest rate is at 0.5 percent for the poor and 0.65 percent for the middle-income people. At this moment a new project, in cooperation with the Asian Development Bank (ADB), requires market rates. All loans are issued and disbursed at once, monthly or weekly in cash by loan officers. Repayment schedule is weekly or monthly, in cash, depending on the needs of the client. Collateral is not required but upfront savings is required at Binhminh CDC and TYM (until a maximum of $100). At CEP upfront savings are not required while the VBSP promotes it, but it is not mandatory. None use joint-liability group lending, but all use group setting social control mechanisms to enhance loan security. Furthermore, all of the institutions provide progressive linked loans but only TYM uses linked loans for HMF, while the others provide this stand-alone. CEP and TYM are already providing technical assistance with the help of HFH-V, while Binhminh CDC and VBSP are looking for partnerships. Except for Binhminh CDC all institutions provide budgeting assistance. Overall we can conclude that the biggest differences lay in the target groups mainly on the rural and/or urban side and the differences in product specifications, mentioned before.

Given their similar backgrounds, the similarities between the products that CEP (and the VBSP) is (are) supplying and those which TYM and Binhminh in the future will be

supplying are not surprising. Firstly, these institutions are similar in ownership. All are owned by public MOs, except the VBSP which of course is a public institute on its own. As a result, achieving financial sustainability let alone profit are not prioritized objectives. Emphasis within these organizations lies on their social role, thus on achieving impact (on client's welfare) and outreach (extent of poor reached, both in numbers and depth of poverty). They rely on donor funding, which makes it not imperative for them to break even on operations. But as donors do generally appreciate to know precisely how their funds are spent, and the certainty that they are directed at the very poorest, often this puts the breaks on product diversification. Secondly, current / soon-to-be HMF-providers are all (except for the VBSP) semi-formal institutions. As a result they do not have full credit-licenses, limiting their possibilities to accumulate savings, hold collateral, attract funds, etc. This restricts their options in building (diversified) products, thus puts yet another break on product innovation.

As noted before, HF products of both public and private commercial banks (SOCBs, JOSCBs) are very much traditional mortgages: large loan size, long loan term (up to 20-25 years), market interest rates (currently 18-20 per annum), collateralized by the land and/or property. It has to be noted, however, that some SOCBs seem to be, though only slowly and carefully at the moment, starting to realize the potential of the middle-income market and thinking of ways to serve it. Techcom Bank is even running a pilot program for smaller sized mortgages with the ADB, but this is not without difficulties.

6.3 Opportunities for HMF in the Vietnam

When turning to the specific opportunities for HMF on the Vietnamese market, we immediately have to remark that the very limited amount of HMF-products available today stands in sharp contrast with its potential demand. While demand is huge, current "consumption" of HMF in Vietnam is rather marginal. Only a few thousand people are served. These are all poor households, mostly for home-upgrading purposes (very few for new construction), and only in very specific areas (both rural and urban) – namely those in which the providers are active. What is more, traditional HF – mortgaging – is a service only available to the middle-to-high and high-end customer segment. Thus, while millions have been lifted out of poverty and a large middle-class is emerging, it is the same low- to middle-income mass-market that is left unattended. A fact that is exacerbated even further due to the lack of real estate that is affordable for that income group. As a result, a tremendous market opportunity to finance middle-income housing exists, one that could grow even larger if real estate developments would also start aiming more at that target group.

Within this enormous potential market, is there a sub-segment that is most attractive to serve, for example a specific geographic region/area? We propose that in Vietnam important subtleties in the nature of the market's demand surface once introducing three segmenting characteristics: income, age, and geographical area. In general, Vietnamese of higher-income levels and of younger age (most notably young families) will demand more HMF. Regarding the area of residence, specifically the difference between rural and urban Vietnamese, generalizations are harder to make. Rural and urban households could both be attractive. The advantages of targeting city-dwellers lie in a higher degree of formality, higher incomes, and more young (nuclear) families. Therefore, it is easier to assess creditworthiness, easier to make loans affordable, and easier to convince potential clients as attitudes towards lending will be more positive. The advantage of targeting the countryside could be that vast fine-mesh networks already exist there, which could be used for distribution. Social informal structures are tighter, which via group settings could also be utilized in HMF, as is already common in other MF programs. So, the answer to the question of which sub-segment is most attractive, (segmenting on income, age and geographic area) depends on the objectives Microfinance Institutions (MFIs) (and their financers) have. These objectives may concern impact (on client's welfare), outreach (extent of poor reached, both in numbers and depth of poverty) and financial

sustainability. Targeting one segment may better match some objectives than others. For example, targeting the very poorest may lead to difficulties in achieving sustainability.

Regarding the future of HMF in Vietnam, most importantly the coming 5 years, the following are the most important conclusions about the expected developments of the market (demand, supply) and its larger macro-environment.

