MASTER THESIS


Author: Nguyen Thanh Phuong Chi
Advisor: Dr. Vu Duc Nghia

Hanoi, June 2017
ACKNOWLEDGEMENT

First of all, I would like to express the deepest gratitude to the teachers of the International School, Vietnam National University and Nantes University of France during my participation in the Master of Finance, Banking and Insurance Program. Through the lessons and experiences achieved during my master studying helps me further referred to a variety of practical resources to complete the graduation research project.

I would like to convey the sincerest thanks to my advisor, Mr. Vu Duc Nghia for providing me expert guidance, for reading this research subject and offering constructive comments and for his support during writing process of this assignment.

I would like to thank to my colleagues and senior officers of Vietnam Bank for Social Policies for providing me helpful data, instructions and encouragement.

I would like to make the commitment that this is the assignment that I try our best to study and develop as well as it is published at the first time.

Hanoi, June 2017

Nguyen Thanh Phuong Chi
## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABBREVIATION</td>
<td>6</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>CHAPTER 1</td>
<td>5</td>
</tr>
<tr>
<td>THEORETICAL ASPECTS OF MICRO-SAVINGS</td>
<td>5</td>
</tr>
<tr>
<td>1. 1 Overview on micro-savings</td>
<td>5</td>
</tr>
<tr>
<td>1.1.1 Micro-saving definitions</td>
<td>5</td>
</tr>
<tr>
<td>1.1.2 Roles of micro-savings</td>
<td>6</td>
</tr>
<tr>
<td>1.1.2.1 Institutional aspect</td>
<td>6</td>
</tr>
<tr>
<td>1.1.2.2 Clients aspect</td>
<td>8</td>
</tr>
<tr>
<td>1.1.2.3 Country perspective</td>
<td>8</td>
</tr>
<tr>
<td>1.1.3 Channels of micro-savings mobilization</td>
<td>9</td>
</tr>
<tr>
<td>1.1.4 Main differences between micro-savings with other general savings products</td>
<td>11</td>
</tr>
<tr>
<td>1.2 Assessing a micro-savings product</td>
<td>12</td>
</tr>
<tr>
<td>1.2.1 Requirements for a micro-savings product</td>
<td>12</td>
</tr>
<tr>
<td>1.2.2 Criteria to access a micro-savings product</td>
<td>13</td>
</tr>
<tr>
<td>1.2.3 Factors affecting micro-savings mobilization of MFI</td>
<td>15</td>
</tr>
<tr>
<td>1.2.3.1 Internal factors</td>
<td>15</td>
</tr>
<tr>
<td>1.2.3.2 External factors</td>
<td>17</td>
</tr>
<tr>
<td>1.2.3.3 Other factors</td>
<td>19</td>
</tr>
<tr>
<td>1.3 Some successful institutions in micro-savings in the world</td>
<td>19</td>
</tr>
<tr>
<td>1.4 Micro-savings landscape in Vietnam</td>
<td>21</td>
</tr>
<tr>
<td>1.4.1 Targeted customers</td>
<td>21</td>
</tr>
<tr>
<td>1.4.2 Major providers and products</td>
<td>22</td>
</tr>
<tr>
<td>1.4.3 Future perspective</td>
<td>24</td>
</tr>
<tr>
<td>CHAPTER 2</td>
<td>27</td>
</tr>
<tr>
<td>CURRENT STATUS OF MICRO-SAVINGS MOBILIZATION OF VIETNAM BANK FOR SOCIAL POLICIES</td>
<td>27</td>
</tr>
<tr>
<td>2.1 General introduction about Vietnam Bank for Social Polices (VBSP)</td>
<td>27</td>
</tr>
<tr>
<td>2.1.1 History of VBSP</td>
<td>27</td>
</tr>
<tr>
<td>2.1.2 Organization structure of Vietnam Bank for Social Polices</td>
<td>28</td>
</tr>
<tr>
<td>2.1.3 Operation of Vietnam Bank for Social Polices</td>
<td>34</td>
</tr>
<tr>
<td>2.2 Micro-savings services in Vietnam Bank for Social Policies</td>
<td>39</td>
</tr>
<tr>
<td>2.2.1 Background of micro-savings services in Vietnam Bank for Social Polices</td>
<td>39</td>
</tr>
</tbody>
</table>
2.2.1.1 The Pilot Savings Program ................................................................. 41
2.2.1.2 Nationwide roll-out of micro-savings services ................................. 43
2.3. Business figures on micro-savings mobilization of VBSP ....................... 47
2.4 Analysis of VBSP’s micro-savings product .............................................. 49
  2.4.1. Targeted market ........................................................................... 49
  2.4.2. Accessibility ................................................................................. 49
  2.4.3. Product diversification ................................................................. 51
  2.4.4 Security ......................................................................................... 52
  2.4.5 Financial returns .......................................................................... 54
2.5. Reasons for current weaknesses of the bank regarding micro-savings mobilization .... 55
  2.5.1. Internal reasons ........................................................................... 55
  2.5.2. External reasons ......................................................................... 56

