



Responsible Finance in Vietnam

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List of Abbreviations

ADB:	Asian Development Bank
AFD:	Agence Française de Développement
BSA:	Banking Supervisory Agency
CCF:	Central People's Credit Funds
CEMA:	Committee on Ethnic Minority Affairs
CIC:	Credit Information Center
CIL:	Credit Institution Law
FCP:	Financial Consumer Protection
IFC:	International Finance Corporation
ISA:	Insurance Supervision Agency
MARD:	Ministry of Agricultural and Rural Development
MFIs:	Microfinance Institutions
MFWG:	Microfinance Working Group
MOF:	Ministry of Finance
MOIT:	Ministry of Industry and Trade
MOLISA:	Ministry of Labour, Invalids and Social Affairs
MPI:	Ministry of Planning and Investment
NFSC:	National Finance Supervision Council
NGO:	Non-Government Organization
PCFs:	People's Credit Funds
ROSCA:	Rotating Savings and Credit Association
SBV:	State Bank of Vietnam
SECO:	State Secretariat for Economic Affairs
SOCBs:	State- owned Commercial Banks
TYM:	Tao Yeu May
VAPCFs:	Vietnam Association for People's Credit Funds
VBARD:	Vietnam Bank for Agriculture and Rural Development
VBSP:	Vietnam Bank for Social Policies
VCA:	Vietnam Competition Authority
VDB:	Vietnam Development Bank
VINASTAS:	Vietnam Standards and Consumers Association
VNBA:	Vietnam Banking Association
VND:	Vietnam Dong
WU:	Women's Union

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Executive Summary

The main objectives of this diagnostic are: i) to find out whether low-income people are well-protected and treated fairly in their usage of financial services; ii) to assess the existing regulatory framework and practices of financial service providers; and iii) to identify ways to promote a more responsible financial sector in Vietnam. IFC conducted this analysis in collaboration with CGAP. It included a desk review, interviews with about 60 stakeholders, and four focus groups with low-income customers. This report describes the state of financial inclusion in Vietnam and the existing financial consumer protection (FCP), regulatory, and supervisory framework for low-income clients. The report also analyses the role of industry self-regulation bodies in promoting responsible finance, as well as the extent of implementation of consumer protection principles by financial services providers. Finally, the report makes recommendations for regulators and financial services providers on how to improve responsible finance in Vietnam.

Vietnam has one of the lowest rates of access to finance in East Asia, with only 21 percent of the adult population having access to formal financial services. In particular, access to savings is limited with only eight percent saving in a formal institution. As in other countries, women and the poor have even less access to formal financial services, especially in rural areas. Institutions such as the Vietnam Bank for Social Policies (VBSP), the Vietnam Bank for Agriculture Development (VBARD), the People's Credit Funds (PCFs), and two licensed MFIs are the leading formal providers of financial services for low-income people. The largest provider by far is the VBSP with seven million clients, including depositors and borrowers. There are also several semi-formal unlicensed MFIs that specialize in delivering financial services for women and the poor. These semi-formal providers include donor-funded microfinance institutions. In total, formal and semi-formal providers serve an estimated ten million low-income people. Lastly, there is a significant informal financial sector serving the poor. While there are no statistics measuring

its outreach, the informal sector is probably the largest provider of financial services for low-income people in Vietnam. Informal players include moneylenders, rotating savings and credit associations (ROSCAs), pawn shops, relatives, and friends. The diagnostic focused on loans and deposits to low-income clients, and did not gather significant information on payments and insurance markets.

Since the government passed the Credit Institution Law (CIL) in 2010, all the formal institutions have been supervised by the State Bank of Vietnam (SBV) with the exception of the VBSP, which has a special status. The analysis of the FCP regulatory and supervisory framework provided in this report can be complemented with the upcoming World Bank report on consumer protection. The FCP regulatory and supervisory framework is at an early stage, but the Vietnam government has shown interest in promoting more sustainable and responsible financial inclusion in the country. The government reflects this in its plan to implement microfinance development by 2020, in which it states that it will “build and develop a safe and sustainable microfinance system to serve the poor, low income and micro and small enterprises...” Several government agencies are currently involved to varying degrees in FCP at the central level and provincial levels, but there is limited coordination overall. The key regulators and supervisors are the Banking Supervisory Authority (BSA) located within the SBV, the Insurance Supervisory Authority (ISA) located in the Ministry of Finance, and the Vietnam Competition Authority (VCA) located within the Ministry of Industry and Trade. The SBV is the lead agency in the government's regulation and supervision on FCP and it has potential to expand this role. The BSA's Supervision department and Complaints department play a key role in supervising FCP. Several other government agencies play supportive roles in supervision, such as the Ministry of Finance for state-owned banks and the Provincial and Commune People's Committee. Credit bureaus also play a positive role by enhancing transparency in the

system. Finally, a key finding of this report is the essential role that the Vietnam Women's Union plays in educating and advising low-income clients on financial services.

Many laws and regulations on consumer protection exist, but only a few of them are tailored to financial services. When it comes to deposit protection, the prudential regulatory and supervisory framework is uneven. It has not been finalized for MFIs since the CIL was adopted in 2010 and VBSP – the largest provider of deposit services for low-income people – is not prudentially supervised by the SBV. All formal deposit-taking institutions except VBSP are required to participate in the deposit insurance scheme. Non-prudential regulation for consumer protection is still at an early stage. The report looked at the three key dimensions of FCP regulations: i) transparency and disclosure; ii) fair treatment; and iii) recourse mechanism. The Consumer Protection Law promotes transparency and disclosure and so do several SBV regulations. For example, SBV regulations on credit contract requirements, interest rates, and allowable fees and charges promote some level of transparency and disclosure. The diagnostic did not identify specific FCP regulations to prevent over-indebtedness or to promote fair treatment, though the Consumer Protection Law includes mechanisms to sanction institutions that do not treat customers fairly. There are several regulations that protect data, including the credit information of financial consumers. As for recourse mechanisms, the regulatory landscape is still under-developed. The Law on Complaints and Accusations provides a good start for further improvement to ensure that adapted complaints and recourse mechanisms are in place for low-income clients.

With regard to self-regulation and industry codes of conducts, there are several important players and initiatives, but this aspect of responsible finance is also at a relatively early stage compared with other countries in the

region. Financial sector associations in Vietnam have limited activities with respect to responsible finance. The Microfinance Working Group is probably the most advanced and proactive of the associations in this area. There has been some endorsement of global responsible finance campaigns, and data reporting is still incomplete. Only ten MFIs and two associations have endorsed the SmartCampaign, and no MFI or bank that provides services to the low-income segments fully reports social performance indicators to the MIX Market. However, two MFIs are making efforts in this regard, and have conducted a social performance rating. Several donors and investors, such as the ADB, AFD, IFC, SECO, and the World Bank, are currently promoting the adoption of responsible finance principles in Vietnam.

The report describes current providers' practices through the lens of the SMART campaign's seven consumer protection principles. Overall, the research did not reveal any major problem of financial consumer protection for the low-income segment, but it identified possible areas for improvement. Offerings of formal financial products for low-income people are still limited to credit. However, the access conditions are sometimes constraining. In the focus groups conducted for this diagnostic, several clients complained about the rigidity of the collateral requirements and of the repayment methods for MFIs and PCFs. As tailored savings products for low-income people are not widely available in the formal financial sector, many people resort to informal ways of saving and also transferring money. Several mechanisms are in place to prevent over-indebtedness. For example, socio-political mass organizations constitute an important safeguard for low-income women. The Credit Information Center now offers information on smaller loans, and VBSP is consolidating household debt to better monitor indebtedness. When it comes to transparency, most providers disclose their interest rates for services to low-income clients, in compliance

with the CIL. However, some banks and MFIs use flat rates that are not fully in line with SBV guidelines. The average microcredit pricing of institutions reporting to MIX is below the regional average, but there is an uneven playing field for interest rates, with VBSP offering highly subsidized microcredit rates. Widespread cases of unfair treatment to low-income financial consumers appear to be rare. The research did not find any significant cases of data privacy abuse by financial providers. Finally, while complaint mechanisms are in place for most providers, most low-income clients prefer to voice their complaints through local group leaders or the Women's Union, resulting in low usage of the existing dedicated channels.

The report concludes with several proposed recommendations and next steps for regulators and financial service providers. The proposed suggestions for regulators are listed below:

- **Identify the gaps in responsible finance** by i) assessing key risks for low-income clients when dealing with financial providers, and ii) analyzing key gaps in the existing regulatory framework;
- **Improve the current supervisory framework** by establishing a focal unit for FCP and work towards greater inter-agency coordination; increasing learning from international good practices and enhance FCP supervisory activities;
- **Develop a comprehensive road map to improve FCP.** This road map could include several dimensions such as prevention of over-indebtedness; strengthening depositors' protection; enhancing financial capability; promoting responsible and sustainable pricing, and developing new regulations when necessary;
- **Take some immediate measures** to increase disclosure and transparency in financial services. For example by providing clear guidance on how to present interest rates, fees, and key terms and conditions

The proposed suggestions for providers of financial services to low-income people are listed as follows:

- **Increase transparency** by improving contracts for financial services and by reporting social performance to the MIX Market;
- **Identify ways to prevent over-indebtedness;** by putting strict policies for loan re-scheduling in place, and better measuring portfolio at risk for example.
- **Strengthen the capacity of financial sector associations** to promote more responsible finance in Vietnam by helping them increase information sharing among their members and encourage their members actors to endorse the Smart Campaign principles.



1. Introduction

The main objective of this diagnostic is to find out whether low-income clients are well-protected and treated in a fair and transparent way when it comes to their use of financial services, and to identify ways for all actors in Vietnam's financial ecosystem to promote a responsible financial sector.

With over 70 percent of the adult population in developing countries without formal access to finance, financial inclusion is a major priority for many governments. For many years, microfinance and financial inclusion – the provision of financial services such as savings, credit, payments, and insurance to the unbanked and under-banked – has embraced a dual objective of social and financial bottom lines. Most of the banks, NGOs, and cooperatives that serve the unbanked and under-banked have stayed true to their social and financial missions. However, in recent years in specific markets (e.g., the state of Andhra Pradesh in India, Nicaragua, Morocco, and the US to some extent), there have been cases of multiple lending and as a result, some low-income clients became over-indebted. The causes of over-indebtedness are complex, but microfinance institutions had their share of responsibility. Consequently, the global financial inclusion industry has become increasingly active in promoting “responsible finance” (see sidebar for definition), and many governments and providers have adopted specific policies to ensure that financial services do not harm low-income clients. Malaysia and Peru, for example, are well-known for putting in place comprehensive consumer protection policies. At the global level, the Global Partnership for Financial Inclusion initiated by the G20 launched a specific sub-group on consumer protection and financial literacy in June 2013.¹



Definition of Responsible Finance:

“In a financial world characterized by responsible finance, clients' benefits would be balanced carefully with providers' long-term viability, and client protection is built into the design and business at every level. Products are thoughtfully designed, offer reasonable value-for-money, and minimize potential harm, such as over-indebtedness. Delivery practices are respectful, and do not rely on aggressive sales, coercive collections, or other inappropriate behavior. Clients receive clear, comprehensible information so they can make informed and careful choices about financial products and providers. When problems or misunderstandings arise, customers have accessible and effective mechanisms for resolving them.” (CGAP)

¹ GPF1 subgroup <http://www.gpfi.org/subgroup-financial-consumer-protection-and-financial-literacy>.

The G20 has issued some high-level principles on financial consumer protection², and industry associations have adopted standards such as the Client Protection Principles developed by the Smart Campaign.

For finance to be responsible³, the market needs three key pillars: (1) strong consumer protection regulations adapted to the needs of low-income clients; (2) industry standards and providers that integrate responsible finance into their systems; and (3) well-informed clients who are capable of making the right financial decisions.

In Vietnam, many players in the industry can contribute to making finance more responsible, including regulators and supervisors involved in consumer protection, providers of financial services to low-income clients, associations, and donors and investors involved in supporting the sector.

This diagnostic is part of IFC's Vietnam Microfinance Program, supported by SECO, which aims to strengthen industry capacity, transparency, and reporting standards and to enhance MFI institutional development to increase financial access in a sustainable and responsible way.

The report is based on an extensive desk review, interviews with about 60 key stakeholders, and four client focus groups held with a total of 24 low-income clients, organized in collaboration with Ipsos. The research focuses on market segments that are not traditionally served by formal commercial banks, which are often referred to in this report as the "low-income segment," and may also include micro-enterprises or people who are not specifically defined as poor but who are under-banked.

Figure 1: The three key dimensions of responsible finance can be illustrated as follows⁴



² <http://www.oecd.org/daf/fin/financial-markets/48892010.pdf>

³ McKee, Katharine, Lahaye, Estelle, and Koning, Antonique. 2011. CGAP Focus Note, "Responsible Finance: Putting Principles to Work." Focus Note. Washington D.C. CGAP & IFC, CGAP and BMZ in 2011, "Advancing Responsible Finance for Greater Development Impact"

⁴ CGAP, 2011 & IFC, CGAP, and BMZ, 2011

Because it is the first report of its kind on responsible finance in Vietnam, the report calls for additional research in certain areas, as it covers a relatively broad range of issues. The report focuses on two of the three pillars of responsible finance (consumer protection, regulation and supervision, and industry standards and codes of conduct). Due to the planned analysis on financial capability soon to be undertaken by the World Bank, the authors chose not to research this aspect to any significant extent. The World Bank team kindly provided some input, which is located in section 3. Additionally, the report does not look

at consumer protection relating to branchless banking, as this will be analyzed as part of the AFD research within its project with SBV.

Section 2 provides a short overview of Vietnam's banking and microfinance market (demand and supply), Section 3 describes consumer protection regulations and supervision, Section 4 shows the role of industry self-regulation, Section 5 highlights current practices by providers, and Section 6 suggests possible steps to improve responsible finance in Vietnam.



2. Banking and Microfinance Market

This section is a summary of Annex 1, which describes the demand and supply of financial services for low-income clients and micro-enterprises.

2.1 Demand side

With over 60 million Vietnamese living in rural areas,⁵ agriculture – and rice cultivation in particular – plays an important role for the population and employs 52 percent of the workforce,⁶ resulting in significant demand for agri-related financial services.

Access to and use of financial services: Overall access to and use of formal financial services is very low in Vietnam compared with other countries in the region, with only 21 percent of all adults and 6 percent of the poor having formal bank accounts, according to the 2012 World Bank Global Financial Inclusion Database (referred to as Findex subsequently).⁷ According to Findex, only 8 percent of Vietnamese had saved money with a

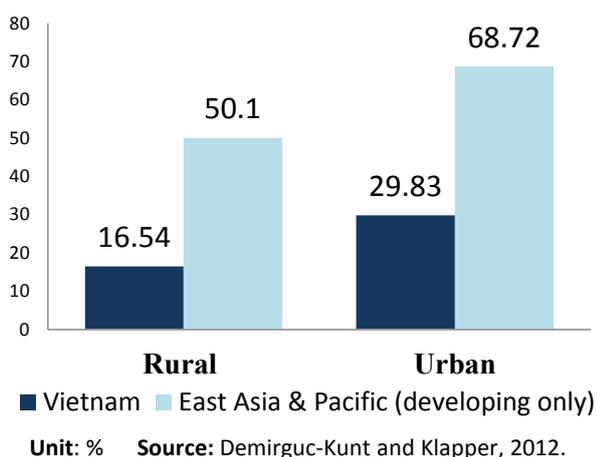


formal financial institution in 2011, 16 percent had a loan with a formal financial institution, and only 15 percent had access to a debit card.⁸ Interestingly, more than 30 percent of adults borrowed from friends or family in 2011 in Vietnam. As in other countries, women have less access than men and poorer segments also have less access. For example, among the poorest income quintile in Vietnam, only 6 percent had access to formal financial services.

As shown in the diagram below, the percentage of Vietnamese with a formal account is low compared to the regional average, especially in rural areas.

There is limited research or analysis available on the demand for financial services in Vietnam, but from available Findex data, it seems that there is much room for improvement in almost all kinds of financial services (savings, credit, payments, and insurance), especially when it comes to serving the rural poor.

Figure 2: Adults with an account at a formal financial institution - urban/rural residence in 2011



⁵ General Statistics of Vietnam website – figures are for 2012, retrieved 20 February 2014. http://www.gso.gov.vn/default_en.aspx?tabid=467&mid=3&ItemID=14453

⁶ Food Security Portal – consulted 20 February 2014 - <http://www.foodsecurityportal.org/vietnam>

⁷ Findex measures how adults in 148 countries save, borrow, make payments, and manage risk through random interviews with a representative sample. Published in 2012, it provides data on the 2011 calendar year.

⁸ Demirguc-Kunt and Klapper, 2012, FINDEX Database, Washington D.C, World Bank. <http://datatopics.worldbank.org/financialinclusion/country/vietnam>

2.2 Supply side:

Key providers of financial services for low-income clients and micro-enterprises

The annex provides more ample information and the 2010 ADB Vietnam Microfinance Sector Assessment gives a very comprehensive picture of the sector. It should be noted that obtaining updated data from formal institutions in Vietnam is challenging.

The main providers of microfinance services (small loans, savings, insurance, or payments) in Vietnam include:

- **Formal credit institutions** such as the Vietnam Bank for Social Policies (VBSP), the Vietnam Bank for Agriculture and Rural Development (VBARD), Vietnam Cooperative Bank/PCFs, MFIs, and a few commercial banks that offer some microfinance products;
- **Semi-formal institutions** named non-licensed MicroFinance Programs (MFPs) in this report, including unlicensed NGO-MFIs, microfinance programs within development projects or mass organizations such as the Women's Unions (WU) and Farmers' Association⁹; and
- **Informal actors** such as traders, ROSCAs, moneylenders, pawnshops, and friends and relatives.

Since the Credit Institution Law (CIL) was enacted in 2010, the SBV has supervised all formal providers of microfinance except VBSP. VBSP is regulated by Government Decree No. 78/2002/ND-CP dated October 4, 2002¹⁰

and governed and supervised by the different ministries involved in its operations, including the Ministry of Finance and the SBV.

VBSP is the largest formal provider of microfinance in the country, with an estimated 7 million borrowers and 6.9 million depositors¹¹. As of December 31, 2012, its market share of the formal microfinance sector was 60 percent in terms of total clients and 61 percent in terms of outstanding loans.¹² VBSP largely operates through mass organizations, especially the Women's Union. It is active in about 99 percent of all the communes in Vietnam.¹³ Although it is a bank, VBSP acts as a "social policy lender" and is highly subsidized by the government to cover both its operational and financial costs.¹⁴

Mass organizations play a major role in financial inclusion in Vietnam and they are a very specific feature of the country's political and socio-economic landscape.

Mass organizations involved in financial services include the Women's Union with 15 million members and the Vietnam Farmer's Union with 10 million members. A major finding of this research is that mass organizations, especially the Women's Union, play significant roles in informing clients about financial services and helping them resolve financial problems.

Informal providers also play an important role in financial inclusion in Vietnam and are probably the largest suppliers of financial services to the low-income segment. Focus group discussions undertaken by IFC in collaboration with CGAP also confirmed that people use moneylenders in a significant way and that people save informally too. There are many ROSCAs and moneylenders.

⁹ The Vietnam General Confederation of Labor (VGCL) also owns some of these programs.

¹⁰ Government Decree No. 78/2002/ND-CP dated October 4, 2002 of the Government on Credit for poor people and other policy beneficiaries

¹¹ ADB's TA 180-VIE, "Policy and Advisory Technical Assistance to ADB's Microfinance Development Program." According to a discussion with VBSP in August 2014, about all clients have compulsory savings and close to 5 million of them have voluntary savings.

¹² ADB. 2013 (c).

¹³ ADB. 2010(a).

¹⁴ ADB. 2010(a).

Table 1: Vietnam's microfinance landscape as of December 31, 2012 (figures in italics are for 2013)

Institution	Number of clients (million)	Outstanding loans (\$ million)	Est. no of depositors (million)
<i>VBSP</i>	<i>7</i>	<i>5,350</i>	<i>6.9</i>
<i>VBARD</i>	<i>1.5</i>	<i>1,390</i>	<i>1.1</i>
<i>PCFs</i>	<i>1.1</i>	<i>1,294</i>	<i>1.3</i>
Licensed MFIs	0.096	4.17	0.1
Non-licensed MFIs & MFOs	0.384	103.83	0.41
Total	10.08	8,142	9.81

Source: See annexes for full sources: ADB; VBSP; VBARD; Vietnam Cooperative Bank, SBV – figures for VBSP, VBARD and PCF are for 2013 (ADB presentation, Mr. Eiichi Sasaki, May 2014)

2.3 Services other than credit and savings

Some formal institutions are starting to provide much-needed micro-insurance services. This report does not cover insurance products extensively, but the annex includes information on micro-insurance, which is still at an early stage of development. The CIL allows financial institutions such as PCFs and MFIs to act as agents of insurance companies. Several insurance products, for example, motorbike insurance and life insurance, are relevant for low-income clients. The upcoming World Bank diagnostic will provide more information on the insurance market.

Several providers offer money transfer services to the low-income segment.