- Firstly, not only is potential HMF-demand high today, there are positive signs that it will continue to be in the future. Solid growth prospects and continuous socio-cultural changes (altering traditional family ties, improving attitudes towards borrowing, etc.) lead to this belief. Only 10% of the Vietnamese currently have a bank account. That is bound to change. The *shape* of future Gross Domestic Product (GDP)-growth in Vietnam is something to keep a close eye on however: equal distribution of growth is most favorable for H(M)F.
- Secondly, on the supply side, those institutions that will become legal MFIs under the new Decree nr. 28 will be able to upscale their projects, expand their outreach and diversify their products. HMF-products are an obvious candidate-product for expansion. Institutions that are currently planning to become legal MFIs include at least: CEP, TYM and Binhminh CDC. Thanh Hoa might apply in a couple of years. Not coincidentally, these first three institutions are the same as which are currently either providing (CEP) or in process of designing HMF products. The State Bank of Vietnam (SBV) expects an official application to become an MFI of these three, and perhaps one or two more organizations.
- Thirdly, once more concerning supply, current HF-providers (most notably JSCBs) might move more down-market. They recognize the size of the middle-income segment, and the potential demand that lies there. But whilst they see the possibilities, especially for the longer term, they find it difficult to make their products more affordable to this income group and simultaneously keep them acceptable for themselves in terms of risk.
- Fourthly, the current high inflationary pressure is a worry. Inflation averaged 10% over 2007, and the SBV would currently be happy if it can keep it under 20% for 2008. High inflation especially hurts the lower income groups, which is unfortunate for HMF. Would inflation levels remain at current high levels in the longer term there could be serious macro-economic consequences, for example for the real estate market. The SBV seems to realize this, though. Interest rates were raised. Credit growth was capped at 30% for 2008.
- Finally, the turbulent boom-bust real estate market (as a consequence of wild speculation) is a short term uncertainty. It could become long term liability if the macro-economic situation (most notably inflation) exacerbates and real estate speculation is not curbed.

6.4. Recommendations for HMF in Vietnam

Finally, we turn to our recommendations on what possible paths FMO can take in diversifying its activities in Vietnam by expanding its funding to HMF-providers. We distinguish two clearly different options. These options should be regarded as general guidelines and certainly not as stringent instructions. But the different options do represent a clearly different *strategic choice* and should both be realizable in the short term (i.e. within 5 years). Therefore, the decision of FMO (or any financer of HMF in Vietnam) on which option to take depends on the target groups it wishes to serve and its objectives in terms of intended impact, outreach and financial sustainability.

The first option is to fund a HMF-initiative of one of the specialized MF-funds (owned by MOs) that are currently planning to become a legal MFI under the new Decree. The target group of such HMF-projects and –products would first and foremost be low-income households in rural areas and/or poor to low-income households in urban areas, particularly younger families. The advantage of this option is that great impact and outreach (in terms of depth of poverty reached) are most certainly achieved. Often the

rural and urban poor live under unhealthy and unsafe conditions. Therefore, those who benefit relatively the most from improving their homes or building better ones are served. The disadvantages of this option lie in the potential difficulties that may be encountered in attaining outreach (in terms of numbers of people reached) and financial sustainability. Outreach may be a problem because, even for MFIs under the new MF-decree, licenses are restricted to one province. So to achieve multi-province or even national coverage may prove cumbersome, although this yet has to be tested in practice. Moreover, as MOs/NGOs often rely partly on the efforts of volunteers (thus have to compete with private sector for employees), it might prove difficult for them to build the human resource capacity that can support rapid expansion of activities. Achieving financial sustainability may be complicated due to the fact that many MF mechanisms may need to be implemented in HMF-products to make them affordable to the target group. As loans for home-upgrading purposes can be smaller than for new construction, the former would probably be most feasible to make affordable. Moreover, the dominant market-position of the very low interest-rate loans by the VBSP is hard to compete with, once again threatening sustainability.