CHAPTER 3 ................................................................................................. 58
SOME SOLUTIONS TO IMPROVE THE MICRO-SAVINGS PRODUCT IN VIETNAM BANK FOR SOCIAL POLICIES ................................................................. 58
  3.1. Development orientation of VBSP up to 2020 ...................................... 58
    3.1.1 General orientation ................................................................. 58
    3.1.2. VBSP’s orientation of capital mobilization in future ....................... 59
  3.2. Some solutions to improve micro-savings product in VBSP ................. 60
    3.2.1. Improve internal procedures of micro-savings deposit program in VBSP ............................................. 60
    3.2.2. Capacity building for VBSP staff and stakeholders ......................... 61
    3.2.3. Incentives to group leaders, customers and bank staff ..................... 62
    3.2.4. Marketing, promotion and public awareness .................................... 63
    3.2.5. Product variety & positive returns ............................................... 63
    3.2.6. Develop other methods and channels of mobilizing savings besides SCG model .............................. 65
    3.2.7 Expanding opportunities for non-member of SCG at commune level .... 65
    3.2.8 Modernization of information technology and digital solution for more flexible low-cost, reliable and timely deposit and withdrawal ......................................................... 66

CONCLUSION ......................................................................................... 71
LIST OF REFERENCES ............................................................................... 72
APPENDIX- Forms used in savings mobilization of VBSP .............................. 73
LIST OF TABLES AND CHARTS

Table 1: Profile of Formal Micro-savings in Vietnam (amount in millions) .......................... 23
Table 2: Funding of VBSP as of 31th December 2016 .............................................................. 34
Table 3: Loan outstanding of VBSP as of 31th December 2016 ................................................. 35
Table 4: Institutional Characteristics, Outreach, Balance Sheet and financial performance and of
VBSP in 2014 – 2016 ................................................................................................................. 36
Table 5: Details of calculation on operational and financial sustainability level of VBSP during
2014-2016 ................................................................................................................................. 38
Table 6: Results of the pilot program of VBSP in 2009............................................................. 42
Table 7: Savings mobilization data of VBSP during 2011 - 2016 .............................................. 47
Chart 1: Organization Structure of VBSP .................................................................................. 33
### ABBREVIATION