Vietnamese banks offer a wide range of financial services, including money transfers, ATM services, foreign currency exchange, credit and debit cards, etc. Money transfer operators such as Western Union and Money Gram provide cash transfers, often in collaboration with banks, other financial institutions, and post

offices. VBSP offers money transfer services to customers. CCF (now named Coop Bank)¹⁵ and PCFs have implemented a pilot “Rural-Urban Connectivity Project” with eight participating PCFs. In 2011, VBARD handled more than 11 million transactions worth a total of 2,396,916 billion VND.¹⁶ International remittances are significant. Total overseas remittances have increased sharply to the point that Vietnam became one of the ten largest receivers of remittances from overseas in 2013.¹⁷

Branchless banking remains under-developed. Vietnam is still a cash economy, and mobile banking only reaches a small segment of the banked population. The low-income population has very limited experience of e-money and mobile wallets. LienVietPostBank launched its Vi Viet E-wallet mobile money pilot in 2011 as a way to digitalize financial transactions on a large scale, but there is limited information available on its outreach to the low-income population.¹⁸ With over 131 million¹⁹ mobile connections by the end of 2013, mobile banking could, if unleashed, provide an extraordinary opportunity for the huge un-banked population of Vietnam.²⁰

¹⁵ CCF was transformed into the Vietnam Cooperative Bank in July but is still often named CCF in many documents. The authors have mostly used the name CCF in this report.

¹⁶ VBARD 2011

¹⁷ World Bank 2013

¹⁸ LienVietPostBank website

¹⁹ GSMA website, consulted 3 March 2014 - <https://gsmaintelligence.com/markets/3682/dashboard/>

¹⁹ Duflos, Eric, 2011, CGAP Blog : <http://www.cgap.org/blog/opportunities-big-leap-financial-inclusion-vietnam>

²⁰ Duflos, Eric, 2011, CGAP Blog : <http://www.cgap.org/blog/opportunities-big-leap-financial-inclusion-vietnam>



3. Regulatory and Supervisory Framework for Financial Consumer Protection

Financial Consumer Protection (FCP), policy and regulation is at an early stage in Vietnam, and the government is very interested in this area. The Law on the State Bank of Vietnam is clear on the SBV's role in protecting consumers and the government's plan to implement microfinance development by 2020 states the following objective: "To build and develop a safe and sustainable microfinance system in order to serve the poor, the low-income people, micro and small enterprises, contributing to implement the guidance of the Party and the State on ensuring social welfare and sustainable poverty eradication."²¹

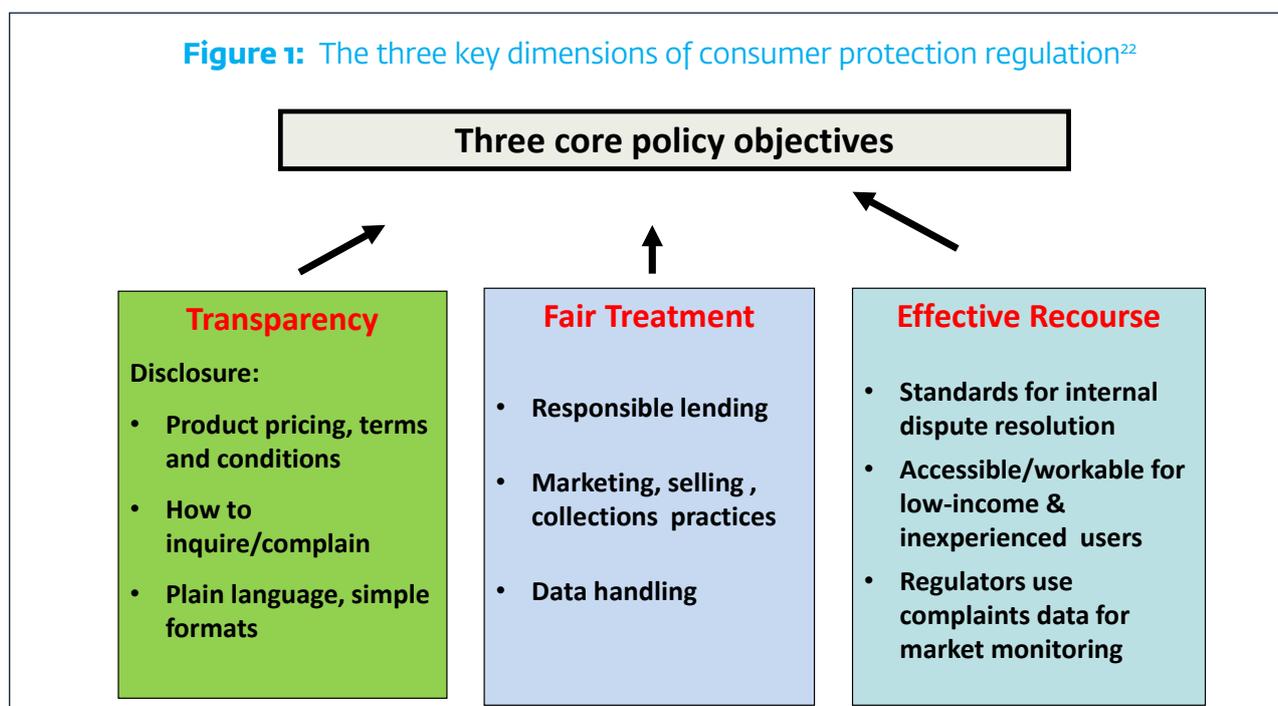
This section reviews the most important agencies involved in consumer protection regulation and supervision as well as key regulations. While the report focuses on low-income segments, most of the regulations described here also apply to commercial banks and their traditional customers.

The team conducted a rapid analysis of the regulatory and supervisory framework, with

a focus on institutions and products targeted at low-income clients. It did not look in depth into insurance products, for example. Further analysis can be provided, for example through the upcoming World Bank review.

3.1. Key Regulators and Supervisors

Several government agencies are involved, to varying degrees, in FCP at the central and local levels. The main organizations and their responsibilities are listed below. However, current efforts are not well coordinated or harmonized, which could result in gaps or overlaps in coverage across providers, products, and consumers. No single agency appears to be tasked with a clear legal mandate to develop a comprehensive strategy for, and to undertake implementation of, FCP regulation and supervision. The SBV is the agency with the greatest potential to lead financial consumer protection, in coordination with the Ministry of Trade and Industry (MOIT).



²¹ Prime Minister of Government of Vietnam. 2011. Decision No.2195/QĐ-TTg

²² Brix, Laura, McKee, Katharine, 2010, CGAP Focus Note, "Consumer Protection Regulation in Low-Access Environments: Opportunities to Promote Responsible Finance", Washington D.C.

Table 2: Key Regulators and Supervisors for Financial Consumer Protection of Low-income Clients²³

Agency	Key Mandate	Main Law	Institutions Supervised
State Bank of Vietnam Relevant internal unit: Banking Supervisory Authority (BSA)	To regulate and supervise formal credit institutions	Credit Institution Law	- Banks (except VBSP) - Finance Companies - PCFs - MFIs
Ministry of Finance Relevant internal unit: Insurance Supervisory Authority (ISA)	To regulate and supervise all insurance companies	Law on Insurance	Insurance Companies
Ministry of Industry and Trade Relevant internal unit: Vietnam Competition Authority (VCA)	To regulate and enforce consumer protection across sectors	Consumer Protection Law	Across all sectors

3.1.1 Agencies with a direct responsibility for FCP regulation and supervision

The Ministry of Industry and Trade (MOIT) has broad responsibility for consumer protection across different sectors of the economy, covering all organizations doing business in goods and services.²⁴ MOIT has issued several decrees on contract transparency and data privacy that are relevant to the financial sector, though they do not specifically mention banking services. MOIT is also responsible for disseminating information on consumer protection, advising consumers, and inspecting and settling complaints. Within MOIT, the Vietnam Competition Authority (VCA), set up in 2006, is directly responsible for protecting consumer rights and combating unfair competition.

The VCA's mandate is much broader than the financial sector, but it has occasionally handled financial issues. It has a specific mandate to ensure that contracts are in line with existing templates.²⁵ The VCA has tried to solve issues arising in the market, but it has not played a comprehensive role in financial consumer protection. When it has addressed financial consumer protection issues, the VCA has collaborated directly with the settlement department of the SBV, the Banking Association, and credit institutions. For example, the VCA successfully intervened in the areas of e-banking, opening bank accounts, and ATM withdrawals.²⁶ The VCA and the SBV have collaborated in cases of unclear contract terms for example, where font sizes were too small and terminology unclear.²⁷

²³ This table does not seek to be comprehensive. It only includes what the authors see at the main regulators and supervisors for low-income clients.

²⁴ National Assembly. 2010. Law on Customer Protection No. 59/2010/QH12 dated November 30, 2010 of the National Assembly, Article No. 48.

²⁵ Letter from VCA to IFC, May 2014

²⁶ For example, VCA found irregularities in ATM and e-banking service contracts. Contracts were not registered in an appropriate manner. In some of the contracts, terms violated the General Requirements under Article 7 of Decree 99/2011/ND-CP of the government's guiding implementation of Law on consumer protection dated October 27, 2011; Some content violations resulted in invalidity of contract terms pursuant to Article 16 of the Law on Consumer Protection.

²⁷ Interviews with Vietnam Competition Authority (VCA). 2013.

The SBV is the lead agency for the government's currently limited efforts on consumer protection in the financial sector, and has the potential to greatly expand its financial consumer protection activities.

The important role of the SBV in FCP is clearly stated in Article 50 of the State Bank Law of 2010, which says: "banking inspection aims... to protect lawful rights and interests of money depositors and clients of credit institutions..."

Article 51 of the same Law stipulates that: "in case provisions on banking inspection and supervision of this Law are different from those of other laws, provisions of this Law prevail."

The SBV leads the supervision and inspection of all formal credit institutions (CIs) under the 2010 Credit Institution Law²⁸ (CIL), and handles violations of monetary and banking laws.²⁹ The SBV supervises all banking services such as credit, savings, remittances, and payments (while the Ministry of Finance (MOF) supervises insurance). SBV provincial offices also play a significant role in and are responsible for supervising PCFs, for example in the area of complaints.

The BSA plays the main supervisory role within the SBV for financial consumer protection as described above. While the BSA has a total of eight departments³⁰ that play some role on FCP, the three main departments directly related to FCP are the following:

- Dept. 1: Inspection of local CIs
- Dept. 3: Administration Supervision, Denunciation Settlement, and Anti-Corruption
- Dept. 4: Off-site supervision

The SBV has the mandate and capacity to regulate credit institutions on issues relating to FCP. Currently, the SBV does not seem to exercise extensive FCP supervision or carry out specific reporting on consumer protection issues except for complaints. Certain FCP issues are included on an ad hoc basis as part of the usual prudential examination process. It is current practice for the SBV to check loan contracts for compliance with disclosure requirements when conducting on-site supervision.³¹ The complaints department collects information on consumer abuses through its 24-hour hotline and by email. In some cases, the SBV works with the police to solve problems. The SBV has a confidential database of all the complaints it has received. It is represented in every province, and its provincial office includes a complaints bureau.³² The review did not find any activities on financial education undertaken by the SBV. A more thorough review of onsite and offsite supervision by the World Bank team would be useful.

The Insurance Supervision Agency (ISA) located within the Ministry of Finance (MOF) is the primary supervisor of insurance companies, including microinsurance providers. In particular, ISA is responsible for developing the legal framework and managing microinsurance activities. Insurance is regulated by the Amended Law on Insurance of November 2010 and the implementation Decree 123/2011/ND-CP of December 2011.

²⁸ Credit institutions include state-owned commercial banks (SOCBs), non-SOCBs, Cooperative Bank and People's Credit Funds system, licensed MFIs and part of the VBSP. Source: Article No. 4, Law on the Credit Institutions No. 47/2010/QH12 of the National Assembly dated June 16, 2010.

²⁹ National Assembly of Vietnam. 2010. Law on the State Bank of Vietnam No. 46/2010 /QH12 of the National Assembly dated June 16, 2010

³⁰ Dept 1 - Inspection of local CIs; Dept 2 - Inspection of foreign CIs; Dept 3 - Administration Supervision, Denunciation Settlement, and Anti-Corruption; Dept 4 - Off-site supervision; Dept 5 - Prudential regulations and policies; Dept 6 - Licensing & Management; Dept 7 - Anti-money laundering; Dept 8 - Office Admin.

³¹ Interviews with SBV, November 2013

³² Interviews with SBV, November 2013, Hanoi. According to Prime Minister of Government. 2009. Decision No. 83/2009/QĐ-TTg of the Prime Minister dated May 27, 2009 defining the functions, tasks, mandate, and organizational structure of the Banking Supervision Agency under the jurisdiction of the SBV, some of BSA's tasks include: to inspect, investigate, and handle the complaints and denunciations and violations related to the banking and monetary field under its jurisdiction. The Administrative Supervision, Complaints Resolution and Anti-Corruption Department (Dept. III) is mainly responsible for these issues.

To conclude this sub-section, there is currently limited supervision of FCP in Vietnam, which provides a good opportunity for the country to draw up an appropriate framework. One area that requires more clarity is the relationship between the SBV and the VCA. In practice, the two agencies have worked closely together in a coordinated manner, but potential duplication and even conflicts could arise in the future. It will be important to determine which agency is the main supervisor for FCP, taking into consideration that in many countries, the central bank is responsible for regulating and supervising FCP (see conclusions).

3.1.2 Agencies that play a supporting role in FCP

Several agencies have responsibilities that can sometimes relate to financial consumer protection, but to a lesser extent than the SBV or the MOIT. They support the infrastructure that is necessary to fully implement an FCB regulatory and supervisory framework.

Various SBV departments play an indirect role in FCP:

- Credit Information Center (CIC), which focuses only on large loans (see Section 4);
- Monetary Policy Department, which has a significant role in developing regulations on interest rate limits;
- Settlement Department, which is responsible for issuing regulations to keep customer information confidential when using payment services; and
- Accounting and Finance, which plays a significant role in developing regulations on fees and interest rate calculation methods.

The MOF plays a role in the governance of state-owned banks. The MOF's Department

of Banking and Finance is responsible for governing the finance of state credit institutions, such as VBARD, Coop Bank, and VBSP. However, in practice, the Department of Banking and Finance does not have any specific responsibilities with respect to financial consumer protection issues.

Provincial-level authorities also play a role in protecting consumers.

For example, the Consumer Protection Law requires that the People's Committees at all levels (province, district, and commune) play active roles in protecting consumers' interests and raising their awareness of all aspects of consumer protection. The boundaries of their role in FCP are still unclear. Based on an interview with one PCF, the People's Committee did not seem to play a specific role in practice.³³ According to other interviews, the Commune People's Committees put an administrative stamp on VBSP loan contracts to certify that clients are poor. Other credit institutions regularly ask CPCs to stamp their client loans so that CPC can act as an informal facilitator and credit information center. The research could not verify how widespread the practice is.³⁴ A Market Control Unit is also responsible at the provincial and communal level for stabilizing markets and checking for fair competition in general goods and services, but none of the interviewees mentioned that the unit had any role in consumer protection cases.

Mass organizations are also empowered by the Consumer Protection Law to play a role.

According to Articles 27-29 of the Consumer Protection Law, mass organizations must counsel consumers upon request, take legal action on behalf of consumers, and participate in legal education and knowledge about consumer rights. Focus group discussions confirm that the Women's Union counsels low-income clients.

³³ Interview with People's Committee, December 2013, Hanoi

³⁴ Focus group discussions with clients, February 2014

Credit bureaus. Credit bureaus can play an important role in protecting consumers by limiting the likelihood of over-indebtedness. The Credit Information Center (CIC) is the country's primary and largest credit bureau and belongs to the SBV. There are also two private credit bureaus: the largest one, with 22 members, is the Vietnam Credit Information Joint-stock Company (often called PCB)³⁵; and the other is the Vietnam Credit Information and Rating Company (2004). The private credit bureaus interact with credit institutions on a voluntary basis and are allowed to collect information from enterprises and individuals with prior authorization from them.³⁷

CIC is housed at the SBV. It collects, processes, stores, analyzes, and forecasts credit information to support the bank's work and provides banking information services in accordance with the constitution and the SBVs regulations.³⁸ Previously, it only collected information regarding loans above VND 50 million (equivalent to \$2,372),³⁹ but it has recently started collecting information on small loans and could potentially reduce risks of over-indebtedness among the low-income segments.

CIC has 11 rights and responsibilities, including “to gather, handle, save and keep in secret credit information of borrowers from credit

institutions, foreign banks' branches, voluntary organizations and individuals” and “to publicize information on principles, scope of credit information service use, process of credit information service use, levels of charge for credit information service use to users.” It also ensures the right of borrowers to check their information once a year and is responsible for helping credit institutions with risk management.⁴⁰

Credit institutions are required to report to the CIC⁴¹, but in practice not all of them do (e.g., VBSP and MFIs). Institutions have three working days to report information to the CIC upon entering a new loan agreement, but policy banks, PCFs, and MFIs have more flexible deadlines,⁴² possibly due to their under-developed MIS. The CIC requires information on the identity of borrowers and owners of credit cards, as well as information on credit contracts and loan security.⁴³ Negative information about borrowers can only be used for five years after which it is considered expired.⁴⁴

Organizations involved in resolving disputes.

There are many regulations that deal with complaint mechanisms⁴⁵, but the authors could not identify any specific regulation on handling specific financial services complaints. Interviews

³⁵ PCB was established on November 27, 2007, with IFC support and it includes information from the top 11 commercial banks in Vietnam. <http://pcb.vn/en/about-pcb/company/103-vietnam-credit-information-joint-stock-company.html> Up to now, 22 banks have agreed to share information.

³⁶ <http://vietnamcredit.com.vn/index.php/aboutus/>

³⁷ Decree No. 10/2010/ND-CP dated February 12, 2010 of the Government on Credit Information-Related Activities; and Circular No. 16/2010/TT-NHNN dated June 25, 2010 of the State Bank of Vietnam

³⁸ Official website of CIC. <http://www.cic.org.vn/cicportal/index.php?mylang=english>

³⁹ Official exchange rate quoted by World Bank <http://data.worldbank.org/indicator/PA.NUS.FCRF> As of December 31, 2013, 1 USD = VND 21,080.

⁴⁰ Article 12, Circular No. 03/2013/TT-NHNN dated January 28, 2013 of the State Bank of Vietnam on credit information of SBV

⁴¹ Article 14, Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of SBV. Before 2013, VBSP and the MFIs were not requested to submit credit information to CIC. However, in Circular No. 03/2013/TT-NHNN, all credit institutions, including VBSP, PCFs, and licensed MFIs, are requested to provide all credit information to CIC.

⁴² Social policy banks, people's credit funds and microfinance organizations must supply data within five working days from the last day of preceding month. Source: Article 8, Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

⁴³ Article 7, Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

⁴⁴ Article 11, Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

⁴⁵ The Law on Complaints includes many relevant circulars and guidelines for implementation. The authors have reviewed several of these documents – see bibliography

revealed that complaints are first addressed between providers and their clients or the legal team of mass organizations before any further action is taken. If providers and clients fail to resolve their disputes, other agencies can get involved. The SBV's provincial representatives are responsible for settling complaints,⁴⁶ and the Ministry of Justice also has a broad responsibility for handling complaints and denunciations.⁴⁷ The People's Court System is involved in solving dispute cases sent to the Court of Customers. However, low-income clients do not rely much on the judiciary system to solve disputes. While there are cases of consumers bringing financial providers to court, most of these cases are urban and wealthier consumers dealing with big cases.⁴⁸ Low-income consumers do not want to use the system as it is time-consuming (three months if the evidence is sufficient), and they fear high legal costs if they lose.⁴⁹ There is no simplified system for small cases yet.⁵⁰

Finally, two high-level state institutions relate marginally to consumer protection: the Department of Social and Economic Issues (of the National Assembly), and the National Financial Supervision Commission. The Commission is responsible for advising and consulting the prime minister in coordinating the supervision of national financial markets (banking, securities, and insurance) and helping him monitor national financial markets.⁵¹

3.2. Key Regulations for Financial Consumer Protection (FCP)

3.2.1 Prudential regulations

Prudential regulations are not usually considered part of financial consumer protection regulations. However, in 2008, several PCFs collapsed and many low-income customers lost their savings. This event is marked in the memory of many families and makes the protection of customers' deposits an essential component of consumer protection for policymakers in Vietnam.⁵²

The prudential regulatory and supervisory framework is uneven for different types of institutions, and has not been finalized since the CIL was adopted in 2010. The prudential requirements for licensed MFIs are still being developed, four years after the issuance of the law and the largest provider, VBSP, is not prudentially supervised. It is still unclear whether regulations for licensed MFIs will follow international good practices (e.g., CGAP guidelines).

Prudential regulations differ according to institution type and do not yet apply to the largest provider of financial services to the low income, VBSP. Most deposit-taking credit institutions in Vietnam fall under the CIL.

⁴⁶ State Bank of Vietnam, 2009, Decision No. 2989/QDD-NHNN dated December 12, 2009

⁴⁷ Accusation according to the Law on Complaints (2011) and the Law on Denunciation (2011)

⁴⁸ E.g., some customers sued banks in the civil court after losing cash from ATM transactions, such as in the Vietcombank case in 2013 (Source: <http://vtc.vn/1-460449/kinh-te/vietcombank-bi-khach-hang-kien-doi-5500-dong.htm>); or gold quality issues <http://vnexpress.net/tin-tuc/phap-luat/bac-don-khach-hang-kien-acb-doi-gan-8-500-luong-vang-2209587.html>; or a bank that lost the mortgage papers of customers (Agribank – 2010-2013). <http://vietnamnet.vn/vn/kinh-te/151141/nhung-vu-kien-ngan-hang--that-nhu-dua--o-viet-nam.html>).