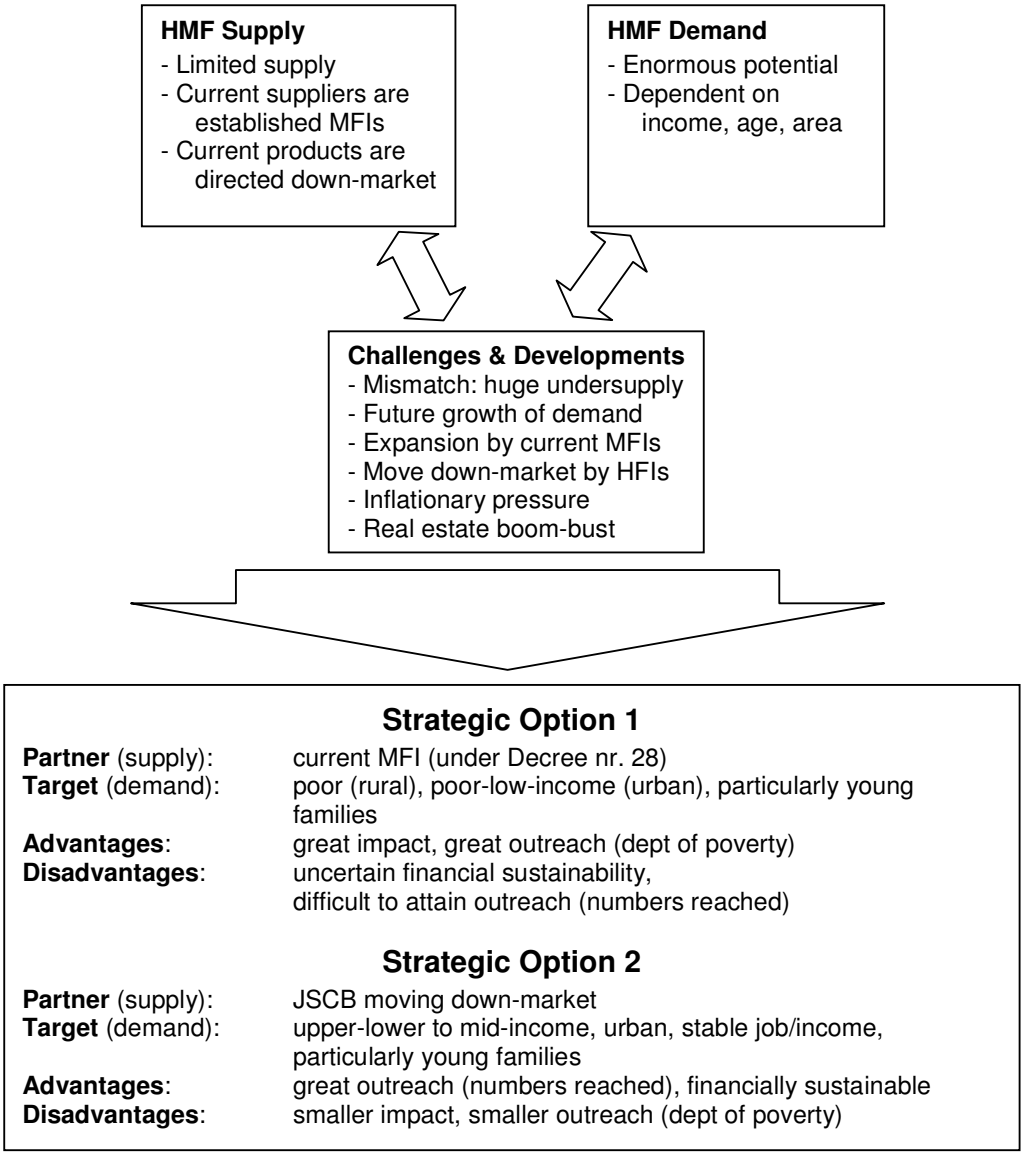
There are, however, some factors that ameliorate the above mentioned disadvantages of option 1. Firstly, concerning outreach: the quality of some of the existing networks that some NGOs/MOs (thus future MFIs) have is very high. These networks are well established. Many Vietnamese are familiar with and have favorable attitudes towards them, as they have already been active in other MF for many years. For example, CEP makes use of the HCMC Labour Union network, and TYM of the VWU's network. Especially the latter is gigantic. As a result, perhaps human resource capacity for expansion does exist, improving outreach potential. Secondly, building sustainable products promises to be much better possible under the new MF-decree. The decree increases the possibilities for MFIs to attract funds, collect savings, hold collateral, etc.

The second option is to fund a JSCB which is willing to add HF-products that are directed significantly more down-market than is currently the case. Such a H(M)F product would be targeted at households with a stable job and income. It would therefore be best to focus on urban areas, where these households can be found most. Thus in terms of income we are talking about a range from the upper lower class (i.e. excluding the poor), up to the higher levels of the middle class. The emerging middle class would then be the median household targeted at. Possibly, the financer of such a "down-market HF-"/"up-market HMF-product" can advocate the product-provider to work together with a real estate developer and local governments to ensure that decent but affordable real estate is available, thus unlock more potential demand. But that of course would require more administrative/management effort. Advantages of this strategy are that more outreach (in terms of numbers of people reached) as well as a larger degree (or even complete) sustainability can be attained. Outreach is helped because large JOSCBs are actively nationally and have greater capacity, both financially and in terms of human resources. Sustainability will be easier to achieve because of the different choice of target group. The higher income levels and stable income situation mean that less of the traditional MF mechanisms are required to make the loan affordable. Loans could be a bit larger and/or a bit longer term than under option 1, yet still smaller and shorter than traditional HF-products. Possibly, land use right and/or structure property rights could even be collateralized. It must be noted that under this option the new product may seem more like a down-market variant of HF instead of a up-market variant of HMF, especially in case it is collateralized. But if introducing only some MF mechanisms into HF orthodoxy would already reach the middle-class that could not attain HF before, that itself is an accomplishment. The main disadvantages of option 2 will by now be clear. Both impact and outreach (in terms of depth of poverty reached) are certainly less when providing such a product. Those who would benefit relatively the most from improving their housing situation are not within arm's length. One could, however, argue that these people would first be more helped with an income-generating (e.g. micro-enterprise)

loan. And if such a loan is successful in increasing a household's income, they will more likely be able to successfully apply for a housing loan.

Thus, in the above two clearly different possibilities to fund a HMF-provider in Vietnam were set out. Figure 6.1 (below) summarizes these strategic options and shows how these relate to the main results of our research. The two option represent two different strategies concerning desired impact, outreach and sustainability in the development of the Vietnamese economy. For FMO, or any financial supporter of MFIs, it is the task to set priorities on these objectives first, and then choose the target group, the product, and the MFI that suits these objectives best. After these choices are made, to discover whether success is attainable or whether adjustments need to be made, a preliminary pilot project seems to be a good advice.