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>VBARD</td>
<td>Vietnam Bank for Agricultural and Rural Development</td>
</tr>
<tr>
<td>LVPB</td>
<td>Lien Viet Post Bank</td>
</tr>
<tr>
<td>VNPOST</td>
<td>Vietnam Post Corporation</td>
</tr>
<tr>
<td>PSTO</td>
<td>Postal savings transaction offices</td>
</tr>
<tr>
<td>VBP</td>
<td>Vietnam Bank for the Poor</td>
</tr>
<tr>
<td>VBSP</td>
<td>Vietnam Bank for Social Polices</td>
</tr>
<tr>
<td>MFIs</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>ASEAN</td>
<td>The Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>ATM(s)</td>
<td>Automated Teller Machine(s)</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>BRI</td>
<td>Bank Rakyat Indonesia</td>
</tr>
<tr>
<td>CEO(s)</td>
<td>Chief Executive Officer(s)</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>SCGs</td>
<td>Savings and Credit Groups</td>
</tr>
<tr>
<td>GDRC</td>
<td>The Global Development Research Center</td>
</tr>
<tr>
<td>IT</td>
<td>Information technology</td>
</tr>
<tr>
<td>LAPO</td>
<td>Lift Above Poverty Organization</td>
</tr>
<tr>
<td>MIX</td>
<td>Microfinance Information Exchange, Inc</td>
</tr>
<tr>
<td>MFI(s)</td>
<td>Microfinance Institution(s)</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROSCA(s)</td>
<td>Rotating savings and credit association(s)</td>
</tr>
<tr>
<td>SBV</td>
<td>State Bank of Vietnam</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>VND</td>
<td>Vietnam Dong</td>
</tr>
<tr>
<td>POS</td>
<td>Point of sale</td>
</tr>
</tbody>
</table>
INTRODUCTION

1. Necessity for topic research

Over several past decades there has been a constant growth in local resident’s savings deposit in banking system in Vietnam. Together with the investment source of the whole society, the bank savings deposit has generated important resources for socio-economic development in the country. Nowadays, commercial banks focus on designing and introducing diversified and attractful savings products serving various customers. However, almost these savings products are just aimed to respond with demands of better-off individuals and enterprises mainly living in urban areas. There still lacks convenient and flexible savings products serving poor households, low-income households and other vulnerable populations living in rural, remote and mountainous areas where commercial banks ignore or are unwilling to invest due to high operating costs and low mobilization source. Meanwhile, there is an increasingly high needs of saving small amount of money to be accumulated as capital to meet with business and production investment from poor households, low-income households and other vulnerable population, especially in rural areas.

Vietnam Bank for Social Policies (VBSP) is a financial institution established by the Government and started official operation on March 11th, 2003 with a purpose of serving the poor, near-poor, micro, small and medium enterprises and other disadvantaged populations in Vietnam to help them invest in business and production, improve living standard and contribute to national target of poverty reduction. Spending over 15 operation years, VBSP has now become one of the leading microfinance banks in Vietnam serving around seven million household customers, out of which more than eighty percentage of them living in rural, remote and mountainous areas. Nevertheless, fifteen years is not enough to ensure the future of sustainably operational and financial development for VBSP in the current context of complex economic fluctutations and crisis at home and abroad. Meanwhile the more increasing operation scale and growing customer demands of using financial services, VBSP is facing with limited funding source serving business operation. So far, almost funding source for VBSP’s operation mainly stems from the government budget and state-mandated mobilization for providing financial inclusion for the poor and other vulnerable populations. However, within the current situation of domestic and international economic difficulties, VBSP must orient to more self autonomy in fund
mobilization in order to gradually reduce dependence on the Government’s subsidy. With the nationwide operation network ranging to rural and remote areas, micro-savings can be an effective and efficient channel of funding mobilization from rural community for VBSP. But after a few launching years, the micro-savings product is still not attractive to customers. Therefore, “Some solutions to improve micro-savings product in Vietnam Bank for Social Policies” is the topic chosen for analysis of the product and identify some solutions to improve with a view to help the poor take up savings behaviours and create owned capitals for emergency and investment into business and production. Moreover, it also helps VBSP increase more capitals for providing loan programs for the poor, contribute to poverty reduction, bring about sustainable development for VBSP in near future.

2. Research objectives

- Research on landscape of Micro-savings: definition of micro-savings, role of micro-savings and channels to collect micro-savings; criteria that the dissertation use to assess a micro-savings product basing on experiences from previous study and some factors affecting micro-savings mobilization of an institution; brief information on micro-savings landscape in the world and particularly in Vietnam.