⁴⁹ National Assembly of Vietnam. 2004. Law on the Civil Procedure Code No. 24/2004/QH11 dated June 15, 2004 of the National Assembly; National Assembly of Vietnam. 2011. Law No. 65/2011/QH12 dated March 29, 2011

⁵⁰ Interview notes with MOIT and VINASTAS, November 2013.

⁵¹ Decision No. 79/2009/QD-TTg dated May 18, 2009 of the Prime Minister issuing regulations on the organization and operation of the National Finance Supervisory Council.

⁵² The Cooperative Bank is now setting up a safety fund with technical support from AFD to prevent such a collapse from happening again in the future.

Table 3: Example of prudential requirements by type of financial institution

	Commercial banks, including VBARD	Coop Bank/PCFs	Licensed MFIs	VBSP
Minimum Capital as of 2011 ⁵³	VND 3,000 billion ⁵⁴	VND 3,000 billion for Coop Bank, VND 0.1 billion for PCFs ⁵⁵	VND 5 billion ⁵⁶	VND 5,000 billion ⁵⁷
CAR ⁵⁸	Min 9%	Coop Bank min 9%; PCF min 8%	Min 10%	Not regulated

Prudential regulations for commercial banks, PCFs and MFIs are slightly different, as can be seen from the table above. The SBV plans to release new prudential regulations for MFIs by the end of 2014 because in effect the SBV still uses decrees that pre-date the 2010 Credit Institution Law to supervise the MFIs. VBSP, which mobilizes deposits from 6.9 million clients,⁵⁹ is not prudentially supervised (see above). Non-licensed MFIs, which only mobilize savings from their members, are not prudentially supervised either.

Deposits of low-income clients are also protected by deposit insurance, which is required for all licensed deposit-taking institutions with the exception of the VBSP⁶⁰. The maximum deposit value insured is VND 50 million (approximately \$2,500) per customer.⁶¹ In the decree on deposit insurance, licensed MFIs

are obligated to insure deposits from individuals, including voluntary deposits from microfinance clients, except for compulsory savings deposits.⁶²

VBSP's unique regulatory framework:

VBSP is a "non-profit state-owned social policy bank", with a special status. For example, it does not have to follow the prudential regulations, the loan classifications and provision for loan loss is different from other credit institutions, and it does not participate yet in the deposit insurance. SBV has not issued yet any supervision regulations tailored to VBSP. Instead, the VBSP general operation follows the Decree No. 78/2002/ND-CP of the Government dated October 4, 2002 on Credit for poor people and other policy beneficiaries..

Source: ADB, 2010(a). "Vietnam Microfinance Sector Assessment, ADB, July 2010

⁵³ World Bank exchange rate for 2011 (\$1 = VND 20,509.75) <http://data.worldbank.org/indicator/PA.NUS.FCRF>, the minimum capital of credit institutions of VND 3,000 billion is equal to \$146.2 million; VND 0.1 billion is equal to \$4,876; VND 5 billion is equal to \$243,786; and VND 5,000 billion is equal to \$243.8 million.

⁵⁴ Government. 2006. Decree No. 141/2006/ND-CP of the Government dated November 22, 2006 on the List of Legal Capital Credit Institutions; and Government 2011 Decree No. 10/2011/ND-CP of the Government dated January 26, 2011 on Amending some articles of the Decree No. 141/2006/ND-CP of the Government dated November 22, 2006 on the List of Legal Capital Credit Institutions.

⁵⁵ Idem

⁵⁶ Government 2005. Decree No. 28/2005/ND-CP of the Government dated 09/03/2005 on the organization and operation of small scale financial institutions operating in Vietnam.

⁵⁷ Ibid.

⁵⁸ State Bank of Vietnam. 2010. Circular No. 13/2010/TT-NHNN dated May 20, 2010 on prudential ratios of credit institutions; State Bank of Vietnam, 2005. Decision No. 1328/2005/QD-NHNN dated September 6, 2005 of the Governor of State Bank of Vietnam on Prudential Ratios of PCFs.

⁵⁹ Sasaki, Eiichi, ADB, 2014.

⁶⁰ VBSP programs follow specific government resolutions or Prime Minister's Decisions such as: Government Resolution No. 30a/2008/NQ-CP dated December 27, 2008 on the Support Program for Fast and Sustainable Poverty Reduction in 61 Poor Districts; Prime Minister's Decision No. 157/2007/QD-TTg dated September 27, 2007 on Credit for Students; Prime Minister's Decision No. 15/2013/QD-TTg dated February 23, 2013 on Credit for the near-poor households.

⁶¹ Decree No. 109/2005/ND-CP of the Government dated August 24, 2005 amending and supplementing a number of articles of the Decree No. 89/1999/ND-CP of the Government dated September 1, 1999, on deposit insurance; National Assembly of Vietnam, 2012.

⁶² Government. 2013. Decree No. 68/2013/ND-CP dated June 28, 2013 of the Government detailing and guiding the implementation of the Law on Deposit Insurance. Article No. 4.

However, in reality, the only two licensed MFIs have not yet been requested by the SBV to join the deposit insurance scheme. Non-licensed MFIs are also not required to insure deposits.

3.2.2 Consumer protection regulations

Overall, the FCP regulatory landscape is at an early stage. The two most relevant laws for FCP of low-income clients are the Consumer Protection Law and the Credit Institution Law. The two Laws have limited content on FCP and only a few implementing rules and regulations specifically on FCP. They do not distinguish between high- or low-income clients. The Consumer Protection Law applies to “consumers, traders and agencies, organizations and individuals involved in activities of protection of consumer rights within the territory of Vietnam”, and the Credit Institution Law applies to all credit institutions (see later in the text). The main prudential and non-prudential regulator for the supervision of credit institutions, including FCP, is the BSA (SBV). As the government develops the FCP framework, it will be crucial in the future to avoid a potential disconnect and overlap between regulations issued by the SBV and by the MOIT.

Regulations related to transparency and disclosure:

General consumer protection regulations support the transparency of financial services. The MOIT has the main rule-writing authority for general consumer protection regulations and the VCA in particular has a

significant role to ensure implementation of the consumer protection law. It is in charge of controlling template-based contracts as well as ensuring the timeliness and effectiveness of general transaction conditions between institutions and individuals. Some implementing regulations under the Consumer Protection Law protect consumers against complex terminology in contracts.⁶³ Consumers are also entitled to terminate a contract within 10 days if such a contract lacks specific information.⁶⁴ However, it should be noted that the CP Law does not specifically include banks in its content, but mainly refers to “traders”. Also, the list of essential goods and services that must register the standard form contract and conditions does not seem to include banking or financial service contracts, based on the available translation. Although further research is needed, it seems there is no major overlap between the Consumer Protection Law and the Credit Institution Law, but there is a risk that there could be in the future. It would be interesting for example to explore how loans and other banking contracts are regulated and supervised.

The SBV has issued several specific regulations promoting transparency in financial products and services. The SBV has the main responsibility for issuing regulations related to deposits, loans, and payments. Beyond Articles 10, 13, and 14, on protection of clients’ interest, provision, and confidentiality of information, the CIL does not provide requirements on FCP. The Law therefore does not address FCP comprehensively. The SBV has also issued several decisions prior to and after the CIL issuance that deal with clients’ rights and which appear to be consistent with the CIL. For

⁶³ Including: Decree 99/2011/ND-CP of the Government stipulating and guiding implementation of number of articles of the Law on consumer protection dated October 27, 2011; Decree No. 19/2012/ND-CP dated March 16, 2012 of the Government on Sanctions against administrative violations of consumers’ rights protection; Decision No. 02/2012/QĐ-TTg dated January 13, 2012 of the Prime Minister Promulgating the List of Essential Goods and Services for which contract forms and general transaction conditions must be registered.

⁶⁴ According to Article 16 of Decree No. 99/2011/ND-CP of the Government, when the contents of a model contract or general transaction conditions violate the law on consumer right protection or are contrary to general principles for contract conclusion, a competent agency provided in Article 9 of this Decree may request the trader to modify or cancel those contents. When the contents of a model contract or general transaction conditions are unclear or may be understood in different ways, a competent agency may request the trader to explain and clarify those contents. Within ten (10) working days after receiving a competent agency’s request, a trader shall modify or cancel violating contents of the contract and notify such to consumers having signed that contract. In case the modification or cancellation of violating contents results in the invalidity of contracts signed with consumers or general transaction conditions, causing damage to consumers, the trader shall pay damages to those consumers under the civil law.

example, the SBV regulation on credit contract requirements⁶⁵ specifies that loan contracts for all credit institutions must include the loan conditions, purpose of loan utilization, method of lending, loan amount, interest rate, loan term, form of loan security, value of security assets, method of repayment, and other undertakings agreed by the parties. For e-banking, an SBV circular dating from 2011 requires that providers give sufficient information to customers before signing contracts.⁶⁶ According to this circular,⁶⁷ the service provider must specify the general rights and responsibilities of borrowers and depositors. A decision from the SBV governor also stipulates all the rights of depositors⁶⁸. However, as can be seen in subsequent sections, most low-income borrowers do not seem to read their contracts. It is also unclear to the authors at what point during a potential transaction information must be disclosed by credit institutions, beyond the requirements for e-banking.

The SBV requires transparency on interest rates, but there have been problems with flat rates. The law⁶⁹ requires all credit institutions to publish their deposit interest rates and their service fees. Article 10 of the CIL says that: “credit institutions must publicly announce deposit interest rates, service fees, and the rights and obligations of clients in respect of each type of product or service currently provided.” All credit institutions are also required to display the loan interest on their loan contracts. However, VBSP is required to display its (subsidized) lending rates online and at its outlets. There is also an SBV regulation⁷⁰ that explains how to calculate interest rates on loans. While



the translation is difficult to understand, the applicable method appears to be the declining balance method. But in practice some banks and other organizations, especially consumer credit providers, have charged interest rates using the flat method, and some institutions use both flat and declining methods, which creates confusion and difficulties for consumers in making price comparisons.⁷¹ There appear to be no SBV regulations requiring the disclosure of APR or full cost of credit metrics to reflect the total cost of a loan product (including interest, fees, compulsory savings, etc.), as well as repayment schedules.

The SBV has also issued regulations on the types of allowable fees and charges. Ordinance No. 38/2001/PL-UBTVQH10 dated August 28, 2001 on charges and fees of the Standing Committee of National Assembly regulates fees across markets. SBV Decision No. 05/2011/TT-NHNN⁷² stipulates that credit institutions (including MFIs) cannot charge fees (aside from interest) on lending except for prepaid payments and syndicated loans. However, the team has heard of occasional cases of staff at credit institutions taking commissions from clients illegally.⁷³

⁶⁵ SBV. 2001. Decision No. 1627/2001/QD-NHNN1 of the Governor of the SBV dated December 31, 2001 on lending by Credit Institutions to Clients.

⁶⁶ SBV. 2011. Circular No. 29/2011/TT-NHNN dated September 21, 2011 of the SBV on defines the safety, confidentiality provision for banking services on the Internet.

⁶⁷ SBV. 2011. Circular No. 29/2011/TT-NHNN.

⁶⁸ SBV. 2004. Decision No 1160/2004/QD-NHNN dated September 13, 2004 on the issuance of the regulation on savings deposits.

⁶⁹ National Assembly. 2010. Law on the Credit Institutions No. 47/2010 /QH12 of the National Assembly dated June 16, 2010. Article No. 91.

⁷⁰ SBV. 2001. Decision No. 652/2001/QD-NHNN dated May 17, 2001 of the SBV on the method of calculating and accounting the collected and paid interests of the State Bank and credit institutions.

⁷¹ SBV interviews, November 2013, Hanoi.

⁷² SBV 2011. Circular No. 05/2011/TT-NHNN dated March 10, 2011 of the SBV regulating the charges of Credit Institutions' loans to customers.

⁷³ VINASTAS interview, November 2014.

Interest rate caps on micro-loans were a controversial issue last year. The CIL stipulates that interest rates are negotiated directly between credit institutions and their clients, unless the SBV decides otherwise on an exceptional basis. In 2013, for macro-economic reasons, the SBV's Monetary Department issued a series of circulars⁷⁴ to control interest rates. Currently, the short-term lending interest rate ceiling for five economic areas (including microfinance clients' typical activities) is 10 percent for commercial banks. PCFs/MFIs were asked to lend at one percent higher than banks, i.e., 11 percent per annum. After some discussion about the need to make exceptions for micro-loans, which are much more expensive than bank loans,⁷⁵ the State Bank has issued a document explaining the application of the ceiling lending interest rates to MFI customers more clearly, which means that microfinance institutions can charge traditional clients negotiated rates that may be higher than the 11 percent cap.⁷⁶ The debates on interest rates have triggered questions about the way microfinance institutions display their loan interest rates to clients. Most unlicensed MFIs fall under a different regulation than the CIL. According to the civil code, the lending interest rate must be agreed by the parties, but must not exceed 150 percent of the base interest rate announced by the SBV for loans of the corresponding type.⁷⁷ This would mean a rate of 13.5 percent per annum, which is well below usual microfinance rates and could push non-licensed MFIs to charge a flat rate.

Regulations related to over-indebtedness

In Vietnam, resolving bad debt is a priority for the banking sector, but it mainly concerns large borrowers such as state enterprises. The government has issued several regulations to clean up the sector, control bad debt, and establish an asset management company.⁷⁸

The authors have not come across regulations that directly target over-indebtedness. Some regulations in the Law on Advertising specify that advertising leading to overuse of products is forbidden, but it is not clear how this regulation is enforced.⁷⁹

There is limited credit information on low-income segment debt. The Credit Information Center (CIC) located within the SBV has just started recording loans below 50 million VND (approximately \$2,500) and it may take some time before it can be used to prevent over-indebtedness among low-income segments. In the recent past information sharing on debt has been rudimentary for loans below 50 million VND, but mass organizations and local authorities are often aware of who borrows from where and they sometimes share this information with providers. The implementation of Circular No.3/2013 on credit information could help to reduce this problem by asking all CIs to provide all credit information to the CIC regardless of loan size, and PCFs/VBSP would be required to participate fully in the CIC information provision.⁸⁰ More details on credit information sharing are given in Section 4.

⁷⁴ SBV 2013. Circular No. 15/2013/TT-NHNN dated June 27, 2013 of SBV Providing for Maximum Interest rates of VND Deposit of Organizations and Individuals at Credit Institutions and Branches of Foreign Banks; State Bank of Vietnam. 2013. Circular No. 16/2013/TT-NHNN dated June 27, 2013 of SBV Providing for Maximum Interest rates of VND Short-term Loans Imposed by Credit Institutions and Branches of Foreign Banks on Their Borrowers in order to Satisfy the Demand for Capital Serving some Economic Sectors and Fields.

⁷⁵ MFWG and IFC workshop on interest rates dated May 16, 2013.

⁷⁶ SBV. 2013. Letter No. 4733/NHNN-CSTT dated July 4, 2013 of the General Director of Monetary Policy Department on Lending interest rate and interest calculation method of MFIs.

⁷⁷ National Assembly. 2005. Civil Code No. 33/2005/QH11

⁷⁸ Prime Minister of Vietnam. 2013. Decision No. 843/QĐ-TTg dated May 31, 2013 of the Prime Minister approving the Scheme "Handling bad debts of credit institution system" and the Scheme "Establishing Vietnam Asset Management Company for credit institutions" – "The decision aims at increasing credit quality so as to contribute in successful implementation of objectives in "Scheme on restructuring the system of credit institutions during 2011 – 2015" promulgated together with the Decision No. 254/QĐ-TTg dated March 1, 2012 of the Prime Minister".

⁷⁹ National Assembly. 2012. Law on Advertising No. 16/2012/QH13 dated June 21, 2012 of the National Assembly

⁸⁰ SBV. 2013. Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

Regulations on fair treatment

The research did not identify any specific SBV regulation on fair treatment, marketing, collection practices, etc. The Consumer Protection Law and its implementing rules and regulations contain several mechanisms to punish institutions that do not treat customers fairly.⁸¹ For example, violations of the protection of consumers' information can incur fines from 10 to 30 million VND. Misleading advertising can incur a fine and may require publicly announced corrections.⁸² According to the Civil Procedure Code,⁸³ customers can take credit institutions to court if there is evidence of unfair treatment. However, these mechanisms are not specifically intended to apply to financial products and services, and there are no instances to date of these mechanisms being applied to financial providers serving low-income segments.

Regulation on consumer data and privacy
Some regulations for data protection are in place. Regulations from the Consumer Protection Law impose administrative sanctions on violations of consumer rights, including violating the private information of customers.

According to the Credit Institution Law, the SBV also has requirements on security of customers' information. Credit institutions and foreign banks' branches are not allowed to provide information concerning deposits, deposited properties, and transactions of their customers to any other organizations and/or individuals, except when requested by competent state authorities in accordance with provisions of the laws or with the consent of their customers.⁸⁴ It is not clear however whether the CIC offers protection of clients' personal information. The CIC, located in the SBV, only provides information about customers to credit institutions.⁸⁵

Borrowers have rights and obligations regarding their credit information, including the right to obtain their credit information once a year and the right to request the CIC, credit institutions, and other relevant organizations to consider and adjust their credit information when borrowers detect mistakes. Borrowers are obligated to supply full and honest credit information to the CIC, credit institutions, or other relevant organizations during the processing of their complaint.⁸⁶

⁸¹ National Assembly. 2010. Law on Customer Protection No. 59/2010/QH12 dated November 30, 2010 of the National Assembly. Government. 2012. Decree No. 19/2012/ND-CP dated March 16, 2012 of the Government on Sanctions against administrative violations of consumers' rights protection.

For example, in Article 5 of Decree No. 19/2012/ND-CP: Acts of violations in protection of consumers' information

1. A fine of between 10,000,000 to 20,000,000 VND for one of the following violations:

- a) Failing to inform the consumer clearly and openly of the purpose before collecting and using the consumer's information;
- b) Using consumers' information not in conformity with the purpose agreed with the customer and without the consent of the consumer;
- c) Failing to ensure the safety, accuracy, and completeness of the consumer information during collection, use, and transfer of such information;
- d) Not actively adjusting the information or to helping the consumers to update and adjust information when such information is found to be incorrect;
- e) Transferring consumers' information to third parties without the consent of consumers, unless otherwise prescribed by law.

2. A fine of 20,000,000 to 30,000,000 VND for violations stipulated in Clause 1 of this Clause in case the concerned information is the consumers' personal information.

3. Remedies:

- a) Coercively destroying the documents containing consumers' information;
- b) Coercively taking necessary measures to protect the consumers' information.

⁸² Government. 2012. Decree No. 19/2012/ND-CP dated March 16, 2012 of the Government on Sanctions against administrative violations of consumers' rights protection.

⁸³ National Assembly. 2004. Law on the Civil Procedure Code No. 24/2004/QH11 dated June 15, 2004 of the National Assembly.

⁸⁴ CIL - Article 14, No. 47/2010 /QH12 of the National Assembly dated June 16, 2010

⁸⁵ Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

⁸⁶ Article 16, Circular No. 03/2013/TT-NHNN dated Jan 28, 2013 on Credit Information Activity of the State Bank of Vietnam.

Regulations for effective recourse mechanisms

The Law on Complaints and Accusations is the main regulation for recourse mechanisms and it comes with many implementing guidelines, but it does not have any specific information on FCP. It does provide indications on timelines for dealing with complaints and accusations (e.g., 30 days for complaints and up to 90 days for accusations).⁸⁷ While there are several regulations related to complaints, the authors could not identify a specific regulation that requires financial providers to provide internal dispute resolution mechanisms or systematic tracking and reporting of complaints data. The SBV's complaints department is the main government actor involved in dealing with complaints and recourse, but the authors did not find regulations available in English that explain how complaints are handled. The upcoming World Bank report on consumer protection might shed some light on this issue. When complaints cannot be directly resolved by providers, the SBV's complaints department at the provincial and central level seems to be the next step⁸⁸. According to the Law on Complaints and Accusations, all complaints received by the SBV or other institutions must be addressed within 30 days for a first-time complaint, or within 45 days for complex cases.

One complaint about which the authors have been told regards the use of ATMs, though this does not greatly concern low-income clients.⁸⁹ The SBV regulation requires that “providers of ATM payment services must (i) Monitor, discover, resolve the failed transactions, and handle the transactions accurately. Promptly

provide compensations for customers if the providers of payment services' failures, mistakes, or accidents cause damage for customers; and (ii) receive, resolve, or settle the complaints or requests for checking from customers.”⁹⁰ The VCA has been active in solving issues arising from ATMs in collaboration with the SBV. Overall, it seems that the regulatory framework for effective recourse mechanism requires more details on how providers of financial services should handle disputes, and in which cases the SBV should be involved.

Specific regulations for branchless banking

Typically, branchless banking creates new kinds of issues when it comes to consumer protection. For example, agent regulations may stipulate who can be an agent and how the relationship between the provider and its agents is managed, particularly in instances where agents defraud or are negligent with respect to consumers. This report does not explore the specificities of consumer protection issues for branchless banking because branchless banking is still under-developed in Vietnam and the current regulatory framework does not enable banking agents to operate on behalf of banks (although VBSP does use mass organizations as agents for its financial services). The authors believe that there is great potential for branchless banking to expand financial inclusion in Vietnam, and that it will be important to address consumer protection issues related to branchless banking in the future.