Figure 6.1: Main Results & Strategic Options Summarized



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www.mixmarket.org	MixMarket
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www.vbard.com	Vietnam Bank for Rural Development
www.vbsp.org.vn	Vietnam Bank for Social Policies
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www.worldbank.org.vn	Worldbank Vietnam

List of Interviewees

Name	***Organization***
Spoken in The Netherlands	
Mr. Robert Lensink	Rijksuniversiteit Groningen
Mr. Niels Hermes	Rijksuniversiteit Groningen
Mr. Michaël van den Berg	TripleJump
Mr. Cor Wattel	ICCO
Mr. Stephen Harp	Oikocredit
Spoken in Vietnam	
Mr. Vuong Quoc Duy	Can Tho University
Mr. Le Khuong Ninh	Can Tho University

Mr Truong Dong Loc	Can Tho University
Mr. Mike Temple	Dragon Capital
Mr.Naim Khan Turk	CB Richard Ellis
Ms. Khan	SacomBank Leasing
Mr. Jos Langens	VN Recruitment
Mr. Nguyen Tan Dat	Capital Aid Fund for Employment of the poor Family in Ho Chi Minh City
Mr.Le Quoc Trung	Asia Commercial Bank
Ms. Le Thi My Dung	SacomBank
Mr. Ho Nguyen Quan	SacomBank
Ms. Pham Tran Thu Ha	SacomBank
Mr. Quan	SacomBank
Mr. Nguyen Duc Vinh	Techcom Bank
Ms. Luu Thi Anh Xuan	Techcom Bank
Mr. Joerg Teumer	TYM
Mr. Bastiaan Teune	Stichting Nederlandse Vrijwilligers
Mr. Adam McCarty	Mekong Economics
Mr. Vincent Wierda	Belgische Technische Cooperatie
Mr. Cedric Javary	Belgische Technische Cooperatie
Ms Nguyen Thi Bich Van	International Labour Organisation
Mr. Wesley Nguyen	Habitat for Humanity
Mr. Nguyen thanh Ha	Binh Minh CDC
Mr. Ngo Hong Nam	Binh Minh CDC
Mr. Cao Minh Hai	Vietcombank
Mr. Bui Thanh Binh	Vietcombank
Ms. Quach Tuong Vy	State Bank of Vietnam
Ms. Haq Thi thanh Thuy	State Bank of Vietnam
Mr. Nhan Phan Cu	Vietnam Bank for Social Policies
Ms. Nguyen Hong Honh	Save The Children USA
Ms.Nguyen Le Hang	Vietnam Women´s Union
Ms. Chuonh Trinh	Vietnam Womens´s Union
Ms. Margarete O'Biallas	International Finance Cooperation

Appendix I: Supply of Housing (Micro-) Finance in Vietnam

A. Eligibility Requirements	TYM	Binhminh CDC	CEP	VWU	VBSP
A.1 Target Clientele					
A.1.1 Gender based	100% female (VWU)	Mostly female (97%)	Mostly female	100% female	not gender based
A.1.2 Income client	poor	poor	poor	poor	poor-middle
A.1.3 Rural/urban	mostly rural	rural	urban & rural	rural & urban	urban & rural
A.1.4 Region	7 Northern Provinces	Binh Minh Province	Southern VN	àll Vietnam	all Vietnam (54 provinces)
A.2 Loan Purpose					
A.2.1 New construction	no	no	yes* (76 clients)	no	yes*, only Mekong-region
A.2.2 Upgrading	yes	yes	yes** (1492 clients)	yes	yes**
A.3 Property rights					
A.3.1 Land use rights	not required	required	required	required	required
A.3.2 Structure prop. rights	not required	required	required	required	required
B. Loan Conditions					
B.1 Loan specifications					
B.1.1 Loan size (min.)	$ 125	no minimum	no minimum	no minimum	no minimum
B.1.2 Loan size (max.)	$ 375	$ 625	$ 940* / $ 4375**	$ 1875	$ 200* / $ 4000**
B.1.3 Disbursement shedule	over weeks	at once	at once* / over months**	at once, in instalments	depends on needs
B.1.3 Disbursement method	loan officers	loan officers	loan officers	loan officers	loan officers
B.1.4 Loan term (min.)	50 weeks	10 weeks (emergencyloan)	none	1 year	3 years
B.1.5 Loan term (max)	100 weeks	80 weeks (HMF)	3 years* / 5 years**	5 years	10 years
B.1.6 Repayment shedule	weekly	monthly	weekly or monthly	monthly	monthly
B.1.7 Repayments collection	cash	cash	cash	cash	cash
B.1.8 Interest-rate (/month)	0.8-1.0%	1.6%	0.6-0.8%* / 0.6%**	0.6-0.9%	0.5 %*-0.65%**
B.1.9 Fees	none	none	none	none	
B.2 Loan Security					
B.2.1 Collateral	none	none	none	none	none
B.2.2 Savings/deposit up-front	until a max. of $1000	required	not required	yes	promoted, not required
B.2.3 Group vs Individual	groups, individual liability	groups, individual liability	groups, individual liability	groups, individual liability	groups, individual liability
B.2.4 Linked vs stand alone	linked & stand-alone	linked	stand-alone	stand-alone	stand-alone
B.2.5 Progressive linkage?	yes	yes	yes, but only for upgrading	yes	yes
B.3 Loan Services					
B.3.1 Technical assistance	yes (by HFH)	considered (by HFH)	yes (by HFH, 1 project)	no	no, possibly in future (HFH)
B.3.2 Budgeting assistance	yes, directly by TYM	no	yes	no	yes, by VWU
B.3.3 Other services	life-insurance	no	Possible to combine housing with entrepreneurs-loan	No	no

A. Eligibility Requirements	MHB	Vietcombank	Techcom Bank	Sacom Bank	ACB
A.1 Target Clientele					
A.1.1 Gender based	not gender based	not gender based	not gender based	not gender based	not gender based
A.1.2 Income client	middle-high	middle – high	(low) middle- high	low -high	high
A.1.3 Rural/urban	rural & urban	rural & urban	rural & urban	rural & urban	mostly urban, also rural
A.1.4 Region	Mekong Delta region	all VN	all VN	all VN	all VN
A.2 Loan Purpose					
A.2.1 New construction	yes*	yes	yes	yes	yes
A.2.2 Upgrading	yes**	no	yes	yes	no
A.3 Property rights					
A.3.1 Land use rights	required	required	required	required	required
A.3.2 Structure prop. rights	required	required	required	required	required
B. Loan Conditions					
B.1 Loan specifications					
B.1.1 Loan size (min.)	none	none	none	none	none
B.1.2 Loan size (max.)	85%/value	70%/value	70%/value, ADB $ 3000	70%/value	70%/value
B.1.3 Disbursement shedule	mostly at once	over months	client request	client request	client request
B.1.3 Disbursement method	loan officers	branches	Branches	branches	loan officers
B.1.4 Loan term (min.)	No min.** / 180 mnths*	none	7 years, ADB 5 years	none	none
B.1.5 Loan term (max)	60 mnths** / 240 mnths*	20 years	20 years	15-25 years	15 years
B.1.6 Repayment shedule	monthly	monthly/quarterly	monthly/quarterly	monthly	monthly
B.1.7 Repayments collection		payroll deduction	bank account	bank account	cash/check
B.1.8 Interest-rate (/month)		1.8%	1.5%/mnth, ADB 0.67 %	undisclosed	1.6%
B.1.9 Fees	none	none	initial financial fee	none	none
B.2 Loan Security					
B.2.1 Collateral	yes, property rights	yes, property rights	yes, property rights	yes, property rights	yes, property rights
B.2.2 Savings/deposit up-front		not required	not required	req. only for new product	not required
B.2.3 Group vs Individual	individual	individual	individual	Individual	individual
B.2.4 Linked vs stand alone	stand alone	stand alone	linked & stand-alone	linked & stand-alone	stand alone
B.2.5 Progressive linkage?	no	no	possible	yes	no
B.3 Loan Services					
B.3.1 Technical assistance	no	no	no, planning	yes, by partner org.	no
B.3.2 Budgeting assistance	no	no	yes, by bank	yes, small scale	no
B.3.3 Other services	no	no	no	no	no

Notes: - all money-values are expressed in United States Dollars (USD) at the 01-01-2008 USD:VND (Vietnam Dong) exchange rate of 1:16000
- values with the suffix '*' indicate values loan characteristics of new construction loans, values with the suffix '**' indicate these of upgrading loans.
- Data on several other suppliers of MF- and/or HF- products was collected, but omitted for clarity, leaving only the most relevant data. Available on request.

Appendix II: Vietnam Microfinance Law

THE GOVERNMENT **THE SOCIALIST REPUBLIC OF VIETNAM**

No.: **28**/2005/ ND – CP **Independence - Freedom - Happiness**

Hanoi, March 9th, 2004

DECREE OF THE GOVERNMENT

On organization and operation of micro finance institutions in Vietnam

THE GOVERNMENT

– Pursuant to the Law on the Organization of the Government dated 25th December 2001;
– Pursuant to the Law on the State Bank of Vietnam No. 01/1997/QH10 dated 12th December 1997 and the Law on some amendments and supplements to the Law on the State Bank of Vietnam No.10/2003QH11 dated 17th June 2003;
– Pursuant to the Law on credit institutions dated 02/1997QH10 dated 12th December 1997, and the Law on some amendments and supplements of the Law on credit institutions No.20/2004QH11 dated 15th June 2004;
– At the request by the Governor of the State Bank of Vietnam,

DECREE

Chapter 1
GENERAL PROVISIONS

Article 1: Scope of regulation and objects of application

1. This Decree regulates organization and operation of micro finance institutions in Vietnam.
2. Those who can establish micro finance institutions:

   Organizations and individuals that can establish micro finance institutions in Vietnam according to stipulations of the laws include:

   a) Socio-political organizations, social organizations, socio- professional organizations of Vietnam, charity funds and social funds.
   b) Vietnamese non-governmental organizations.

3. Other organizations and individuals inside and outside Vietnam can contribute capital to the organisations specified in Item 2 of this Article.