⁸⁷ Law No.02/2011/QH13 on Complaints dated November 11, 2011; Law No.03/2011/QH13 on Denunciation

⁸⁸ Interview with SBV complaints department, November 2013, Hanoi.

⁸⁹ For example, an ATM “swallowed” customers' cards; ATM customers' PIN and cards were stolen. Sources: <http://nld.com.vn/kinh-te/nhieutruong-hop-bi-nuot-the-atm-2010021009520966.htm> and <http://www.thongtincongnghes.com/article/10581>

⁹⁰ SBV 2012. Circular No. 36/2012/TT-NHNN dated December 28, 2012 of the Governor of SBV on the installation, management, operation, and security of automated teller machines (ATMs). (details available in article 5)

Financial Capability ⁹¹

There is a growing awareness in Vietnam of the importance of financial capability, but there is no comprehensive approach to this issue. For example, a national survey of financial capability has not yet been carried out and there is no national strategy to set priorities and coordinate action. One of the few publicly available sources of data on Vietnam's financial capability is a recent study focusing on women in 27 countries, funded by Visa. Vietnam ranked toward the bottom of this study, (25th out of 27), based on a series of questions related to financial knowledge, attitudes, and behaviors. These findings are in line with impressions from people in the market that these skills are lacking. Existing financial capability is mainly funded by financial providers and tends to reach only a few thousand people, far below the coverage needed in a country of 100 million. Some of the more noteworthy activities in financial capability include:

- The Practical Money Skills curriculum supported by Visa in collaboration with the Citi Foundation, public relations firm Ogilvy, and the Central Committee of Viet Nam Students' Association (CCVSA). This program included a video contest on YouTube held in 2012 where students described a financial planning program. Although only a few thousand students directly participated in the training, these videos have received more than 800,000 views. In 2014, the program will highlight an online financial literacy game, financial football, and will encourage competitions between universities to foster participation.
- Since 2008, financial capability training for microenterprises has been provided by the Dariu Foundation, based on a financial literacy curriculum developed by Microfinance Opportunities. Thousands of micro-entrepreneurs are trained each year through this program.

⁹¹ This section on financial capability was written by Margaret Miller of the World Bank



4. Self-Regulation and Industry Codes of Conduct

This section reviews how different actors promote self-regulation in the area of responsible finance for low-income segments. In several countries, national organizations such as professional microfinance and banking associations play a key role in fostering responsible finance, particularly where comprehensive regulatory and supervisory frameworks for financial consumer protection are still in development. Global responsible finance initiatives such as the SmartCampaign and the Social Performance Task Force can also help financial providers become more responsible. In some countries, consumer protection associations are also very active.

4.1 Role of industry associations

There are four professional associations in Vietnam that have or could play a role in promoting responsible finance for the low-income sector. Their detailed functions are presented in annex 5.

(i) **Microfinance Working Group (MFWG)** with 49 organizations (two formal MFIs, about 30 semi-formal MFIs, and some supporting organizations) and 38 individuals in Vietnam⁹²;

(ii) **Vietnam Banking Association (VNBA)** with 50 members, including six state-owned banks, 34 JSCBs, two joint-venture CBs, and eight finance companies;⁹³

(iii) **Vietnam Association of People's Credit Funds (VAPCF)** with members of Cooperative Bank and 1101 PCFs in Vietnam; and

(iv) **Association of Vietnam Insurers (AVI)**, which includes all 39 insurance providers in Vietnam, and 25 affiliated members.⁹⁴ Since micro-insurance is nascent, the association has had a limited role with respect to the low-income segment.

Industry associations' have limited activities so far with respect to responsible finance.

The topic of responsible finance is still relatively new in Vietnam, and so are some of the associations. They could play a stronger role in disseminating information and good practices among their members, including on consumer protection regulations. In fact, helping their members implement regulations is part of their core functions (see annex). Some industry associations conduct training for their members on related issues.

The MFWG has started to promote responsible finance. It has an ongoing collaboration with the Social Performance Task Force (SPTF). It introduced the Universal Social Performance Standards for MFIs by translating them into Vietnamese and presenting them at a workshop, and it conducted two research projects in 2012 on social performance indicators (SPIs) and social auditing.⁹⁵ These standards were presented in a recent bulletin published by the MFWG.⁹⁶ Currently six

⁹² MFWG Website <http://www.microfinance.vn/category/members/current-members/member-profiles/?ModPagespeed=noscript> Retrieved on March 4, 2014.

⁹³ VNBA website. http://www.vnba.org.vn/index.php?option=com_content&view=article&id=46&Itemid=53 retrieved in March 3, 2014. However, in the interview with VNBA in November 2013, VNBA said that their members include 55 banks and other credit institutions, of which five are SOCBs and 11 are finance companies.

⁹⁴ All insurance companies in Vietnam join the AVI. AVI was set up in 1999. Up to December 2013, AVI has 39 full members, including 27 non-life insurance companies; 11 life insurance companies and one re-insurance company, plus 25 affiliate members. Sources: Phung Dac Loc. 2013. "Association of Vietnam Insurers – The bridge for development", Investment and Securities Newspaper dated December 16, 2013. <http://tinnhanhchungkhoan.vn/bao-hiem/hiep-hoi-bao-hiem-viet-nam-cau-noi-phat-trien-9161.html> Retrieved on March 4, 2014;

⁹⁵ Official website of Hung Vuong Insurance Company, http://bhv.vn/vn/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=56&cntnt01origid=18&cntnt01detailtemplate=detail_news_page&cntnt01returnid=30 Retrieved on March 4, 2014.

⁹⁶ Microfinance Working Group, Bulletin Nr 19, December 2013 <http://www.microfinance.vn/wp-content/uploads/2014/01/Final-TA-Microfinance-Regulations-in-Vietnam.pdf>

members⁹⁷ of the MFWG are interested in implementing these standards.⁹⁸ The MFWG has also translated the Smart Campaign Consumer Protection Principles into Vietnamese and disseminated them to their members through leaflets, articles, and a workshop.⁹⁹ In addition, the MFWG has promoted transparency among its clients by organizing training with the MixMarket with support from IFC. The MFWG is now writing a Code of Conduct that includes both financial and social performance standards. The Code of Conduct will apply to all formal MFI members and could be significant in promoting and strengthening responsible finance practices among MFWG members.

The Vietnam National Banking Association has worked with the VCA on consumer protection. It has its own training center and advocacy department and trains members on the new consumer protection law. The VNBA also plays a role in collecting information on customer complaints and helps its members develop codes of conducts. In 2012, the VNBA worked closely with the VCA to check contract details and develop standard contracts for debit, ATM, and demand deposit contracts¹⁰⁰ for their members, since there had been problems in the past caused by text being in too small a font.

The VAPCF plays a minor role in responsible finance. It helps PCFs comply with regulations, conducts training, and plays an advocacy role with the SBV when needed. The association also plans to help standardize PCFs' codes of conducts in the future. The Cooperative Bank

(formerly called the Central Credit Fund) also plays a limited role in helping PCFs comply with prudential regulations under the CIL and conducts some supervisory activities. The transformation of the CCF into a cooperative bank (Vietnam Cooperative Bank or “Coop Bank”) has increased the oversight capacity of the bank on the PCFs¹⁰¹, though the SBV has ultimate responsibility for supervising PCFs through onsite and offsite supervision.¹⁰² The Cooperative Bank also helps PCFs that are short of liquidity to enable them to fulfill their obligations to depositors at all times.

The Vietnam Standards and Consumers Association (VINASTAS) is an independent consumer protection association.¹⁰³ It operates through an interactive website, a newspaper, and a journal and has 46 member associations in the provinces. It was involved in the development of the consumer protection law and is mentioned in the Law. In the area of financial inclusion, it has collected complaints from financial consumers, mostly related to the lack of transparency in life insurance, consumer credit, and interest rates.¹⁰⁴ VINASTAS has also acted as a mediator in disputes between consumers and financial providers. In 2013, VINASTAS received 961 complaints in writing, including less than 100 related to financial issues. It has also received many complaints by phone but there is no data available about these complaints. On some occasions, it has helped consumers go to court (for example, one consumer sued a bank for selling fake gold). VINASTAS also issues

⁹⁷ Thanh Hoa Fund for poor women, An Phu Development Fund, The Center of Small Enterprises Development Assistance, M7 MFI, Pro-Poor Center Can Loc- Ha Tinh, and Women Development Fund – Quang Binh

⁹⁸ Idem

⁹⁹ MFWG has carried out two studies: Social Audit of ThanhHoa Fund for Poor Women (FPW) and Microfinance Fund for Community Development Institution (MFCDI) using SPIs in August 2012.

⁹⁹ MFWG has carried out two studies: Social Audit of ThanhHoa Fund for Poor Women (FPW) and Microfinance Fund for Community Development Institution (MFCDI) using SPIs in August 2012.

¹⁰⁰ Interview with VNBA, November 2013, Hanoi.

¹⁰¹ See Article 44 of SBV circular No31/2012/TT-NHNN dated 28 Nov 2012 on Regulation of Cooperative Bank.

¹⁰² Interview with Cooperative Bank and VAPCF, November 2013, Hanoi

¹⁰³ All information based on interview with VINASTAS, November 2013, Hanoi.

¹⁰⁴ Interview with VINASTAS , November 2013, Hanoi.

brochures to educate clients on consumer loans, in collaboration with the PPF Finance Company.¹⁰⁵

4.2 Endorsement of national or international responsible finance campaigns

To ensure that their clients are treated fairly, microfinance providers in many countries have adopted new global standards. The best known global initiatives are the SmartCampaign with its seven client protection principles,¹⁰⁶ and the Social Performance Task Force with its universal standards on social performance.¹⁰⁷ As of February 2014, almost 1,400 MFIs, 178 networks and associations and 172 donors and investors worldwide had endorsed the SmartCampaign. The Mix, as a global and publicly available platform, also plays a key role in fostering the sector's transparency in its financial and social performance. The Mix's primary objective is to increase transparency in the microfinance industry through data collection and analysis. It provides an opportunity for the thousands of MFIs that report on its 11 indicators to measure their social performance. These indicators enable MFIs globally to compare their performance with each other.¹⁰⁸

In Vietnam, there has been limited endorsement of global campaigns on responsible finance so far. While the MFWG



The SmartCampaign client protection principles:

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

encourages dissemination of these global standards, the industry is still at an early stage.¹⁰⁹ So far, 10 MFIs and two associations have endorsed the SmartCampaign,¹¹⁰ and others such as the cooperative bank have committed to doing so in the future.¹¹¹ As of the end of 2013, 34 MFIs had reported financial information to the Mix, but none of them fully reported on social performance. Two MFIs (the Thanh Hoa fund for Poor Women and the Microfinance

¹⁰⁵ PPF Finance Company is part of PPF NV group. Source: official website of PPF Finance Company <http://homecredit.vn/en/gioi-thieu/tong-quan-ve-tap-doan-home-credit-quoc-te/> retrieved on March 4, 2014.

¹⁰⁶ PPF is a privately held international financial group. It operates in the area of consumer financing, retail banking, and insurance. It operates in the Czech Republic, Slovakia, Russia, Ukraine, Kazakhstan, Cyprus, Belarus, Vietnam and China. Its headquarters are located in the Netherlands. The largest shareholder of PPF is Petr Kellner (94%). Source: http://en.wikipedia.org/wiki/PPF_%28company%29 website of PPF NV group: <http://www.ppf.cz/en/homepage.html>

¹⁰⁶ SmartCampaign Website, consulted February 24, 2014. <http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>

¹⁰⁷ Social performance Task Force website, consulted February 24, 2014: <http://sptf.info/spmstandards/universal-standards>

¹⁰⁸ Mix Website, consulted in December 2013. <http://www.themix.org/social-performance/Indicators>

¹⁰⁹ In 2013, MFWG had a partnership agreement with the Social Performance Task Force (SPTF) to translate the materials of the Universal Standard Awareness Raising Campaign in Vietnamese and introduce them to MFWG's Board members and members. Source: Answer of MFWG to IFC team via email on February 28, 2014.

¹¹⁰ See <http://smartcampaign.org/tools-a-resources/717>

¹¹¹ MFWG has six members who are potentially interested in implementing the standards: Thanh Hoa Fund for poor women, An Phu Development Fund, The Center of Small Enterprises Development Assistance, M7 MFI, Pro-Poor Center Can Loc- Ha Tinh, and Women Development Fund – Quang Binh. Source: Answer of MFWG to IFC team via email on February 28, 2014.

Fund for Community Development) have conducted social audits so far in order to become certified. TYM and FPW MFIs were financially and socially rated by Planet Finance in 2010 and 2011, respectively. TYM received a strong rating in social performance management.

This research has not come across any large-scale campaigns on consumer protection or financial capability, but this was not a focus of the research. The aims of the National Microfinance Strategy are quite broad – it says it will “propagate, increase the awareness of microfinance”, but it is not clear how this is being implemented.¹¹² The main agency in charge of promoting the microfinance strategy is the SBV in collaboration with provincial/municipal People’s Committee, which coordinates with mass organizations on microfinance. According to the microfinance strategy, Vietnam’s television and radio companies are also responsible for disseminating information regarding microfinance, but it is not clear with what kind of message, and socio-political organizations must inform every member about microfinance.

4.3 The role of international donors and investors in responsible finance

Many donors and investors globally support responsible finance. They increasingly integrate responsible finance considerations into their selection systems for the institutions they support and also provide funding to support country diagnostics as well as the three pillars of responsible finance, either nationally or globally (consumer protection regulations and supervision, industry standards, and financial



The SmartCampaign client protection principles: Key Principles for Investors in Inclusive Finance:

1. Expanding the range of financial services available to low-income people;
2. Integrating client protection into all their policies and practices;
3. Treating their investees fairly, with clear and balanced contracts, and dispute resolution procedures;
4. Integrating ESG factors into their policies and reporting;
5. Promoting transparency in all their operations;
6. Pursuing balanced long-term returns that reflect the interests of clients, retail providers and end investors; and
7. Working together to develop common investor standards on inclusive finance

¹¹² Decision No. 2195/2011/QĐ-TTg dated December 6, 2011 of the Prime Minister on Approving the Proposal of Designing and Development of Microfinance System in Vietnam up to 2020

capability). International organizations have encouraged the growth of responsible finance through the adoption of the Principles for Investors in Inclusive Finance (PIIF).¹¹³

Several donors play a role in responsible finance. For example, the World Bank has conducted consumer protection diagnostics for financial inclusion in several countries¹¹⁴. In Vietnam, several international funders support responsible finance. The Asian Development Bank, for example, through the ongoing Microfinance Development Program, supports overall reform of Vietnam's microfinance sector by transforming the state-led and unregulated financing models into formal banking services under the SBV prudential norms in line with the National Microfinance Development Strategy 2011-2020 and the CIL 2010, which include provisions to strengthen consumer protection. The World Bank is also considering a program

in the area of financial capability, including an upcoming study on financial capability and consumer protection. The AFD is funding technical assistance to the SBV to improve prudential regulations for microfinance; the program will also explore how to improve consumer protection regulations in branchless banking. The AFD is also working with Coop Bank to ensure that codes of conduct and procedures implemented by the PCFs are fully aligned with responsible finance principles. IFC supports the implementation of credit bureaus, and is also implementing a project that focuses on making microfinance more responsible. IFC, with support from SECO, has ongoing initiatives aimed at building capacity and awareness on disclosure and transparency, as well as broader implementation of responsible finance practices through Vietnam's microfinance association and selected institutions.

¹¹³ United Nations Principles for Responsible Finance Website, consulted on March 6, 2014, <http://www.unpri.org/areas-of-work/piif/>

¹¹⁴ See <http://responsiblefinance.worldbank.org/>



5. Analysis of providers' practices

Are financial providers acting in compliance with laws and regulations and the codes of conduct available nationally or internationally? This section looks at providers' practices in Vietnam to determine how responsible they are. This section gets closer to implementation and is organized around the SMART campaign's seven client protection principles:

1. Appropriate product design
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanism for complaint resolution

While this diagnostic does not provide in-depth information on the industry practices for any of these principles, it provides information on each dimension based on desk reviews, interviews with key providers, policy makers, clients, and other providers (see list of interviewees in annex). The four focus group discussions with low-income clients organized as part of this assessment in Hai Duong and Long An provinces also provided interesting insights.

5.1. Appropriate product design

As in many developing financial sectors, the diversity of financial services available for low-income clients is limited in Vietnam.

For example, micro-insurance is just at the early stage, and deposit services for the poor are basic and sometimes consist only of compulsory savings. Low-income clients in Vietnam often use informal borrowing sources and save their money at home, as shown by Findex (see Section 2) and interviews with clients. The focus group discussions indicated very low usage of formal financial services other than credit. Several clients claimed that they use informal groups on a regular basis in the absence of appropriate offerings from formal providers and that informal sources are more expensive and less reliable for savings.



Main FCP issues raised by providers interviewed by order of importance:

1. Lack of transparency in some loan contracts (especially for consumer credit and insurance)
2. Clients make decisions without reading contracts
3. Lack of transparency on interest rates (savings and credit) for banks and MFIs
4. Complaints about ineligibility criteria for subsidized credit (e.g., VBSP)
5. Anecdotal evidence of agents taking commissions

Key findings from Focus Group Discussions:

- Most clients interviewed only used credit from formal institutions and rarely use savings or insurance services.
- Several clients used informal providers of all kinds for non-credit products.

Loan sizes offered differ among the key providers and they do not have the same target clients. VBSP and MFIs serve lower-income segments, with MFIs having the lowest average loan size. PCFs and VBARD serve the less poor segments. Decrees 28 and 165 cap maximum loan outstanding per micro-borrower at VND 30,000,000 (about \$1,428) and could prevent local MFIs from addressing the growing demand for financial services from their clients.

The market leader, VBSP, has 18 different and highly subsidized “loan products” for the poor and other beneficiaries in difficult areas (see appendix). This offering is broad as VBSP serves as a conduit to implement policies from different ministries involved in the governance of VBSP itself. 17 out of 18 products are targeted at the poor. Each product is governed by a respective decision issued by the prime minister that highlights key beneficiaries, interest rate level, maximum lending amount, and other conditions.¹¹⁶ All loans include joint-liability group lending, monthly interest payments, and six-month, yearly, or balloon payments of principal. The two largest mass organizations (the Vietnam Women’s Union and the Farmers’ Association) act as agents for VBSP and carry out six out of nine steps of VBSP’s credit procedures.¹¹⁷ Clients interviewed appreciate the low interest rates but complain about eligibility criteria. Some clients also appreciate the balloon repayment option.

MFIs’ product range is limited and not always flexible, but appreciated nevertheless. Extensive research by the ADB on almost 1,000 clients from VBSP, PCFs and MFIs (licensed and non-licensed) found high levels of satisfaction from clients (above 90 percent), even higher for MFIs alone, and low NPLs.¹¹⁸ MFIs’ products have common features: small loan sizes, joint-liability group lending method, compulsory savings, and declining balance payment method. Loans range from 3 to 24 months. They often have

weekly loan repayments. The average loan size was 3 million VND in 2010 (ADB 2010b). MFIs are just starting to pilot other products such as microinsurance. All offer compulsory savings, but only two licensed MFIs offer deposit mobilization from the public, including voluntary savings.¹¹⁹ CEP and TYM, two large MFIs, also offer housing and water and sanitation loans. Aside from regular and emergency credit and savings products, most MFIs provide livelihood training and training on health care and family care to their clients. Some clients in the focus groups complained about the high interest charged on loans by MFIs compared with other formal providers but appreciate the fact that collateral is not required. Other research shows that some clients also find the weekly repayment cumbersome and inflexible, while others do not like the fact that “compulsory savings” cannot be withdrawn¹²⁰. This may also show that MFIs have done limited research on their clients’ needs and need to take a more “client-centric” approach when developing their services.

PCFs’ financial products mainly consist of loans with collateral and voluntary savings, and some PCFs offer money transfer services. They do not offer joint-liability group lending and the principal repayment can be balloon or by installments, depending on the loan agreement. PCFs tend to serve a broad range of clients but are less popular with the poor because of their collateral requirements, according to the focus group discussions.

¹¹⁵ Only the program of “lending to businessmen in disadvantageous areas” is not for low-income people. Source: ADB Microfinance PPTA7499, April 2011.

¹¹⁶ For example, lending to disadvantaged students in compliance with Decision No.157/2007/QĐ-TTg dated September 27, 2007 promulgated by the Prime Minister; Lending to businessmen in disadvantageous areas in compliance with Decision No 92/2009/QĐ-TTg dated July 8, 2009 of the Prime Minister on credit to traders doing business in extremely disadvantaged areas.

¹¹⁷ Mass organizations are responsible for the following steps: disseminating information; selecting beneficiaries; guiding credit procedures; supervising disbursement; checking the use of the loan; and collect the interest. The three main steps are carried out by VBSP district staff: contract signing; loan disbursement; and principal payment collection. Source: VBSP answer to ADB Microfinance PPTA7499, April 2011.

¹¹⁸ Source: Nguyen Kim Anh and Le Thanh Tam (eds). 2013.