Article 2: Definitions and definitions

In this Decree, the following terms are interpreted as:

1. **Micro finance:** is the activity to provide some simple banking services to lowincome households and people, especially the poor ones.
2. **Micro - finance institutions:** is an organization operating in financial and banking sector with the main functions of using owner's equity, loan capital and savings to provide small and simple financial and banking services to lowincome households and people, especially the poor ones.
3. **Simple micro financial and banking services include:** micro credit; receiving compulsory and voluntary savings; money transferring agent; insurance, collecting, paying agent for low-income households and people.
4. **Micro credit:** is a credit of low value, with or without property mortgage provided to low-income households and people so that they can use in income generating activities and life improvement.
5. **Poor or low-income households and people:** are defined from area to area in Vietnam or determined by the micro finance institutions themselves.
6. **Compulsory savings:** are savings of individuals and organizations deposited at micro finance institutions to be used as mortgage for the loans they get from micro finance institutions.
7. **Voluntary savings:** are the voluntary savings of individuals deposited at micro finance institutions.
8. **Legal capital:** is the minimum charter capital to be available as required by relevant regulations so that micro finance institutions can be established.
9. **Charter capital:** is the capital contributed so that micro finance institutions can be established. This amount is recorded in the charter of a micro finance institution.
10. **Owner's equity:** is the charter capital plus unused profits.
11. **License:** is the license to the establishment and operations of micro finance institutions granted by the State Bank of Vietnam.

Article 3: Legal capital

a) For micro finance institutions that cannot accept voluntary savings: 500 million VND.
b) For micro finance institutions that can accept voluntary savings: 5 billion VND.

Article 4: Term of operation

1. The maximum operation time of micro finance institutions is 50 years.
2. Micro finance institutions may extend their term of operation by the length of each extension may not exceed the term of operation provided in the first license.

Article 5: Area of operation

1. Area of operation of a micro finance institution is limited to the province or city specified in the license.
2. In the case that micro finance institutions want to extend their operation areas

outside the area permitted in the license, they have to establish branches in the new areas. Establishing branches must meet conditions on increased charter capital in accordance with the scope of extension and acceptance of the State Bank of Vietnam.

Article 6: Principles of operation and finance management

Micro finance institutions are legal entities, having charter capital, properties, their own stamps, operating based on the principle of financial autonomy, self creating capital, self recovering operation costs and being held accountable with their capital and properties.

Article 7: State policies

The State protects lawful ownership, rights and interests of micro finance institutions, ensure the right to equality and other rights of micro finance institutions in their; issues legal regulations and incentives promoting the development of micro finance institutions. The State respect autonomy and self - responsibility of micro finance institutions in their operation, and does not interfere in the lawful management and activities of micro finance institutions.

Chapter II

ISSUING ESTABLISHMENT AND OPERATION LICENSES OF MICRO FINANCE INSTITUTIONS

Article 8: Conditions to be met so that micro finance institutions can obtain operation licenses

1. There is a need for micro finance activities.
2. Provincial/city People's Committees having endorsement to the establishment of the micro finance institutions in their localities.
3. Having enough charter capital as specified in Article 3 of this Decree;
4. Office and facilities being suitable to the expected micro finance activities;
5. Having administrators, auditors and managers as stipulated in Chapter III of this Decree;
6. Having workable feasibility studies;
7. For micro finance institutions that can accept voluntary savings, beside the stipulations in Items 1, 2, 3, 4, 5 and 6 of this Article, they must meet the followings conditions:

   a) Licensed by the State Bank of Vietnam to operate in micro finance. This condition is not applied to the objects stipulated in Article 36 of this Decree.

   b) Having received compulsory savings in the last 3 years;

   c) The administrators, controllers and managers perform efficiently.

   d) Having sound operation in the last 3 years in accordance with requirements of the State Bank of Vietnam.

   e) Having information system sufficient to management needs;

   f) Meeting conditions on safety in banking operation and other legal regulations.

Article 9: Licensing dossiers

The licensing dossier submitted to the State Bank of Vietnam includes:

1. Application letter for being licensed which specifies expected operation activities and areas of operation;
2. Written acceptance of the relevant provincial/city People's Committee on the need to establish the micro finance institution in its locality.
3. Drafted charter;
4. Feasibility study specifying economic efficiency and interest;
5. Lists, curriculum vitaes and certificates proving abilities and qualifications of members of Management Board, Audit Committee and manager (director or general director) of the micro finance institution.
6. Documents certifying the amount of charter capital; list and addresses of institutional and individual capital contributors; the ratio of contributed capital in charter capital; financial situation and other related information of institutional and individual capital contributors;
7. For micro finance institutions that can accept voluntary savings, the auditing reports in the last 3 years must be available.

Article 10: Charges on issuing licenses

Micro finance institutions that are granted licenses by the State Bank of Vietnam have to pay charges in accordance with regulations of the Ministry of Finance.

Article 11: Procedures of issuing and using the license

1. Within 90 days from the date of receiving sufficient legitimate dossiers satisfying provisions in Article 9 of this Decree, the State Bank of Vietnam considers issuing the license. If it does not allow the license, there must be written notice specifying the reasons.
2. The license of a micro finance institution is issued by the State Bank of Vietnam, which specifies term of operation, area of operation and activity the micro finance institution may implement.
3. Micro finance institutions granted with licenses must operate under the name and activities stipulated in their licenses. There must not be any fabrication, erasing, transfer, and rent of the licenses.