¹¹⁹ All licensed credit institutions can legally accept deposits in VND in the following forms: (i) compulsory savings, (ii) deposits from organizations and individuals, including voluntary deposits of microfinance customers, except for deposits for payment purposes. Source: Article No. 119. National Assembly of Vietnam. 2010. Law on the Credit Institutions No. 47/2010/QH12 of the National Assembly dated June 16, 2010.

¹²⁰ Asia Pacific Institute of Management, National Economics University. 2013. Microfinance Strategy for Vietnam Women’s Union.

5.2. Prevention of Over-indebtedness

Several formal and informal mechanisms are in place to prevent over-indebtedness.

One of the main findings of this report is the very significant role played by mass organizations in responsible finance. The existence of socio-political mass organizations in Vietnam creates a very interesting safeguard for low-income female customers and their families. For example, the Women's Union can be a good source of information on potential borrowers, given their role as agent for VBSP and as a direct provider and their strong knowledge of their members. The Women's Union and commune leaders are usually well-informed about the different financial services available on the market. Together, they act as an informal credit bureau because several MFIs systematically check with them about the existing debt of potential borrowers. While the CIC has traditionally monitored large loans, it is about to pilot credit information exchange for the two licensed MFIs and PCFs, according to SBV Circular No. 03/2013/TT-NHNN.¹²¹ CIC is developing a software program to manage this information and piloting will start at the end of 2014. VBSP has also decided to consolidate all household loans into one book to better track multiple loans to a single family.¹²² TYM has made efforts to prevent client's over-indebtedness by taking into account existing debts in the repayment capacity calculation, offering compulsory loan insurance products and conducting informal cross-checks through interviews within the community.¹²³

Key findings from focus group discussions on over-indebtedness:

- Most clients only had one loan.
- Commune leaders have a good understanding of the potential risks of over-indebtedness and can help in prevention.
- Most clients interviewed were aware of their limits and did not want to have excessive debt.

While more grass-roots research is required, the research did not find evidence of significant over-indebtedness among low-income clients. The non-performing loan ratios of all MFIs (TYM, CEP), CCF (now Coop. Bank)/PCFs and VBSP are low and there are limited signs of aggressive selling. VBARD applies strict credit procedures before lending, for example by keeping the land-right certificates of clients to avoid the certificates being used to borrow from another source.¹²⁴ At VBSP,¹²⁵ over-indebtedness is carefully monitored. VBSP management reported a bad debt ratio of less than one percent in 2013. The situation is similar for PCFs, with the VAPCF also reporting a NPL ratio less than one percent.¹²⁶ However, some MFIs claim that VBSP reschedules some of its loans, which may hide over-indebtedness. Some also claim that over-indebtedness among low-income borrowers is higher than officially reported. There are anecdotal cases of repeated, larger and larger loans from state banks that were used to pay back previous loans. The lack of information exchange between MFIs and VBSP also may create higher risks of over-indebtedness. However, based on all the interviews, desk research, and focus group discussions, the authors did not find any alarming signs of widespread over-indebtedness.

¹²¹ SBV. 2013. Circular No. 03/2013/TT-NHNN dated January 28, 2013 on Credit Information Activity of the State Bank of Vietnam..

¹²² Interview with VBSP, November 2013, Hanoi

¹²³ PlaNet Rating

¹²⁴ VBARD interview, November 2013, Hanoi

¹²⁵ VBSP interview, November 2013, Hanoi

¹²⁶ While NPLs can hide bad surprises if a large loan is non-performing, there is no available information on PAR, and we assume that there are no disproportionate loan sizes in the portfolio of these institutions.

5.3 Transparency

Interest rates are transparent in theory but not always in practice. For example, VBSP's loan size and interest rate are fixed and announced by Prime Ministerial decisions. VBSP's interest rates are highly subsidized and controlled by the government and it must publicly disclose its rates on its website, in its outlets, and on its leaflets.¹²³ PCFs display their prices and conditions on their walls and over local radio. They also distribute leaflets for village heads to share with potential clients.¹²⁸ The VBARD publishes a leaflet with information on deposit interest rates and uses radio and mass media to convey this information to customers. It also works with commune and district-level authorities to widely disseminate saving rates.¹²⁹ MFIs display their mandatory savings as part of their loan contracts. With regard to fees, the authors did not come across significant deviation from the CIL.

Transparency is not always implemented in practice, however. For example, several commercial banks provide higher rates on savings than the regulation permits,¹³⁰ which is actually positive for clients. Some MFIs and commercial banks use flat rates, which is not in line with our understanding of the SBV's regulations. Both VINASTAS and client interviews confirm that contracts are sometimes difficult to understand for low-income clients, especially regarding rights and responsibilities. There also seems to be a behavioral issue that is also seen in many other countries where clients don't take the time to read the contract. Interviews with clients seem to indicate that their main formal providers of financial services give them with a contract when they take a loan,

but few people seem to read these contracts carefully. Other clients don't seem to care much about the conditions beyond the basic ones (interest rates, loan size, and loan terms), and it is difficult to know whether this is due to a lack of knowledge, lack of time, or just typical consumer behavior.¹³¹ While finance companies in Vietnam do not always have transparent contracts, the research did not have time to verify how relevant these finance companies are for low-income clients; this would require additional research.

According to interviews with different stakeholders, the least transparent products are consumer loans from finance companies and insurance products, including life insurance, which is sometimes bundled with credit. However, lower income segments are usually not frequent buyers of these products. Rather, lower income clients in the focus group discussions complained about requirements from banks and PCF regarding collateral, and the rigid products and repayment methods of MFI loans.

5.4 Responsible pricing

There is a great deal of variety in terms of pricing among different players for credit products. Informal money lenders charge 10-15 percent per month. VBSP interest rates are usually the lowest since they are subsidized by the government. Commercial banks usually charge on a declining balance basis, but also sometimes at a flat rate (e.g., for consumer lending), and PCFs and VBSP charge on a declining basis. Many MFIs use the flat-pricing method. The research did not find evidence of fees applied to loans but some interviewees,

¹³⁰ SBV has issued several circulars on ceiling deposit interest rates from 2011, as one measure for inflation control. The current one is Circular No 15/2013/TT-NHNN (Source: State Bank of Vietnam. 2013. Circular No. 15/2013/TT-NHNN dated June 27, 2013 Providing for Maximum Interest rates of VND Deposit of Organizations and Individuals at Credit Institutions and Branches of Foreign Banks). According to this Circular, article 1: The maximum interest rate of demand deposit and deposit with term of less than one month is 1.2% per annum; The maximum interest rate of deposit with term of between one month and less than six months is 7.0% per year; people's credit funds and micro-finance organizations may fix the maximum interest rate applicable to deposits with term of between one month and less than six months to be of 7.5 % per annum; Credit institutions and foreign banks' branches shall fix the interest rates of the deposit with terms of six months or more on the basis of market capital demand and supply.

The first circular on the ceiling deposit interest rates is Circular No. 30/2011/TT-NHNN (Source: State Bank of Vietnam. 2011. Circular No. 30/2011/TT-NHNN dated September 28, 2011 of the SBV governor, on the maximum rates of interest on deposits in VND of organizations and individuals at credit institutions and branches of foreign banks).

¹³¹ Focus Groups Discussions, February 2014, and interviews with key stakeholders, December 2013, Hanoi

including clients, mentioned commissions taken by some VBARD credit officers. While the SBV prescribes the declining balance method, it is aware that some clients may prefer the flat method, which is easier to understand. Many clients complain about MFIs interest rates being high because they see highly subsidized rates from VBSP. When comparing within the region however, the graph below shows that the interest rates of MFIs are lower than the average in the region.¹³² In the opinion of the authors, the pricing in Vietnam for microfinance seems in line with global practices, but the subsidized interest rate from VBSP creates an uneven playing field for competition.

As described in Section 3.2.2., the SBV imposed an interest rate cap in 2013. This was quite controversial for MFIs, which deliver services to the clients' doorstep, making their services more expensive. After significant dialogue with the industry, the SBV revised its position for MFIs.

Key Findings from Focus Group Discussions on Responsible Pricing

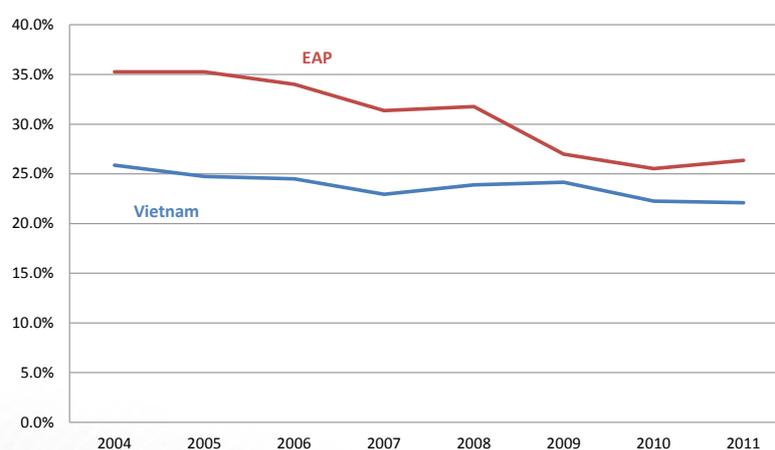
- Some clients complained about interest rates being too high from some MFIs and PCFs.
- Others complained that they could not access VBSP subsidized loans due to criteria selection.

5.5 Fair and respectful treatment of clients

All of Vietnam's key credit institutions have codes of conduct and clients seem to be well-respected and well-treated overall. Commercial banks, the VBARD, VBSP, CCF/PCFs, and MFIs all have codes of conduct, in which fair and respectful treatment of clients is included.¹³⁴ Overall, the research did not find significant instances of unfair treatment and the focus groups confirmed appropriate behaviors from the providers (with the exception of undue commissions by VBARD in some anecdotal

Table 3: Evolution of microcredit Interest rates in Vietnam and East Asia and the Pacific

Interest rates in Vietnam and East Asia and the Pacific 2004-2011



NB: Interest yield is used as a proxy for microcredit interest rate: $Yield = Operations\ expenses + Financial\ expenses + Loan\ Loss\ Provision + Profit$ as a percentage of average gross loan portfolio – Original database from Mix for a CGAP publication.

¹³² Duflos, Eric .2013. "Microfinance Interest Rates: Global Trends and Good Practices", Presentation in Hanoi.

¹³³ Duflos, Eric, and Tam Le Thanh .2013. "Microcredit Interest Rates", in Microfinance Working Group's Bulletin No. 19, Nov 2013, pp 20-23; <http://www.microfinance.vn/wp-content/uploads/2014/01/Final-TA-Microfinance-Regulations-in-Vietnam.pdf>



Key findings from focus group discussions on fair treatment

- Almost all clients were satisfied with their experience with credit institutions.
- There were only exceptional anecdotes of inappropriate commissions.

cases).¹³⁵ VINASTAS also reported cases of overselling from insurance companies' agents and some insurance agents who have absconded with people's money. But overall, VINASTAS finds that problems of unfair treatment in the financial sector are less frequent than in other sectors such as food and manufacturing.

5.6 Privacy of client data

The research did not identify significant issues with data privacy for low-income clients. As highlighted in Section 3, several regulations protect data privacy and credit institutions seem to respect client data privacy. However, the VBSP displays the names and loan size of its clients at the transaction point, which is usually the Commune People's Committees' offices, including the names of people who do not repay their loans. There is anecdotal evidence that some clients are dissatisfied with this practice.¹³⁶

5.7 Mechanism for complaint resolution

Mechanisms for consumers to make complaints are in place, but it is unlikely that low-income segments take advantage of them. Customers can complain directly to financial institutions since most of them (banks, PCFs, MFIs) have hotlines and/or customer centers.¹³⁷ Many providers also have websites or email addresses for submitting complaints. In addition, customers can complain to regulators (the SBV, VCA in MOIT), associations (the VNBA, VAPCFs, MFWG), or the general customer protection association (VINASTAS). Providers typically have their call centers deal with simple requests; for more complicated questions, the call center will send complaints to the internal control department or the specialized department involved, such as the credit department.¹³⁸

However, though avenues exist, it does not seem that low-income clients complain directly

¹³⁵ Focus group discussions, February 2014

¹³⁶ Focus group discussions, February 2014

¹³⁷ All of them appear on their websites. For example, VBARD: 04.38379015; 04.38379016; 0983.108.740; VBSP: 00-84-4-36417184.

¹³⁸ Interviews notes with VBARD, VBSP.

¹³⁹ Interviews with VINASTAS and focus group discussions.

to financial providers in practice. Since a large majority of low-income segments with financial access use intermediaries, especially the Women's Union or sometimes the village leader, they prefer to address their concerns to their trusted intermediary. In addition, some clients fear that hotlines may be costly to call.

The research found few complaints overall, and most of them are related to interest rates and selection criteria for subsidized loans,¹³⁹ while some clients also complain about collateral requirements. Usually, complaints are resolved through negotiation, but focus group discussions also show that clients simply move on to another provider when they are not satisfied. There was no case of low-income clients going to court, and it is likely that going through the civil court would take a long time. The SBV's complaints department highlighted that several complaints they received from clients resulted from a limited understanding of contract conditions.

Key findings from focus group discussions on complaints and recourse:

- There is a very limited number of complaints.
- Clients share their complaint with group leaders or with the Women's Union when dissatisfied.
- For VBARD and Coop Bank/PCFs: if dissatisfied, clients will talk to the credit officer.
- Some interviewees realized that there are hot lines of banks/credit institutions, but none of them have tried to use them because they prefer talking to a real person, don't want to pay for a call and/or don't know if it works anyway.

¹³⁹ Interviews with VINASTAS and focus group discussions.



6. Conclusions and Proposed Next Steps

Responsible Finance is still at a very early stage in Vietnam. Low-income clients continue to rely extensively on mass organizations, making Vietnam different from many other countries. Different actors have started to build the basis for responsible finance and some regulation on consumer protection has been issued. However, clarity could be improved regarding which law and which supervisor has primary responsibility for developing and enforcing a comprehensive FCP framework.

While reviewing the following conclusions, it is important to keep in mind the content of the 2020 microfinance strategy (see box).

The authors have not heard of any major consumer protection issues currently affecting low-income clients on a large scale. The following recommendations aim to build upon existing efforts and to help prevent future problems from arising. They are divided into two sections: one for regulators and supervisors, and one for providers.

6.1 For regulators and supervisors:

6.1.1 Better assess the gaps and risks in Financial Consumer Protection

The SBV could conduct additional research on clients' behavior and key areas of risk with regard to low-income clients and financial services, possibly in collaboration with international and local organizations such as VINASTAS and the Women's Union. For example, are there significant risks of over-indebtedness among certain client segments? Getting specific information about specific client segments and compiling province-by-province information would be important for risk detection, as risks often differ depending on geography and population segment.

Finscope studies, financial diaries, and new tools developed by CGAP could help the SBV better

The microfinance strategy for 2015 includes several tasks for the SBV such as: "formulating guidelines for the CIL related to microfinance activities; ...;and assisting MFIs in training staff, and developing a common credit bureau." Phase two, (2016-2020), will involve: "researching and making recommendations on revising the legal framework for MFIs; and facilitating the link between MFIs and other credit institutions."

understand market risks and provide a key input for developing the regulatory and supervisory framework. It will be important to look at specific risks that are emerging with digital finance.

The World Bank ongoing assessment of the regulatory framework for financial consumer protection will help identify regulatory and supervisory gaps. This report provides the beginning of such an assessment, but further analysis will determine, for example, where different products or providers are not fully covered by the existing regulatory framework, where financial consumer protection mandates are clear or overlap, and where legal principles on financial consumer protection need to be clarified through more detailed rules and guidelines. This does not necessarily mean new laws or regulations are needed. Rather, efforts should be made to ensure that existing regulations are comprehensive and work together in harmony. This may require targeted amendments to and revisions of existing consumer protection regulation.

6.1.2 Improve the current supervisory framework

The SBV could consider establishing a focal unit in charge of consumer protection and financial capability that looks at all the dimensions of FCP (transparency and disclosure, fair treatment, and recourse mechanisms). This unit could involve a small committee within the BSA comprising people from different, existing BSA departments who are already involved in FCP, or it could be a newly created, specialized unit. The pros and cons of either approach would need to be discussed internally. This focal unit could include a representative from VCA. At a minimum, the focal unit should be tasked with coordinating the financial consumer protection efforts currently taking place across various government agencies and actors, including the MOIT, MOF, MOJ, and provincial-level authorities, among others.

To ensure that a broadened, more comprehensive regulatory framework for financial consumer protection is being fully implemented and complied with in practice, the SBV should enhance its financial consumer protection supervisory activities. To efficiently use limited supervisory resources, the SBV should focus its supervisory attention on key products or providers that pose a consumer protection concern and develop a risk-based approach toward financial consumer protection examinations. Offsite supervision tools and marketing monitoring should also be used to follow the market from a higher level. For example, the SBV could require all credit institutions to report on their interest rates and the key terms and conditions of their products on a regular basis and monitor this information for potential problems.

There is a lot that the SBV can learn from the experience of other countries. Many countries have put in place effective mechanisms to regulate and supervise consumer protection for financial services. Bank Negara Malaysia has developed a comprehensive framework for

Country Example: Malaysia

- Multiple avenues of recourse provided to consumers
- All FIs must have dedicated complaints units
- Central Bank also provides centralized point of contact (telephone, website) for information, inquiries or redress
- Independent body (Financial Mediation Bureau) helps settle disputes free of charge

consumer protection and financial capability. Countries including Australia, the United Kingdom, the US, Peru and South Africa also have significant experience in this area. The SBV could consider an exchange program with Bank Negara Malaysia on this subject. The central bank of the Philippines has also recently launched its own framework for consumer protection. As for industry associations, as mentioned earlier, the Pakistan Microfinance Network and the Cambodia Microfinance Association are both interesting organizations to learn from.

6.1.3 Develop a comprehensive road map to improve financial consumer protection

On the basis of a more detailed assessment of the regulatory framework, deeper research into clients' behaviors, and the upcoming work from the World Bank, the SBV in collaboration with other policymakers could develop a comprehensive road map that charts out an expansion plan for the three dimensions of consumer protection (transparency, fair treatment, and complaints mechanisms). It could build on the recommendations from this report as well as from the upcoming World Bank review. Consumer protection of financial services is a relatively new area for Vietnam so it is advised that the SBV take a step-by-step

approach, determining and tackling high-priority issues first and strategically leveraging resources for maximum impact. There are several dimensions that the road map could consider:

- **Improve financial capability.** Financial capability is not just about education, but also about behavior. Given their great outreach and influence, mass organizations such as the Women's Union could play an essential role in improving financial capability. According to the World Bank diagnostic, there are several ways to strengthen Vietnam's financial capability in the future¹⁴⁰: this will require a sustained commitment from the public and private sectors as well as civil society, academia, and media. Financial sector regulators are well-placed to coordinate policies in financial capability and can bring on board financial providers, educators, and researchers to work together and scale-up solutions at a national level. Banks and other financial institutions have both in-depth knowledge of clients, financial, and technical resources (in marketing and communications), and a desire to develop a robust market. While they can't be expected to provide information that goes against their financial interests (such as encouraging consumers to comparison shop), they can be very effective and important partners and, as indicated above, they are already engaged on this topic in Vietnam.
- **Strengthen depositors' protection.** It is crucial that all large institutions that intermediate savings are prudentially regulated. There are clear guidelines available globally on how to regulate and supervise microfinance.¹⁴¹ The government may consider having VBSP prudentially regulated as early as possible, given that it mobilizes deposits from clients and intermediates. While the risk of bankruptcy is probably low, if clients have difficulties getting their savings back, it could have a significant long-term negative impact on social stability

and the trust of Vietnamese people in the banking sector. Overall, it will be important to rapidly ensure that all large institutions raising savings from low-income clients report on prudential ratios such as capital adequacy and liquidity that are particularly important for microfinance providers. It will also be important to ensure that all licensed deposit taking institutions become members of the deposit insurance scheme.

- **Prevent over-indebtedness from becoming a problem.** Some countries impose a maximum level of over-indebtedness above which credit institutions cannot lend. Credit bureaus can help spot multiple lending/multiple borrowing and avoid potential over-indebtedness among clients. Once all institutions are reporting to the credit bureau regularly and accurately, in the next phase, it is important to ensure the data being reported is as accurate and timely as possible to avail of the full benefits of credit bureau data. Finally, once implementation and reporting is streamlined to the CIC, a financial awareness campaign is needed to inform clients of the benefits of reporting accurate and timely data to financial institutions and building a positive credit history over time. Through better financial capability, clients might be better equipped to avoid over-indebtedness. Mass organizations could also play an important role in disseminating key information to their members as part of this campaign.
- **Promote responsible and sustainable pricing.** In the longer term, vast differences in interest rates create an uneven playing field in the microfinance market for clients. The SBV and the prime minister have a role to play in clearly defining how they see financial inclusion as part of Vietnam's growth over the next few decades. If they want to support commercial microfinance players, they need to provide an adequate enabling environment and clear responsible pricing guidelines that are followed

by financial institutions, to encourage sustainable growth. This means having more transparency but also more competition and fewer interest rates subsidies.

- Undertake complementary activities on FCP regulation and supervision, assuming that they fit within the broader strategic roadmap and help to address priority concerns. Such activities could include enhanced complaints handling, a more active role in disseminating information on consumer rights as well as on product and pricing information, and financial education and literacy programs. For example, this report notes that complaints are currently being handled by a variety of different government agencies and socio-political organizations. This information could be collected in one centralized location and mined for information on consumer protection concerns in the market.

6.1.4 Consider improving disclosure and transparency as a first step¹⁴²

In order of priority, it would be good to ensure better transparency of all financial services including consumer credit and insurance. For example, the SBV should require that all CIs improve transparency of contracts and interest rates and provide clear guidance on how to present interest rates, fees, and key terms and conditions (such as default interest rates and prepayment penalties). Ideally, metrics that convey the total price of a loan product (e.g., APR, total cost of credit, and repayment schedule) should be required to be disclosed. All information should be disclosed in a standardized format and in plain language with a simple visual presentation in order to be easily comprehensible to low-

income consumers. The SBV could consider developing a standard summary sheet or ‘key facts’ statement to achieve this goal, a method that is increasingly being used in other countries to improve transparency. International best practices for developing a ‘key facts’ statement should be drawn upon. The timing of disclosure of information to potential consumers is also important, and requirements should be added for the disclosure of standardized and comparable information earlier in the shopping process, when consumers are more likely to actually review such information and compare across providers.¹⁴³

6.2 For the providers of financial services

6.2.1 Increase transparency of contracts

In collaboration with the SBV and possibly the VCA, all credit institutions should ensure that their contracts are clear and understandable for clients. They may also request that their officers or agents verbally explain contract conditions to clients – including their rights and responsibilities. While the SBV has issued regulations on the types of allowable fees and charges and the “declining balance method” as the appropriate method of interest rate calculation, practices in the field vary greatly, with several institutions using declining or flat interest rate methods, no clear communication of the total interest clients need to pay, and cases of staff fraud where commissions are taken by loan officers to approve loans for clients. An effective transparency campaign is required both for financial institutions and end clients that simplifies the regulations and methodology of calculating and disclosing interest rates and all fees and related charges.

¹⁴² See Brix, Laura, McKee, Kate, 2010, “Consumer Protection Regulation in low Access Environments: opportunities to Promote Responsible Finance,” CGAP, Washington D.C.

¹⁴³ For more details on disclosure, see Chien, Jennifer, 2012, “Designing Disclosure Regimes for Responsible Financial Inclusion,” CGAP, Washington D.C.

6.2.2 Endorse the SmartCampaign and increase transparency by reporting to the MIX Market

Endorsing the SmartCampaign and adopting its client protection principles would be an important step by all the providers towards adopting responsible finance. International donors can assist different institutions in this area. As the industry evolves, local associations and donors may help providers to conduct self-assessments to help build institutional capacity and achieve Smart certification.¹⁴⁴

Many MFIs and VBSP already report their financial information to the MIX Market, which is a great way to increase transparency. The MFWG and other actors such as the Mix can train them in how to report on social performance standards.

As the MFI industry evolves, local associations together with DFIs may provide support for MFI self assessments to help build institutional capacity and achieve Smart certification*.

6.2.3 Identify ways to prevent overindebtedness

There are several actions that credit providers can undertake to reduce the risk of overindebtedness, including the following:

- Have strict policies on re-scheduling debt
- Spend significant time in understanding clients' capacity to repay

- Develop incentive programs for credit officers that give as much importance to portfolio quality as to the volume of loans disbursed
- Report portfolios at risk rather than other methods to have a better idea of the situation of clients
- Increase transparency
- Report all loans to the CIC in a timely manner

Vietnam could also undertake a specific study on overindebtedness, as was done in several countries such as Cambodia and Ghana.¹⁴⁵

6.2.4. Strengthen the enabling infrastructure (Banking Association, PCFA, MFWG, VINASTAS, Credit bureaus, etc)

Providers should work closely with the associations and supporting organizations. Associations can inform and train their members in responsible finance. They can also conduct research on clients' needs and different risks such as overindebtedness. For example in Cambodia, Pakistan, and India. microfinance associations play a crucial role in educating their members on responsible finance and helping them share information.¹⁴⁶ Donor coordination towards building networks/associations, institutional capacity. and financial awareness will be important. It is also very useful to support the development of credit bureaus and collateral registries to enable responsible lending practices.

¹⁴⁴ See Brix, Laura, McKee, Kate, 2010, "Consumer Protection Regulation in low Access Environments: opportunities to Promote Responsible Finance," CGAP, Washington D.C.

¹⁴⁵ Examples of country studies: " Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas" by Blue Orchard, Oikocredit, Incofin <http://www.blueorchard.com/wp-content/uploads/2013/05/OID-Final-Report.pdf> ; (ii) "Over-Indebtedness of Microborrowers in Ghana" by Jessica Schicks at http://centerforfinancialinclusionblog.files.wordpress.com/2011/11/111108_cfi_over-indebtedness-in-ghana_jessica-schicks_en_final.pdf

* <http://www.smartcampaign.org/certification>

See pp39-41, Progress in Financial Inclusion: http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/publications/progress+in+responsible+financial+inclusion+global+mapping+report+and+selected+case+studies http://www.ifc.org/wps/wcm/connect/8d8b510041d72d1b8e23ae13bbf0fc5c/Case+study_India+Responsible+Finance_+October2013.pdf?MOD=AJPERES

Annexes

Annex 1: Financial Inclusion Providers in Vietnam

This section first describes the demand for financial services and then the different providers that reach low-income clients and micro-enterprises.

1. Demand side

Population:

Vietnam's population has recently reached 90 million people. Vietnam currently enjoys a 'golden population structure', where for every two people or more working, there is only one dependent. However, Vietnam also has one of the fastest aging populations in the world,¹⁴⁷ which will create demand for different financial services in the future, such as savings and insurance products.

Political and economic reforms (*doimoi*) initiated in 1986 helped the country achieve lower middle-income status and increased Vietnam's per capita income to \$1,600 in 2012. As a result, the population living in absolute poverty – defined as less than \$1.25 a day – fell sharply to 14.2 percent in 2010¹⁴⁸ from 63.7 percent in 1993.¹⁴⁹ Vietnam has 53 ethnic groups, which account for 13 percent of the population but 30 percent of the poor.¹⁵⁰

With over 60 million Vietnamese living in rural areas,¹⁵¹ agriculture, and rice cultivation in particular, plays an import role for the

population and employs 52 percent of the workforce,¹⁵² creating significant demand for agri-related financial services.

Access to and usage of financial services:

Overall access and usage of formal financial services is very low in Vietnam when compared to other countries in the region, with only 21 percent of adults and only 6 percent of the poor having formal accounts according to the 2011 World Bank Global Financial Inclusion Database referred as Findex subsequently.¹⁵³ Only 8 percent of Vietnamese adults had saved money with a formal financial institution in 2011, 16 percent had a loan with a formal financial institution, and only 15 percent of Vietnamese adults have access to a debit card.¹⁵⁴ As a comparison, with 64 percent of its adults with a formal account, the Chinese are three times more “financially included” than the Vietnamese. Interestingly, over 30 percent of adults borrowed from friends or family in the last year in Vietnam. As in other countries, women have less access than men and poorer segments have less access as well. For example, among the poorest income quintile in Vietnam, only 6 percent had formal financial access. As shown in the diagram below, the percentage of Vietnamese adults with a formal account is low compared to the regional average, especially in rural areas.

¹⁴⁷ Viet Nam News, 2 November 2013

¹⁴⁸ A new poverty line by the General Statistical Office and World Bank equals to VND 653,000/person/month or \$2.25/person/day, PPP 2005. According to this new poverty line, the national poverty rate in 2010 is 20.7 percent vs. an official poverty rate of 14.2 percent in 2010 using official MOLISA urban and rural poverty lines of VND 500,000/person/month and VND 400,000/person/month, respectively. Source: <http://www.worldbank.org/en/news/feature/2013/01/24/poverty-reduction-in-vietnam-remarkable-progress-emerging-challenges>

¹⁴⁹ ADB, 2013, Vietnam: Financial Sector Assessment, Strategy and Road Map

¹⁵⁰ International Food Policy Research Institute: consulted 20 February 2014

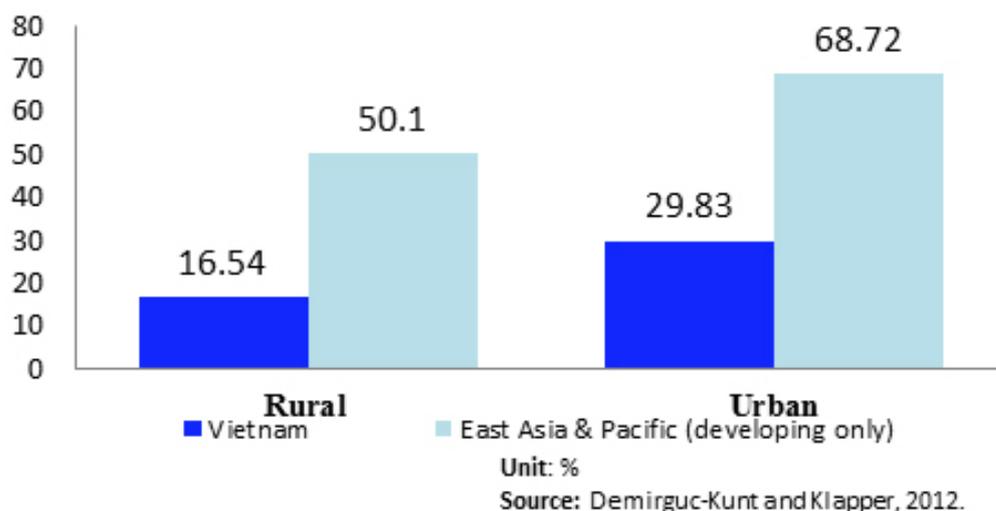
¹⁵¹ General Statistics of Vietnam website – figures are for 2012, retrieved 20 February 2014. http://www.gso.gov.vn/default_en.aspx?tabid=467&idmid=3&ItemID=14453

¹⁵² Food Security Portal – consulted 20 February 2014 - <http://www.foodsecurityportal.org/vietnam?print>

¹⁵³ Findex measures how adults in 148 countries save, borrow, make payments and manage risk through random interviews with a representative sample. While no methodology is perfect, Findex provides very interesting figures for financial inclusion. Published in 2012, it provides data on the 2011 calendar year.

¹⁵⁴ Demircuc-Kunt and Klapper, 2012, FINDEX Database, Washington D.C, World Bank. <http://datatopics.worldbank.org/financialinclusion/country/vietnam>

Figure 5: Adults with an account at a formal financial institution - urban/rural residence in 2011



As is often the case, uneducated population segments have almost no access to financial services. Financial access for those who have limited education is extremely low, according to Findex, with only 4.5 percent of those with primary education or lower having a formal bank account, which is ten times lower than the average percentage in the region. The uneducated population requires specific attention in terms of financial consumer protection, as they are more vulnerable to misinformation and unfair treatment.

2. Supply side:

i. The banking sector

Vietnam’s banking sector is supervised by the SBV. In addition, some key government organizations are involved in supervision, including the Prime Minister’s Office, the MOF for VBSP and state-owned credit institutions. Other ministries involved in general issues include the MOIT and the Ministry of Planning

Table 4: People with an account at a formal financial institution by education (in %) in 2011

Location	Education	
	Primary or lower	Secondary or higher
Vietnam	4.51	32.26
East Asia & Pacific (<i>developing only</i>)	49.71	64.96

Source: Demirguc-Kunt and Klapper, 2012

There is limited research or analysis available about financial services in Vietnam, but it seems that there is much room for improvement in almost all kinds of financial services (savings, credit, payments, and insurance) from available Findex data, especially when it comes to serving the rural poor.

and Investment (MPI). The main law for the banking sector is the Credit Institution Law (2010).

The formal sector is composed of a mix of state-owned and private banks, cooperatives, and a few licensed MFIs, consisting of the following:

- Commercial banks (two state-owned commercial banks totally owned by the government; three state-owned commercial banks that have been partly equitized; four joint-venture banks; five wholly foreign-owned banks; 35 joint-stock commercial banks, and 50 foreign bank branches)
- One development bank (Vietnam Development Bank, or VDB) and one social policy bank (VBSP);
- Central People's Credit Funds (CCF), which officially transformed into Vietnam Cooperative Bank in July 2013), and 1,130 People's Credit Funds (PCFs);
- 18 finance companies and 12 financial leasing companies; and
- Two licensed MFIs.¹⁵⁵

In 2012, the banking system's total assets were \$258.9 billion, of which commercial banks comprised 89 percent. VBSP represented \$5.9 billion or 2 percent of total assets, and the two licensed MFIs represented less than 0.1 percent of total assets.¹⁵⁶

The main market for traditional banks is corporate lending, not retail. In 2012, corporate lending accounted for 48 percent of total outstanding loans in the country, while retail lending represented only 28 percent. Nearly 25 percent of all lending went to the manufacturing and processing sector, and more than 60 percent of all loans had a tenor of less than one year.¹⁵⁷ In the past few years, the traditional banking sector has suffered from significant levels of NPLs. There are several causes for NPLs in Vietnam. High NPLs can be explained by

macro-economic factors, bank behavior but also ill-managed state owned enterprises, which have increasingly shown structural problems since 2008, when Vietnam started to experience an economic slowdown.¹⁵⁸

ii. Supply side: key providers of financial services for low-income clients and micro-enterprises

Table 5: NPL of commercial banks in Vietnam, 2006-2012 ¹⁵⁹

Year	NPL rate according to IMF and Can Van Luc (%)	NPL rate according to SBV official data (%)
2006	2.9	3
2009	2.55	2.2
2012	8.82	4.08

This section provides a brief summary of the landscape of financial providers that serve low-income clients and micro-enterprises. The 2010 ADB Vietnam Microfinance Sector Assessment provides a very comprehensive picture of the sector. It should be noted that obtaining updated data on formal institutions in Vietnam is challenging.

The main providers of microfinance services (small loans, savings, insurance, or payments) in Vietnam include:

- Formal credit institutions such as VBSP, Vietnam Bank for Agriculture and Rural Development (VBARD), Coop. Bank/PCFs, MFIs, and a few commercial banks that offer some microfinance products;

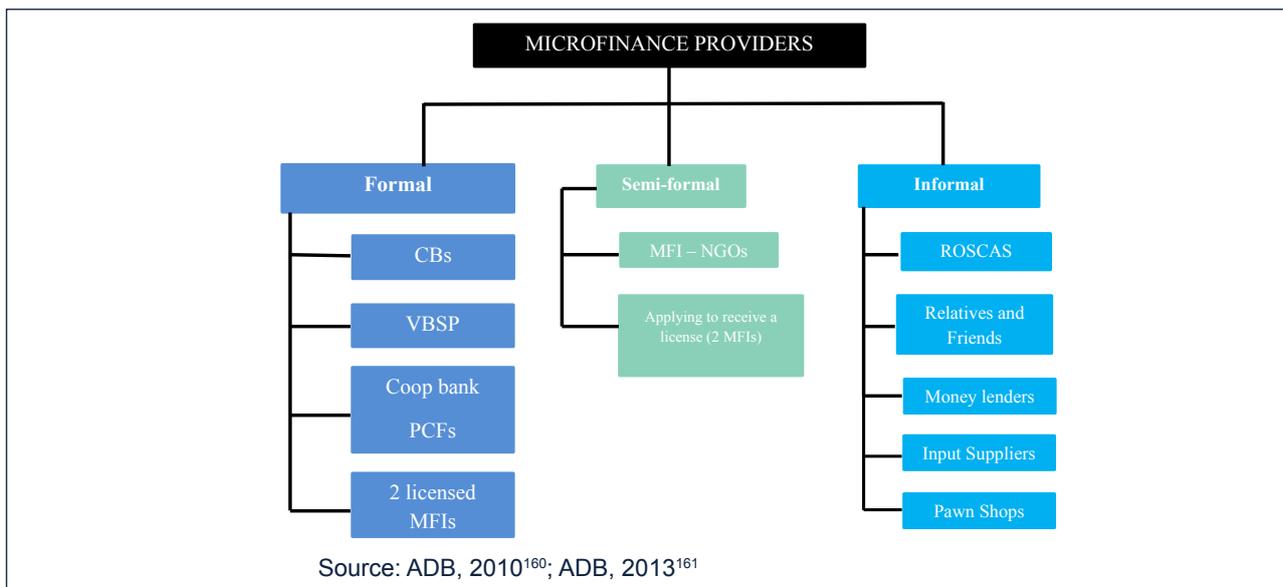
¹⁵⁵ Source: Official website of State Bank of Vietnam and report of VAPCF to IFC Mission in November 5-8, 2013

¹⁵⁶ ADB. 2014. Microfinance Development Program – Sub-program 2 (draft).

¹⁵⁷ KPMG, Vietnam Banking Survey 2013

¹⁵⁸ Nguyen Thi Thu Hang. 2013.

¹⁵⁹ Can Van Luc. 2012 and KPMG Vietnam Banking Survey 2013



- Semi-formal institutions – called non-licensed MicroFinance Programs (MFPs) in this report – including unlicensed NGO-MFIs, microfinance programs within development projects or mass organizations such as the Women’s Unions and Farmers’ Association as well as the Vietnam General Confederation of Labor (VGCL); and
- Informal institutions such as traders, ROSCAs, moneylenders, pawnshops, and friends and relatives.

Since the Credit Institution Law (CIL) was enacted in 2010, the SBV has supervised all formal providers of microfinance except VBSP. This puts most formal providers to low-income segments under the same supervisor as traditional commercial banks, though prudential requirements are different from commercial banks for those institutions that provide microfinance. Those NGO-MFIs that are not yet licensed as formal institutions are supposed

to transform into formal institutions within a “reasonable period” to avoid a two-tiered system with different standards.¹⁶² The prime minister is supposed to issue guidance regarding these NGO-MFIs, but this has not yet happened.¹⁶⁴

VBSP is regulated by Government Decree No. 78/2002/ND-CP dated October 4, 2002¹⁶⁵ special decree and governed by different ministries involved in its operations (see Section 3). VBSP’s 11-member board is chaired by the SBV governor and composed of six representatives from government ministries (MOLISA, MPI, MOF, SBV, MARD, and CEMA),¹⁶⁶ two representatives from mass organizations (Vietnam Farmers Association and Vietnam Women’s Union), and two representatives from VBSP management, including the General Director and the Chief of the Supervision Board.¹⁶⁷

VBSP is the largest provider of microcredit with 7 million clients. As of December 31,

¹⁶⁰ ADB. 2010(a). “Vietnam Microfinance Sector Assessment: Developing the Microfinance Sector Project ADB TA-7499-VIE”, Prepared by PPTA Consultants for ADB, July 2010.

¹⁶¹ ADB. 2013 (c) “Second Quarter Report of Policy and Advisory Technical Assistance – ADB PATA 8108-VIE”, ADB Microfinance Sector Development Program Support to Vietnam, May-June 2013

¹⁶² ADB. 2010(a)

¹⁶³ National Assembly of Vietnam. 2010. Law on the Credit Institutions No. 47/2010 /QH12 of the National Assembly dated June 16, 2010.

¹⁶⁴ Interview with MicroFinance Working Group, February 2014.

¹⁶⁵ Government Decree No. 78/2002/ND-CP dated October 4, 2002 of the Government on Credit for poor people and other policy beneficiaries.

¹⁶⁶ ADB 2010 - Ministry of Labour, Invalides and Social Affairs, Ministry of Planning and Investment, Ministry of Agricultural and Rural Development, Committee on Ethnic Minority Affairs.

¹⁶⁷ Interview with VBSP, November 2013, Hanoi.

Table 6: Vietnam Microfinance Landscape as of December 31, 2012 (Figures for 2013 are shown in italics)

Institution	Number of clients (million)	Outstanding Loans (\$ million)	Est. No of Depositors (million) ¹⁶⁹
<i>VBSP</i>	<i>7</i>	<i>5,350</i>	<i>6.9</i>
<i>VBARD</i>	<i>1.5</i>	<i>1,390</i>	<i>1.1</i>
<i>PCFs</i>	<i>1.1</i>	<i>1,294</i>	<i>1.3</i>
Licensed MFIs	0.096	4.17	0.10
Non-licensed MFIs & MFOs	0.384	103.83	0.41
Total	10.08	\$6,753	9.81

Source: ADB, 2013¹⁷⁰; VBSP, 2014¹⁷¹; VBARD, 2014¹⁷²; Vietnam Cooperative Bank, 2014¹⁷³, SBV, 2013¹⁷⁴

Note: figures for VBSP, VBARD and PCFs are for 2013. Source: ADB presentation by Eiichi Sasaki, Microfinance Development program, May 2014

2012, its market share of the microfinance sector was 60 percent in terms of total clients and 61 percent in terms of outstanding loans.¹⁶⁸ Its specific loan programs are regulated by Prime Minister Decisions. For example it has a loan program for disadvantaged students regulated by Decision No 157/2007/QD-TT dated September 27, 2007, and a loan program for employees losing their jobs in enterprises during the economic slowdown, which is regulated by Decision No 92/2009/QD-TTg dated July 8, 2009.