Article 12: Starting to operate

1. To start its operation, a licensed micro finance institution must have the following conditions:

a) Having its charter approved by the State Bank of Vietnam;
b) Having business registration certificate; having sufficient legal capital;
c) The part of legal capital in cash must be deposited in a blocked account in the State Bank of Vietnam at least 30days before the date of starting business. This capital can only be released after the micro finance institution starts its operation. This stipulation is not applied to the micro

finance institutions that have operated before the date this Decree takes effect.
d) There are documents certifying ownership or the right to use the head office of the micro finance institution.
e) There are advertisements in local newspapers in accordance with the laws specifying contents of the license. This stipulation is not applied to micro finance institutions that cannot accept voluntary savings.

2. At least 30 days before the date of starting operation, micro finance institutions must have written notice to the State Bank of Vietnam and provincial/city People's Committees on the operation start.
3. In 12 months since the date of receiving licenses, if micro finance institutions fail to start their operation, their licenses will automatically expire.

Article 13: Extension and canceling licenses

1. Extension of licenses
a) Application dossiers of micro finance institutions for extension of licenses must be submitted to the State Bank of Vietnam at least 2 months before the date the licenses expire. The dossier applying for extension should contain:
– Application letter for extension;
– Report on operation in the last 3 consecutive years.
b) In 30 days from the date of receiving sufficient dossiers applying for extension, the State Bank of Vietnam considers issuing the decision permitting extension of licenses, or refusing extension. If refusing, the State Bank of Vietnam has to reply in writing specifying reasons.

2. Micro finance institutions have their licenses cancelled in the following cases:
a) There are evidences that the application dossiers have intentionally distorted information.
b) Micro finance institutions do not start their operation after 12 months from the date they receive licenses.
c) Micro finance institutions are voluntarily dissolved or they are dissolved by competent authorities;
d) Splitting, merge, bankruptcy;
e) Receiving voluntary savings without remittance of the State Bank of Vietnam;
f) Having activities different from those stipulated in their licenses.

Article 14: Merge, splitting and dissolution

In the cases of merge, splitting, or dissolution are needed, micro finance institutions have to submit application letters and relevant dossiers to the State Bank of Vietnam. In 30 days after receiving sufficient dossiers, the State Bank of Vietnam has to reply in writing to micro finance institutions. If the State Bank of Vietnam refuses, there must be specification of reasons.

Dossiers and procedures of merge, splitting, or dissolution of micro finance institutions are guided by the State Bank of Vietnam.

Article 15: Bankruptcy and liquidation

The procedure of bankruptcy and liquidation of micro finance institutions is implemented according to guidance of the State Bank of Vietnam and legal regulations on bankruptcy.

Chapter III

ORGANIZATION, ADMINISTRATION, CONTROL, AND MANAGEMENT OF MICRO FINANCE INSTITUTIONS

Article 16: Structure of micro finance institutions

1. Micro finance institutions licensed by the State Bank of Vietnam must have a Board of Management, an Audit Committee and a (General) Director.

2. Management Board of a micro finance institution that cannot receive voluntary savings has at least 3 members; the Audit Committee has at least 1 member.

3. Management Board of a micro finance institution that can receive voluntary savings has at least 3 members; so does the Audit Committee.

4. Board of management, Audit Committee and (general) directors of micro finance institutions have to meet requirements on qualifications, ethics and profession set by the State Bank of Vietnam.

5. Voting, appointing and dismissal of boards of management, Audit Committee, and (general) directors of micro finance institutions are implemented in compliance with regulations of the State Bank of Vietnam.

Article 17: Functions and responsibilities of Boards of Management, Executive Committee and Audit Committee

1. Boards of management are responsible for managing micro finance institutions in accordance with legal regulations; deciding policies and directions in the operation of micro finance institutions and perform other rights and responsibilities that may be stipulated in charters of micro finance institutions.
2. The Executive Committee includes the (General) Director and vice directors (if any) who, on behalf of the management board, manage and run the micro finance institutions. The director is the legal representative of a micro finance institution.
3. The Audit Committee, on behalf of the management board controls financial activities of a micro finance institution and management activities of the director; and perform other rights and responsibilities that may be stipulated in charters of micro finance institutions.

Article 18: Those who cannot become members of board of management, Audit Committee and (general) director:

1. Under criminal investigation;
2. Having been sentenced for seriously violating national security, socialist ownership and citizen ownership; other serious economic crimes;
3. Having been sentenced for their crimes and the sentence has not been abolished;
4. Used to be a member of management board or the director of a bankrupt company, except the cases stipulated in the Law on bankruptcy.
5. Used to be the legal representative of a company that has been stopped from operation for seriously violating laws.
6. Being father, mother, wife, husband, son or daughter, brother, sister of members of management board, Audit Committee or (general) director of micro finance institutions.

Article 19: Opening and stopping operation of branches

1. Micro finance institutions may open branches in localities where they need to have operation. Opening and stopping operation of branches must be accepted in writing by the State Bank of Vietnam.
2. Conditions, dossiers, and procedures applied to opening and stopping operation of branches of branches of micro finance institutions are guided by the State Bank of Vietnam.

Article 20: Capital contribution and transfer of contributed capital

1. Organizations and individuals make capital contribution to micro finance institutions based on capital contribution contracts.
2. Capital contribution and transfer of contributed capital are implemented in accordance with regulations of the State Bank of Vietnam.