VBSP largely operates through mass organizations, especially the Women’s Union. It also takes deposits and has at least 6.9 million depositors.¹⁷⁵ It is active in about 99 percent of all the communes in Vietnam.¹⁷⁶ Although it is a bank, VBSP acts as a “social policy lender” and is highly subsidized by government to cover

both its operational and financial costs.¹⁷⁷ **VBARD is the biggest state-owned commercial bank working in the rural and agricultural areas of Vietnam.**¹⁷⁸ It is a major provider of microfinance in Vietnam (16 percent of all microfinance clients) and the second biggest microfinance provider in terms of outstanding loans (17 percent of all microfinance clients).¹⁷⁹

PCFs are present in 10 percent of the country’s communes and serve almost 2 million clients with savings and credit products. Created in 1993 under the auspices of the SBV, PCFs expanded quickly between 1995 and 1998, but 89 out of 977 of them closed down in 2002 due to sub-standard quality (ADB, 2008). The ADB estimates that half of PCFs’ clients are poor. PCFs are still undergoing reforms.

¹⁶⁸ ADB. 2013 (c)

¹⁶⁹ There is no official concept of microsavings in Vietnam. Authors use the benchmark of VND 50 million (approximately \$2,500), which is the maximum level of deposit insurance payment.

¹⁷⁰ ADB (2013),(c)

¹⁷¹ ADB’s TA 180-VIE – 2014 “Policy and Advisory Technical Assistance to ADB’s Microfinance Development Program.”

¹⁷² ADB’s TA 180-VIE – 2014 “Policy and Advisory Technical Assistance to ADB’s Microfinance Development Program.”

¹⁷³ ADB’s TA 180-VIE – 2014 “Policy and Advisory Technical Assistance to ADB’s Microfinance Development Program.”

¹⁷⁴ State Bank of Vietnam. 2013. SBV report No. 82/BC-NHNN dated July 5, 2013 “Summary report: Review on the Implementation of Directive No. 57 of the Politburo’s on the Development and Development of People’s Credit Fund System”.

¹⁷⁵ ADB’s TA 180-VIE - “Policy and Advisory Technical Assistance to ADB’s Microfinance Development Program”. However, according to the MIX Market website, the number of VBSP’s depositors was 4.3 million in 2012.

¹⁷⁶ ADB. 2010(a)

¹⁷⁷ ADB. 2010(a).

¹⁷⁸ Official website of State Bank of Vietnam on State-owned Commercial Banks

¹⁷⁹ VBARD used to be the largest institution in terms of deposits, with over 5 million micro-depositors in 2010 (Source: ADB. 2010(a))

The CCF transformed itself into the Vietnam Cooperative Bank in July 2013. It is a cooperative institution 99.4 percent owned by the SBV¹⁸⁰, and was established by the SBV and PCFs as an apex institution to support, improve, and strengthen the operations of PCFs. The Vietnam Cooperative Bank has significant outreach but fewer low-income clients compared to other providers mentioned above.¹⁸¹ It provides market-priced loans to PCFs and non-PCF clients (including individuals and enterprises) and is funded by local and international sources.¹⁸²

MFIs and MFI-NGOs have evolved but still remain small players in the market. Two licensed MFIs (TYM and M7-MFI) and 48 semi-formal MFI-NGOs account for less than 2 percent of market share in terms of outstanding loans of all the providers listed in this section. More details are available on the main characteristics of MFIs and VBSP at MixMarket.

Among the aforementioned institutions, VBSP is the one that targets the poorest segments of the population. Most of its credit programs (16 out of 18)¹⁸³ were designed for the poor and near-poor. Although the average loan size of licensed MFIs and MFPs is lower than that of VBSP, this is mainly because MFIs and

Table 7: Average loan size per institution type in 2008-2009

Credit Institution	Average Loan Size (\$)
VBSP	521
VBARD	1,094
PCFs	769
MFIs	125-200 (range)

MFPs have limited funding sources for lending and often offer loans with short-term maturity for income-generating activities.¹⁸⁴ As can be seen in the table below, PCFs and the VBARD serve higher income segments than MFIs and VBSP.

Mass organizations play a major role in financial inclusion in Vietnam and are a very specific feature of Vietnam's political and socio-economic landscape. Mass organizations in financial services include the Women's Union and the Vietnam Farmer's Union. As described in subsequent sections, a major finding of this research is that mass organizations, especially the Women's Union, play significant roles in informing clients on financial services and helping them resolve problems.

The three roles of the Women's Union in financial inclusion in Vietnam are:¹⁸⁸

Table 8: Members of key mass organizations

Name	Year of establishment	Approximate number of members in millions (persons) ¹⁸⁵
Vietnam Women's Union	1930	15 million
Vietnam Farmers' Association	1930	10 million
Vietnam Youth Union	1956	8 million

¹⁸⁰ Source: AFD

¹⁸¹ CCF was transformed into the Cooperative Bank under SBV Circular No. 31/2012/TT-NHNN of November 26, 2012 on the regulation of the Cooperative Bank. Subsequently, SBV issued Circular No. 166/GP-NHNN dated June 4, 2013 granting the license for the Cooperative Bank to operate. The process of legal transformation of CCF into Cooperative Bank was completed on July 1, 2013. Source: ADB. 2013 (b). Memorandum of Understanding: VIE Microfinance Development Sub-Program 2 of Fact-Finding Mission. November 12-21, 2013.

¹⁸² Information on MFIs is available at MixMarket: <http://www.mixmarket.org/mfi/country/Vietnam>

¹⁸³ Interviews with VBSP

¹⁸⁴ Interview notes with MFIs, IFC, 2013.

¹⁸⁵ Authors' estimates for 2011 are based on discussions with key actors

¹⁸⁶ Official website of Central Women's Union <http://hoilhpn.org.vn>

¹⁸⁷ Official website of Vietnam's Farmers Association: <http://vnfu.vn/index.php/introduction/252-organization-and-operation-of-vietnam-farmers%E2%80%99-union-vnfv.html>

¹⁸⁸ APIM (Asia – Pacific Institute of Management, National Economics University). 2013. Microfinance Strategy for Vietnam Women's Union.

- (i) Acts as agents for VBSP and VBARD. The VBSP program represents approximately 90 percent of the WU's microfinance activities. According to VBSP, the WU is the best agent with the highest loans outstanding and the lowest bad loans rate.
- (ii) Manages independent funds that provide microfinance (e.g., Mekong Organization of Microfinance, provincial social/charity funds). Some of these funds have institutionalized (such as TYM, M7-MFI), and some are preparing to become licensed by the SBV. Once formalized, they will no longer be directly managed by the WU, but the WU may continue to own many of them.
- (iii) Manages small programs run by different levels of WU (districts, provinces, central levels), either with their funds mobilized from members, or by partnering with NGO microfinance programs.

Informal providers play an important role in financial inclusion in Vietnam. The informal sector is vibrant, with friends and family quite active as informal providers (see Findex report). Informal providers are probably the largest suppliers for the low-income segment. Focus group discussions undertaken by IFC in collaboration with CGAP also confirmed that people use moneylenders in a significant way, and that people save informally too. There are many ROSCAs (named “tontines” in the regulations) and moneylenders. According to local experts, ROSCAs served over 2.5 million people in 2010.¹⁸⁹ Before 2006, the informal sector was not regulated. In November 2006, the government issued Decree No. 144/2006/ND-CP on ROSCAs to regulate their activities. The decree includes several provisions on interest rates and the rights of participants in ROSCAs.

According to the Decree, ROSCA activities are regulated under the Civil Code.¹⁹⁰ It is not clear however whether all ROSCAs follow this decree.

iii. Services other than credit and savings

Some formal institutions are starting to provide much-needed micro-insurance services. It should be noted that this report does not cover insurance products extensively. Several insurance products such as motorbike insurance and life insurance are relevant for low-income clients. It is expected that the upcoming World Bank diagnostic will cover these areas. The CIL allows financial institutions such as PCFs and MFIs to act as agents of insurance companies. There are a few companies offering both life and non-life insurance products appropriate for the low-income market. For example, Bao Viet Life offers life, livestock, and health insurance. Prudential also offers insurance for women and children under 18.¹⁹¹ Some semi-formal MFIs have partnered with International Labour Organization (ILO), Action Aid, RIMANSI, and other organizations¹⁹² to pilot Mutual Aid Funds (MAFs). TYM's experience with RIMANSI shows that MAFs can be viable.¹⁹³ By the end of 2013, TYM had about 100,000 members in this fund and M7 had 20,000 in partnership with some local insurance NGOs. VBARD has also piloted similar services with an insurance company for its clients. The two licensed MFIs also had similar funds, but the SBV requested them to stop collecting contributions from members, as according to the CIL, licensed MFIs can only act as agents of insurance companies, and these contributions are being transferred to the voluntary savings accounts of members.¹⁹⁴

¹⁸⁹ Belgian Cooperation Project, 2011

¹⁹⁰ Nguyen Kim Anh et al., 2012. “Microfinance versus Poverty Reduction in Vietnam: Diagnostic Test and Comparison.” Statistical Publishing House, Hanoi.

¹⁹¹ World Bank (2007); “Vietnam: Developing a Comprehensive Strategy to Expand Access [for the Poor] to Microfinance Services. Promoting Outreach, Efficiency and Sustainability.”

¹⁹² J.A. Alip, Ph.D and M.C. David-Casis, (2008), “Microinsurance in Vietnam,” A RIMANSI Publication excerpt

¹⁹³ ADB. 2010(a)

¹⁹⁴ ADB. 2013 (c)

The government recently allowed CFRC, a special social organization under the Vietnam Association of Promotion of Education, to pilot micro-insurance under authorization from the government¹⁹⁵ and the Ministry of Finance.¹⁹⁶ While research highlighted some consumer protection problems, these were related to mainstream insurance clients rather than micro-insurance clients.

Several providers offer money transfer services to the low-income segment.

Vietnamese banks offer a wide range of financial services, including money transfers, ATM services, foreign currency exchange, credit and debit cards, etc. Money transfer operators such as Western Union and Money Gram provide cash transfers, often in collaboration with banks, other financial institutions, and post offices. VBSP offers money transfer services to customers. The CCF (now Coop. Bank) and PCFs have implemented a pilot “Rural-Urban Connectivity Project” with eight participating PCFs. VBARD is well positioned to offer payment and remittance services.¹⁹⁷ In 2011, it had over 11 million transactions worth 2,396,916 billion VND.¹⁹⁸

International remittances are significant. Total overseas remittance increased sharply to the point that in 2013, Vietnam became one of

the ten largest receivers of remittances from overseas.

Branchless banking is still underdeveloped.

Vietnam is still a cash economy, and even though it is a vibrant country in terms of mobile phone penetration, mobile banking is only reaching a small segment of the banked population and there is very limited experience with e-money and mobile wallets. LienVietPostBank launched its Vi Viet E-wallet mobile money pilot in 2011 as a way to digitalize financial transactions on a large scale, but there is limited information on its outreach to the low-income population.²⁰⁰ LienVietPostBank also has 1,031 postal transaction offices that have the potential to deliver financial services for the low-income in the future.²⁰¹ There is currently no specific regulation on agent banking or on non-banks issuing e-money. The WU acts as a de facto agent for VBSP by playing a key role in several steps of loan processing. The Prime Minister Decision No 2453/QĐ-TTg of December 2011 on Non-Cash Payment set several objectives for 2015, such as decreasing cash payments to 11 percent and increasing the number of Points of Sales (POS) to 250,000.²⁰² With over 131 million mobile connections by the end of 2013,²⁰³ mobile banking, if unleashed, could provide an extraordinary opportunity for the huge unbanked population of Vietnam.²⁰⁴

¹⁹⁵ Office of Government of Vietnam. 2013. Office of Government Official Letter No. 5151/VPCP-KTTH dated June 26, 2013 on supporting sustainable development of microfinance.

¹⁹⁶ Ministry of Finance. 2013. Official Letter No. 16037/BTC-QLBH dated November 20, 2013 “Guiding Implementation of Microinsurance Pilot Project.”

¹⁹⁷ ADB. 2010(a)

¹⁹⁸ VBARD 2011

¹⁹⁹ World Bank 2013

²⁰⁰ LienVietPostBank Website, <http://www.lienvietpostbank.com.vn/en/about/introduction/content/about-us-111111>

²⁰¹ LienVietPostbank meeting December 2013, Hanoi

²⁰² The Prime Minister, 2011, Decision No. 2453/QĐ-TTg Decision Approving the Scheme to promote Non-Cash Payment in Vietnam

²⁰³ GSMA website, consulted March 3, 2014 - <https://gsmaintelligence.com/markets/3682/dashboard/>

²⁰⁴ Dufflos, Eric, 2011, CGAP Blog : <http://www.cgap.org/blog/opportunities-big-leap-financial-inclusion-vietnam>

Annex 2: List of People Interviewed

Vietnam Bank for Social Policies (VBSP)	
Mr. Bui Quang Vinh	Deputy General Director
Mr. Phan Cu Nhan	Director - International Cooperation Dept.
Ms Nguyen Thi Lieu	Director - Debt & Risk Management Dept
Ms Ha Lan Huong	Vice Director - Credit for the Poor Dept
Ms Pham Huong Giang	Vice Director - Dept of Credit for Students and other beneficiaries
Ms Nguyen Thanh Phuong Chi	Staff - International Cooperation Dept.
Vietnam Association for People's Credit Funds (VAPCF)	
Mr. Tran Quang Khanh	Director of VAPCF; Chairman of BOM of Cooperative Bank
Ms Nguyen Thi Huong	Staff - International Cooperation Dept.
Vietnam Banking Association (VNBA)	
Ms Nguyen Thi Xuan	In charge of Legal and Professional Dept
Ms Chu Thi Quynh Hoa	Staff - Legal and Professional Dept
Ms Nguyen Thanh Huong	Deputy Chief Editor - Journal of Financial and Monetary Market
Ms Tran Thi Minh Hong	Staff - International Cooperation and Admin Dept.
Vietnam Standard and Consumers Association (VINASTAS)	
Mr. Nguyen Manh Hung	Vice President - General Secretary
PhD. Mr. Vuong Ngoc Tuan	Deputy General Secretary - Standing Chairman of VINASTAS consumer consulting and mediation Bureau
Ms Nguyen Thu Giang	Staff - Dept. of Consultancy and Complaints
State Bank of Vietnam	
Mr. Pham Xuan Hoe	Deputy General Director, Dept of Monetary Policy
Mr. Tran Le Hoang An	Official, Dept of Monetary Policy
Mr. Nghiem Thanh Son	Deputy General Director, Dept. of Payment System
Mrs. Nguyen Thuy Anh	Official, Dept. of Payment System
Mrs. Nguyen Sao Mai	Official, Dept. of Payment System
Mr. Le Anh Xuan	Deputy Director, Department of Finance and Accounting
Mr. Le Thanh Son	Vice Director of Research and Development Division, Credit Information Center
Mr. Phi Trong Hien	Deputy Director, Dept of Prudential Regulations, Banking Supervision Agency
Mrs. Vo Huyen Trang	Official, Dept of Prudential Regulations, Banking Supervision Agency
Ms Le Thi Trang	Official, Dept of Admin Supervision- Complaints - and Anti-corruption
Ms Ngo Thi Hang	Official, Dept of On-site inspection to local CIs, BSA
Mr. Bui Van Hai	Head of Division, Dept of Banking Supervision

Department of Finance, People's Committee of Hanoi City

Mrs. Le Thi Loan	Deputy Director of Department
Mr. Vu Van Hoa	Deputy Head of Urban Transport Division
Ms. Hoang Lien Huong	Deputy Head of Administration Division
Ms Nguyen Thi Ngoc Diep	Deputy Head of Price Division

Lienvietpostbank

Ms Nguyen Thi Thanh Son	Deputy General Director
Mr. Nguyen Ngoc Phuc	Deputy Head of Legislation, Risk management & Anti-money laundering Division
Ms Nguyen Thu Ha	Risk management & Anti-money laundering Dept
Ms Nguyen Thi Tra My	Dept of Products
Ms Nguyen Thuy Trang	Deputy Manager, Global Capital Market, of International Relation & Global Markets
Ms Ninh Thuy Nga	Officer, International Relation & Global Markets Division

Agribank

Mr. Nguyen Viet Tuc	Deputy Director, Financial Institutions Department
Ms Nguyen Hai Hoa	Official, Financial Institutions Department
Mr. Ngo Ngoc Tu	Official, Internal Control and Checking Dept
Mr. Vu Huy Hoang	Official, Individual and Household Dept
Ms Vu Thi Phuong Lan	Official, Dept of Research and Product Development

Hoang Mai Credit Fund

Mr. La Cao Giang	Director
Ms Dang Thanh Lan	Member of Board of Directors

MFIs

Ms Tran Thi Thuong	Internal Auditor, PPC
Ms Nguyen Thi Hien	Accountant, PPC
Mr. Vu Quoc Huy	Operation manager, World Vision of Vietnam
Mr. Nguyen Duc Binh	General Director, M7-MFI
Mrs. Vu Thi Khau	Chairwoman of Board of Directors
Ms Dinh Thi Minh Thai	Director, MACDI, Consultant of AFD

Discussion group of MFI Customers

Mr. Hoang Trong Hau	Tam Da Hamlet, Tam Da Commune, Phu cu District, Hung Yen City, WVV customer
Ms Tran Thi Mai	Vang Danh Ward, Uong Bi Town, Quang Ninh Province, M7-MFI customer
Ms Lo Thi Van	Hamlet 1, Microdistrict 1, Hat Lot Town, Mai Son District, Son La Province, M7-MFI customer

Annex 3: Characteristics of Microfinance Market Leaders in Vietnam

	VBSP	VBARD	Coopbank/CCF/PCFs	Formal MFIs
Model	Policy bank	Commercial bank	Financial cooperative	Limited liability company – non- bank Cis
Purpose	Non-profit – for policy missions required by the Government	Profit	Mutual benefit among members	Self-sustainability and social missions
Main funding sources	State budget	Savings mobilization from public	Savings mobilization from public & members	Savings mobilization from public & members; external funds from donors
Lending products	Programs designed by the Government to specific beneficiaries (18 in 2012)	Basing on customers' demands and CIL	Lending to members only. Basing on members' demands and CIL	Basing on members' demands and CIL
Lending methods	Credit and savings group	Individual; pilot group lending in some places	Individual	Joint-liability group lending
Main market segment	The policy beneficiaries (the poor and disadvantaged groups)	High and medium-income HHs, microenterprises, small and medium enterprises, big enterprises, focusing on rural/suburban areas	Medium to low-income HHs, microenterprises, small and medium enterprises	Low-income and near-poor households
Coverage	Transaction points in all communes of 64 provinces.	2,300 branches & transaction offices in all 64 provinces Branches in all districts	1,045 PCFs in 1,0% communes of 60 out of 64 provinces, CCF transferred into Coop bank in 2013 with 25 branches	Not many, mainly in disadvantaged and suburban areas

Annex 4: The Client Protection Principles²⁰⁵

Appropriate product design and delivery

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

Prevention of over-indebtedness

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of overindebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

Transparency

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

Fair and respectful treatment of clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

Privacy of client data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

Mechanisms for complaint resolution

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

²⁰⁵ SmartCampaign Website, consulted February 27, 2014, http://www.smartcampaign.org/storage/documents/20110802_Client_Protection_Principles_FINAL_.pdf

Annex 5: Details on The functions of Industry Associations

1. Vietnam Microfinance Working Group (MFWG) ²⁰⁶

- Implementing research, training, and improvements to raise professional skills in the field of microfinance of small and medium enterprises as stipulated by law.
- Cooperating and associating in the field regarding microfinance resources by holding seminars, conferences, marketing, advertising, introducing products and holding exhibitions and introducing capacity of microfinance products so as to raise the quality of microfinance resources for small and medium enterprise as stipulated by law.
- Legal support and consultancies in jobs related to microfinance of small and medium enterprises as stipulated by law.

2. Vietnam Bank Association (VNBA)

- Representing the Members in internal and external relationships regarding banking sector and Association activities;
- Protecting the legitimate rights and interests of the Association and its Members;
- Carrying out communication to raise the awareness of its Members on law compliance for prudential banking activities;
- Exchanging experience and expertise and organizing training courses and scientific research in banking technology;
- Providing necessary information to the Members and publishing books, magazines, and newspapers specialized in banking operations in accordance with law; communicating and disseminating the objectives of the Association and banking activities domestically and internationally;

- Participating in formulation and finalization of banking-related legal documents, conveying wishes and proposals of the Members and making proposals to relevant authorities on issues relating to the development of the banking sector and legitimate rights and interests of the Members; working closely with relevant organizations or agencies to fulfill the tasks of the Association;
- Providing advice and counter-arguments on banking issues at the request of organizations and individuals;
- Resolving disputes between Members;
- Self-funding by collecting membership fees and fees for services provided in accordance with law to cover operational costs; receiving legal funding from the state and domestic or international organizations and individuals in accordance with law;
- Cooperating with and joining global and regional associations and cooperating with bilateral and multilateral financial and monetary organizations in accordance with law.