Chapter IV

REGULATIONS ON OPERATION

Article 21: Regulations on operation of micro finance institutions

1. Micro finance institutions may implement some or all activities stipulated in Article 22, 23, 24, 25 and 26 of this Decree.

2. The State Bank of Vietnam provides details of activities in licenses of micro finance institutions.

Article 22: Capital mobilization

Micro finance institutions may mobilize capital from the following sources:

1. Savings:
   a) Compulsory savings
   b) Voluntary savings

2. Loans

a) Loans from credit institutions than are permitted to operate in Vietnam.

b) Loans from foreign organizations and individuals when permitted by the State Bank of Vietnam.

3. Micro finance institutions may receive trusted capital from programmes and projects of the Government, foreign and domestic organizations and individuals.

Article 23: Credit activities

1. Making loans
2. Making loans using trusted funds.

Article 24: Other activities

Micro finance institutions may work as agents in banking and insurance related fields.

Article 25: Opening accounts

Micro finance institutions may open accounts and deposit their funds at the State Bank of Vietnam, commercial banks and other credit institutions.

Article 26: Payment activities

Micro finance institutions may, on a limited basis, provide some payment services in accordance with regulations of the State Bank of Vietnam.

Article 27: Limits on credit and mobilization of savings

1. Micro finance institutions must observe the following regulations on credit – savings limit:

a) The maximal amount of a micro credit;

b) The maximal amount loaned to a single client;

c) Restrictions on deposits and savings;

d) The maximal amount of deposits and savings by a single client.

2. The State Bank of Vietnam is responsible for guiding restrictions on credits – savings in accordance with each kind of micro finance institutions.

3. Micro finance institutions that can receive voluntary finance must insure their deposits as required by the laws.

Article 28: Changes that must be approved

1. Micro finance institutions must receive acceptance in writing of the State Bank of Vietnam before changing one of the followings:

a) Their name;

b) The amount of charter capital;

c) Locations of head offices and branches;

d) Contents, scope and term of operation;
e) Members of board of management, (general) director and member of the controlling board.

2. The State Bank of Vietnam guides dossiers and procedures in the aforementioned cases.

3. After having acceptance from the State Bank of Vietnam, micro finance institutions must inform competent authorities on the changes specified in Item 1 of this Article.

Chapter V

FINANCE, ACCOUNTING AND REPORTING

Article 29: Finance

1. Financial year of micro finance institutions starts on 1st January and ends on 31st December of a solar year.
2. Revenues and expenditures of micro finance institutions are based on Vietnam's regulations and guidance of the Ministry of Finance.

Article 30: Accounting

Micro finance institutions do the accounting based on the account system and the voucher regime as regulated by prevailing laws on accountancy and statistics, and guided by the State Bank of Vietnam.

Article 31: Establishment of (social) funds

Establishing and maintaining funds of micro finance institutions are regulated by prevailing laws and guided by the Ministry of Finance.

Article 32: Reporting

Micro finance institutions implement the reporting and statistics regime in accordance with regulations of the State Bank of Vietnam and the Ministry of Finance.

Chapter VI

INSPECTION, SPECIAL CONTROL, BANKRUPTCY, DISSOLUTION AND LIQUIDATION

Article 33: Inspection

1. Micro finance institutions are under inspection of the State Bank of Vietnam as regulated by the prevailing laws.

2. Implementation of rights and obligations of micro finance institutions are

inspected as regulated by the prevailing laws and guidance of the State Bank of Vietnam.

Article 34: Special control, bankruptcy, dissolution and liquidation

Special control, bankruptcy, dissolution and liquidation in micro finance institutions are implemented as regulated by the prevailing laws and guidance of the State Bank of Vietnam.

Article 35: Rewards and penalties

Rewards and penalties in micro finance institutions are implemented as based on relevant regulations of the State Bank of Vietnam.

Chapter VII

IMPLEMENTATION PROVISION

Article 36: Exemption

1. Organization having micro finance activity before this Decree takes effect are exempted from stipulations in Point a, Item 7 of Article 8 of this Decree when they have their licensed considered for granting.
2. This exemption is effective only within 24 months from the date this Decree takes effect.

Article 37: Implementation effect

1. This Decree takes effect after 15 days since the date it is printed in the Official Gazette and replaces other previous regulations that are contrary to this Decree.
2. In 24 months from the date this Decree takes effect, organizations that are implementing micro credit activities in Vietnam have to follow the procedures to be licensed by the State Bank of Vietnam in accordance with stipulations in this Decree or stop micro finance activities;

Article 38: Implementation responsibility

1. Governor of the State Bank of Vietnam is responsible for guiding the implementation of this Decree;
2. Ministers, heads of ministerial agencies and other agencies of the Government, Chairmen of provincial/municipal People's Committees are responsible for the implementation of this Decree.

ON BEHALF OF THE GOVERNMENT
PRIME MINISTER

Recipients:
- Party's Secretary boards
- Prime Minister, Deputy Prime Ministers
- Ministries and ministerial agencies
- Agencies of the Government

- People’s Councils and People’s Committees of centrally-run provinces/cites
- National Assembly’s Office
- President’s Office
- Party’s Central Office and Offices of Party’s boards.
- Supreme People’s Procuracy
- Supreme People’s Court
- Government’s Office: functional divisions, and departments
- Official Gazette
- Filed: General Economic Department (5b), and Archives