3. Vietnam Association of People's Credit Funds²⁰⁷

- Disseminating, popularizing, and guiding members in implementing the State guidelines, policies and laws concerning the operation of the People's Credit Fund;
- Representing members in internal and external relationships relating to the activities of the People's Credit Fund system and the Association;
- Protecting the legal rights and benefits of member PCFs in activities in general and trade disputes in particular; conciliating conflicts and disputes between members;

²⁰⁶ <http://www.microfinance.vn/>

- Acting as a leader to coordinate and promote joint-ventures and associations among members on behalf of individual members and the entire People's Credit Fund system; supporting the People's Credit Fund's members in transferring technologies, management experience; promoting activities of the Association of People's Credit Fund;
- Propagating, exchanging experience, organizing professional training courses for People's Credit Fund staff; researching and applying science, technology and management techniques in the People's Credit Fund;
- Providing necessary information to members; exchanging experience and information and propagating about the People's Credit Fund;
- Establishing branches, representative offices, subsidiary institutions and units as well as security funds under the law to ensure the People's Credit Fund system develops safely, effectively and steadily;
- Contributing ideas to legal normative documents related to the operation of the People's Credit Fund and the Association in accordance with regulations of law; reflecting the wishes and proposals of members, and making proposals to the relevant State authorities on issues concerning the People's Credit Fund and the Association;
- Coordinating with related organizations and offices in order to successfully implement the Association's task; carrying out consultations and defending issues related to the PCF as requested by the organization and individuals;
- Establishing international relations and cooperations, representing members at international associations, unions and operating regions in fields related to PCF under the Law.

4. Vietnam Standards and Consumers Association (VINASTAS)²⁰⁸

The main activities of VINASTAS include:

- (i) Contributing to legislation relating to

consumer protection: compiling consumer protection laws; revising and commenting on legislation related to consumer protection issues.

- (ii) Informing and educating customers on their rights and responsibilities;
- (iii) Providing social justification on implementation of consumer protection rights, including uncovering unfair practices in the market;
- (iv) Settling consumers' complaints to protect consumers' rights of complaint and redress;
- (v) Issuing publications on consumer protection, such as the consumer newspaper;
- (vi) Carrying out other activities such as surveys, research, projects, etc, on consumer protection.

5. Cooperative Bank of Vietnam (Coop Bank)

Authority and responsibilities to PCFs²⁰⁹

Article 44: Authority

1. Request PCFs to provide reports in accordance with the reporting regulations of the State Bank and the cooperative bank.
2. Monitor and supervise PCFs' operations and safety measures.
3. Review the human resources plan for the Board of Directors, the Supervision Board and Managers of PCFs before PCFs submit the plan to the State Bank.

Article 45: Responsibilities

1. Provide training, professional consultancy and information technology support to PCFs.
2. Provide support in banking activities to PCFs, as stipulated by law.
3. Provide support when PCF members meet difficulties or when there are signs of unsafe operations.
4. Fulfill other responsibilities as stipulated in the Charter and Laws.

²⁰⁷ <http://www.vapcf.org.vn/modules.php?name=News&catid=26>

²⁰⁸ Introduction file of VINASTAS (2013)

²⁰⁹ According to Circular No. 31 /2012/TT-NHNN of State Bank of Vietnam dated November 28, 2012 on Regulation of Cooperative Bank

Annex 6: The Universal Standards for Social Performance



Annex 7: Focus Group Discussions with Low-income Clients

This questionnaire was developed by CGAP with inputs from IFC. The focus group discussions took place on February 26 and 28 2014 in Hai Duong and Long An provinces in the Vietnamese language, with the assistance of IPSOS. The discussions consisted of four groups of six borrowers who were considered poor, based on national criteria. This annex is an informal translation of the discussions that took place during the FGDs. It was written by Tam Le Tham and is organized around the key questions prepared for the FGDs.

1. General Attitudes Towards Financial Services

What types of formal financial services do you use, and from which type of institution (e.g., banks, VBSP, MFIs, PCF, MFO)? How do you use these products?

- **Microcredit is relatively developed.** All interviewees are borrowing from a formal microfinance provider (VBSP, VBARD, Coop. Bank/CCF, PCF, MFIs). Some other commercial banks (such as Vietinbank, Dong A Bank) have begun to reach these clients, but none of the interviewees borrowed from these banks because: (i) the minimum loan size is much bigger than VBARD – e.g., for Vietinbank, min VND 100 million ; (ii) the requirement for collateral is stricter, particularly for Dong A bank; (iii) these banks are located far away; (iv) customers are already used to VBARD/Coop Bank and do not want to change.
- **Informal lenders are as popular** as formal lenders. Most interviewees also borrow from informal lenders sometimes (friends, relatives; ROSCAs; money lenders). They all agree that borrowing from money lenders is a short-term (10-20 days) solution with very high interest rates (they call money lenders usurious lenders – charging interest of VND 3,000-5,000/

day for a VND 1 million loan – equivalent to 0.3-0.5 percent/day), and that ROSCA could be dangerous, as some member may take the money away. However, they still borrow from informal sources because: (i) loans can be made very quickly and at any time; (ii) no collateral requirements; (iii) it is not easy to borrow from formal sector whenever they want. For example, VBSP loans have specific requirements defined by the government, and the funding sources are not always available. For MFIs, the funding sources are not always available and the loan sizes are usually fixed.

- **Few of them deposit savings** in other commercial banks, (1/20). which sometimes offer promotions such as presents). One interviewee saves in VBSP, and is happy with the service. MFI customers (TYM, CEP Long An) have compulsory savings only. However, they do not consider them as savings. Most of them keep their savings at home, because they think (i) the savings amount is too little to put elsewhere; (ii) they are concerned about liquidity – if they need cash urgently, how can they withdraw it immediately?
- **Very few use insurance:** Some buy health insurance. One bought loan insurance from TYM (he is not sure if it was compulsory). One customer bought life insurance from Prudential, but regretted it very much.
- **Few use money transfers:** most have never used this service. Just one person knew about the Vietcombank money transfer service.

What positive experiences have you had with your credit institution/MFI? What negative experiences have you had with that credit institution/MFI?

- **Positive experiences:** In general, most had positive experiences with CIs/MFIs. All feedback was particularly positive for VBSP; there were no complaints about anything.

- Negative experiences: some customers had negative experiences with VBARD and MFI.

- Customers’ key positive and negative experiences with credit institutions/MFIs are summarized in the following table:

Institution	Positive experiences (from assessing strong points of these institutions)	Weak points of these institutions (some are negative, but some are not)
VBSP	<ul style="list-style-type: none"> • Very low interest rate • No collateral requirement • Easy lending procedures – customers only have to go to commune office to pay principal. • Monthly interest payments are easy to meet. • Long-term lending duration (sometimes allow customers one or two years grace period). 	<ul style="list-style-type: none"> • Only lend to the poor and near-poor; others in need cannot get access to VBSP. • Not always available, as loans are distributed by phases that may not correspond to clients needs.
VBARD	<ul style="list-style-type: none"> • Bigger loans – longer term • Individual lending. • Lower lending interest rates (than MFIs). 	<ul style="list-style-type: none"> • Collateral is strictly required for loans of more than VND 50 million (equal to \$ 2,500)²¹⁰. • Higher lending interest rates (than VBSP). • Complicated lending procedures (takes more time than VBSP, MFIs). • If overdue, no grace period is allowed (but rescheduling can be arranged happen before the loans are overdue). • No customer care program (compared to MFI). • One customer does not like the changes in interest rates over the borrowing period. She would prefer to keep the interest rate unchanged, so that she is sure how much she has to pay. • One interviewee had a bad experience when VBARD staff asked for a kick back of 5 percent of total loans. She left without taking the loan. • One interviewee heard about a bad case where one customer could not pay back the loan on time, and had to borrow from a money lender at a very high interest rate in order to make the repayment, and then had to borrow again from VBARD to pay again to money lender. This highlights the problem of rescheduling loans when money lenders are involved.

²¹⁰ Customers have to go to the District’s Department of Natural Resource and Environment to register secured assets.

Institution	Positive experiences (from assessing strong points of these institutions)	Weak points of these institutions (some are negative, but some are not)
MFIs	<ul style="list-style-type: none"> • Payment amount – same every time, which makes it easy to remember. • Less pressure to pay principal when the loans are due. • No collateral required • Simple process (even simpler than VBSP) – customers only have to travel within their village. • Some additional support services: group members care when sick (approximately \$5/ person); a gift for Tet holiday. If someone is in a very difficult situation, they can get a grant equivalent to about \$250-500.²¹¹ 	<ul style="list-style-type: none"> • The weekly payment (TYM) or semi-monthly payment period (CEP Long An) creates problems for some customers who do not have weekly or semi-monthly incomes. Some want to switch to a monthly payment. • Small loan sizes (VND 8-10 million, about \$400-500). If customers want bigger loans, they have to transfer to Coop Bank, PCF, or a commercial bank. • Fixed lending amount, according to loan cycles (e.g., CEP cycle 1 – max VND 7 million, cycle 2 – max VND 10 million) • Highest interest rate compared to all other formal CIs. • Some complaints about interest rates announced and actual interest rates paid (the ways of calculating interest rates). E.g., one participant estimated the actual interest rate level of TYM at 3 percent/month (nominal interest rate = 1.5 percent/month). For CEP Long An, the nominal interest rate is 9 percent, but one customer felt that it is actually much higher and complained. The reason was explained to her by a credit officer, but she was still unhappy about it.
PCF/Coop bank	<ul style="list-style-type: none"> • Relatively low interest rates • Can borrow up to VND 100 million (about \$5,000) • Fast assessment and disbursement. • Simple and understandable products. 	<ul style="list-style-type: none"> • Less complicated procedures than VBARD, but more than VBSP and MFIs. • Individual lending always requires collateral. • Only located in some areas, not in all communes.

²¹¹ However, no one in these groups got that grant. They just knew the information, assuming for very poor people joining CEP Long An.

2. Financial Decision-making

What information did you try to get from the credit institution/MFI when you want to borrow or open an account?

- All the borrowers only pay attention to the conditions and level of borrowing.
- Interest rate level
- Requirements for collateral or not? Conditions for borrowers?
- Length of loan?
- Repayment period (for interest and principal)

How do you obtain this information (from a promoter, friend, the bank itself, newspaper, etc.)?

- From different sources
- All look for and ask for information from friends, relatives, and neighbors
- For VBSP and MFIs (TYM/CEP Long An): also from Women's Union, farmers' association, commune people's committees.
- For commercial banks/coop bank/PCFs: also from the banks themselves. For Dong A Bank, Sacombank, etc., a few customers also obtained information from leaflets.

Do you make your final decision by yourself or do you consult other people? Who helps you make your decision and how?

- Consult several people before making decisions. Advisers include: friends and relatives, people who already borrowed, head of groups, head of commune Women's Union/farmers' association.
- The borrowers finally decide themselves to borrow, basing their decision on the following issues (ranked in order of importance): (1) lowest interest rate; (2) no collateral required; (3) longer loan duration; (4) fast procedures; and (5) bigger loans.
- The interviewees all felt very active in deciding to take out a loan; they are the final decision-makers.

3. Transparency

How easy is it to obtain product information? Do you ever have any problems in obtaining the necessary information when you look for a financial product?

- All the information is easy to get, particularly from VBSP and MFIs via mass organizations.
- Some institutions even use the commune's radios to give information (VBSP, PCF, MFIs).
- WU and FAs hold monthly meetings, and information on financial services is included in the meeting content, so it is quite easy to get information.
- When they have difficulties in understanding the products, they can ask the group leaders/WU/FA to explain – quite easy.

When you shop for products, do you compare prices/benefits before choosing the financial product?

- Some compare, some do not.
- Those who are eligible to borrow from different sources (i.e., those with collateral, stable income, good business), always compare carefully among available institutions (one customer visited three commercial banks before choosing VBARD).
- Those who cannot borrow from different sources also compare, but they have no choice. So they just take what they can get.
- One person did not compare, they just took the easiest and most convenient option (from WU/FA nearby).
- Some interviewees do not go to MFIs and VBSP because they think that these institutions are for low-income people.

Is there any information you would like to have about financial products that you are not usually provided with?

- No
- They all thought that all the information they need has been provided.

When you shop for financial products, does the salesperson usually explain the features of the product? Do they do a good job of explaining? Do they allow you to ask questions?

- All feedback was very positive.
- The explanations are very clear and the sales people are very enthusiastic. Some even guide in detail, including how to fill in the application form and how to sign (the three signatures should be identical).
- In VBSP application form, the phone number of the bank is also included. Customers can check by calling, but no one did that because they all received clear explanations.
- Customers are free to ask questions if they want to. All of the credit officers and WU/FA/group leaders are very open.
- Interviewees have strong trust in the bankers/WU/FA/group leaders. Some of them checked one or two times, and saw that the information provided by WU/FA/group leaders was exactly the same as what VBSP/MFI officers provided.
- Only one interviewee said that she only get the full information after the contract had been signed. Before that, she only got information from the WU/FA.

For VBSP customers: some don't want the information about their loans to be posted on the commune's notice boards. However, they have to accept that because it is a VBSP rule, and information of other VSBP customers is also posted there.

For VBARD and PCFs: all information is privately kept, which customers are happy about.

For MFIs: no problem about information being shared with group members and group leaders.

4. Loans from Different Sources

Do you maintain more than one loan at a time? With different institutions?

- Most have just one loan.
- One interviewee had two loans from different organizations. There should be no problem borrowing from different sources as long as they are able to pay back.
- In one case they heard about a customer asked his neighbor to borrow for him from VBSP, because he had borrowed already.
- However, the customers all agreed that they do not want to borrow more than their capacities to pay. They are scared of being indebted; they only borrow within their payment capacity.
- They all agree that commune people's committees, WU/FA, group leaders are very important in ensuring that customers don't borrow from different institutions.
- The group leaders also help to advise customers if they want to borrow from different sources.
- All institutions ask the commune people's committees to help certify the loan contracts in order to reduce the problem of one customer borrowing from different sources. The commune leaders will exchange information with the institutions or ask the borrowers to clarify before signing.
- VBSP also asks commune leaders to certify whether the beneficiaries are eligible or not (i.e., verifying whether they are on the commune's list of poor households).
- They all believe that if someone already has a loan from WU, they cannot borrow from FA.

What were the terms of the loan? (Investigate details about quotas, early/late payment penalties, interest, service charges, security or mandatory savings, etc.)

- All interviewees were fully aware about their loans, payment amount per week, securities, and mandatory savings. No one had to pay a service charge.²¹²

²¹² Only VBARD borrowers had to pay a registration fee for collateral to the District's Office of Natural Resource and Environment, but this is not a bank service charge.

- They are all scared of late-payment penalties. However, the information about penalties is cumbersome and sometimes incorrect (e.g., if payment to VBARD are not made on time, their houses will be sold).
- Some remember the interest rates, but many only remember how much they had to pay per period (weekly or monthly).
- One interviewee said he did not remember or have information about the penalties in case of overdue payments. Others agreed that because they are not late with their payments, they did not care about the penalties.
- Many remembered exactly what the penalties are (130-150 percent of interest rate if more than 10 days overdue. However, being within 10 days late is ok).

How many institutions did you have to visit before you received your loan?

- One person went to three institutions, others looked around. But many did not visit any institution before receiving the loans. For examples, VBSP and MFIs provided the services at their villages/communes. Therefore, they did not go anywhere.
- One person called a commercial bank (sacombank) to ask for information.

Are the details of the loan presented to you in written form? If so, are there any aspects you find confusing or hard to understand?

- Yes,
- Borrowers just read the parts relating to:
 1. Loan purpose and personal information
 2. How much can they borrow, and for how long?
 3. How much do they have to pay in interest?

At any moment did you regret taking out the loan? Were there any surprises with respect to the terms of the loan? What happened? What did you do in this instance?

- None of the VBSP, VBARD or PCFs borrowers has any regrets at all.
- Only two interviewees of MFIs (one from TYM, one from CEP Long An) had regrets:
 1. The frequent payment schedule was tiring, they all want to change to monthly payments.
 2. If they borrow from MFIs, they cannot get another loan from other sources (such as PCFs) offering cheaper loans.
- However, they did not take action because they want to finish one loan before going to another institution.
- No surprises with respect to the terms of loans.
- One customer complained that the interest rates were reduced and were discussed on television, but she received no interest rate reduction. However, once the situation was explained to her by a credit officer, she was ok about it.

5. Review of a Potential Loan Contract

When receiving the loan contract, customers only read about how much they can borrow, for how long, the interest rate, and collateral requirements.

What will you do with the contract before signing?

Do you always read the contract before signing? (Investigate if they read before leaving the financial institution, at home, or elsewhere) Do you always read it yourself, or do you show it to another person? (Investigate if they are helped by an intermediary, friend, family, etc.)

- They all read the contracts. VBSP and MFIs customers all find the contract details very simple and easy to understand.
- Some ask the credit officers/group leaders about what they do not understand.
- However, they only focus on the issues mentioned in question 6.1., particularly the interest rate.

- For other parts, particularly about the parts on rights and responsibilities, none of them read it. They think that these are the standard clauses of the banks/institutions, which cannot be changed.
 1. They trust the banks/institutions that there is no way the institutions will cheat them.
 2. Some borrowers have borrowed for a long time, so they do not feel there is any problem.
 3. The only right of the borrower is to be able to borrow, and the only responsibility is to pay on time.
 4. Banks have to be more careful in supervising borrowers therefore interviewees think they only have to pay attention to the debt payment issue .
 5. Some think that deposit customers have more rights than borrowers.
- In some areas, VBARD/PCF/group leaders also helped the borrowers to fill in the contracts and customers only needed to sign.

Which are the most difficult parts of the document to understand?

- Some say the rights and responsibilities part. For others, most parts are relatively difficult.
- The banks/institutions use words that they do not understand but at the same time they do not ask questions for the same reasons mentioned in the previous question.

Do you understand what interest rate means? (Service charge? Total finance charges? Non-finance charges? Net proceeds of loan? Percentage of finance charges to total amount financed?) Ask respondents to explain the terms, noting where they correctly or incorrectly interpret what the terms mean. How can this document be improved to make it more understandable?

- In the contract, only the concept of interest rate is written down.

- All understand interest rate or interest payment level well.
- They all think that the interest rate is set by the institution, and they have no right to negotiate on that.
- All of them believe that banks/institutions treat them well in terms of interest rate.
- None of them check whether interest has been calculated correctly or not. They all believe that interest is calculated correctly. Some institutions even print out the interest paid (such as VBSP and VBARD), or fixed payment every time (MFIs).
- However, one interviewee told of a case where VBSP wrongly calculated the interest for one customer who was her neighbor. When the due period came, they discovered the problem. VBSP staff checked and accepted that there was a mistake, and paid back the customer. They all thought that was a mistake, not an attempt to cheat.

6. Fair Treatment

Are there cases when loan officers or other staff of the financial institution treat you in a way that you dislike – if so please describe.

- No.
- Only one case in Hai Duong. One VBARD officer asked for kick-back of 5 percent of the principal. The customer left and did not borrow from VBARD again.

Do you feel that the credit institution has evaluated your level of debt in an appropriate manner as well as your capacity to repay? How did they do so?

- All agreed that banks/institutions assessed borrowers in great detail. They asked commune leaders, WU, and FA to help assess them first. Then bank officers/credit officers went to the borrowers' houses to check carefully.
- No complaint about the assessments.

7. Complaints and Rights of Consumers

Have you had experiences with financial services where you did not feel respected or where you felt mistreated? What kinds of experiences?

- No.

Did you complain or take any other action when these events occurred? (Have them describe in detail all steps and actions taken, until the problem was either resolved or they gave up)

- No.

If you were to become dissatisfied with the service at the credit institution/MFI where would you present a complaint?

- If they were dissatisfied, they would turn to group leaders/WU/FA for help.
- VBSP and MFIs customers would not talk directly with bank staff, because they rarely meet them.
- VBARD and Coop Bank/PCFs customers have no problem. But if they were dissatisfied, they would talk to a credit officer.
- Hot lines: Some interviewees are aware that there banks/credit institutions have hotlines, but none have tried to use them because:
 1. If they have problems, they already told group leaders/WU/FA (VBSP, MFIs) or discussed them directly with credit officers (VBARD, PCFs).
 2. They do not know whether these hotlines are free of charge. They do not want to pay call charges.
 3. Some doubt whether the hotlines work.

Apart from the specific facts already discussed, in general, do you see any problems or faults with consumer service of financial institutions? What types of problems? Is this more common with any types of providers or products?

- One customer had a bad experience with a life insurance contract. When she bought

the insurance, she did not read the contract content. After two years of paying premiums, she did not want to continue because of business difficulties. She had paid VND 4 million in premiums, but only got VND 2 million back.

- One interviewee heard about a case where a group leader took away the money of the whole group and ran away.
- One interviewee heard about a bad case where VBSP lent VND 200 million to the commune, but the commune leaders only lent out VND 100 million.

TESTING OF HYPOTHESES (based on hypothesis from authors prior to FGDs)

1. Lack of transparency in interest rates: Yes, there is a problem with flat rate of MFIs.
2. Some rumors about kickbacks with some of the institutions: yes, but only for big loans and only with VBARD – only one exceptional case, not all VBARD customers had that problem. No problem with VBSP on this issue; even the loans are subsidized.
3. Not always clear to whom the clients can go for complaints: Most complain to commune mass organizations (WU, FA), commune leaders, or group leaders. Some know about the hotlines, but no one uses them.
4. Many issues with insurance contracts not being clear: Yes, but only one case is related to insurance.
5. Over-indebtedness: There are cases of multiple loans but not over-indebtedness.
6. Level of trust: customers have strong trust in formal financial institutions.
7. Under-banked issues: yes, most services are still microcredit. Other services are very underdeveloped.

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