- The topic will highlight advantages and disadvantages of micro-savings mobilization VBSP, which is the base for us to propose recommendations for improving the micro-savings product for VBSP by way of studying international practices and innovations, learning successful experiences on applying micro-savings product from other credit institutions in Vietnam and over the world.

3. Research subject and scope.

a) Research subject:


b) Research scope:
4. Research questions.

The topic will answer some following questions:

- Overview on theoretical aspects on micro-savings product in VBSP?
- Experience lessons on micro-savings mobilization in some banks in Vietnam and other countries?
- Analysis of the current situation of micro-savings mobilization in VBSP which includes achievements and challenges?
- Figure out obstacles and reasons for obstacles in mobilizing micro-savings in VBSP?
- Some feasible solutions to improve and scale up the microsavings product in VBSP in future?

5. Research methodology and topic approach.

The thesis is based on statistical analysis to identify research objectives; data collective method, the tables and figures to do the research. The thesis collected and used the secondary data, which are published by VBSP and other official institutions in analysis.

This analysis is based on desk study using secondary data and experiences of myself, as a senior officer working for VBSP for twelve years up to now. The desk study focused on theories about the savings practices of the poor and existing programs in some countries in the world. I use theories and information from publications of reputable organizations in micro-savings such as CGAP, MIX, GDRC and BWTP Network, including researches, magazines and websites. I also take experiences from previous study on this matter.

Data on VBSP operation was referred from internal sources and documents posted in the website of the bank. Analysis and recommendations of the research is based on my actual experiences in working for the bank and of internal reports for the bank from external consultants.

6. Topic structure.
In addition to introductions, conclusion, annexes and references, the topic includes 3 chapters as follows:

Chapter 1: Theoretical aspects of micro-savings
CHAPTER 1
THEORETICAL ASPECTS OF MICRO-SAVINGS

1.1 Overview on micro-savings

1.1.1 Micro-saving definitions

Microfinance is defined as “the provision of a broad range of financial services - such as deposits, loans, payment services, money transfers, and insurance - to poor and low-income households and their microenterprises. It supports the concept that low-income individuals are capable of lifting themselves out of poverty if given access to financial services.” (Microfinance as defined under the ADB Microfinance Strategy).

Micro-savings is basically a division of microfinance, consisting of a small deposit account offered to poor and low-income households or individuals as an incentive to keep money for future use. Microsavings accounts work in a way similar to a normal savings account; however, they are designed around smaller amounts of money (World Finance definitions). The minimum balance requirements for opening a bank account are often ignored, or very low to allow account holders to save small amounts of money and not necessarily pay for the service. Microsavings are commonly offered in most developing countries to help poor and low-income households save for future investment or cope better in case of unforeseen circumstances.

In shorter definition, microsavings are deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements.” (Grameen Bank’s website).

Microfinance in general and micro-savings in particular can be used as an effective tool of poverty alleviation. In MIX, 2000, micro-savings is defined as savings in very small increments, starting with small balance and followed with very small deposits, often come from the poor and other low-income clients.

Micro-savings could be compulsory savings or voluntary savings. “Voluntary savings are deposits from the general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution.” (MIX, 2010) whereas “Compulsory savings: Savings payments that are required as part of loan terms or as a requirement for membership. Compulsory savings are often required in place of collateral. The
amount, timing, and level of access to these deposits are determined by the policies of the institution rather than by the client.” (GDRC, 2010)

Micro-savings is often offered to the poor and low income customers by Microfinance institutions (MFIs) or retail banks. There are some basic assumptions underlying the dominant savings model in today’s world of microfinance, such as:

(a) Micro-savings is to be done only in the financial form (cash)
(b) Micro-savings of the poor are collected on a regular basis which is normally feasible and predictable;
(c) For the sake of regularity and for meeting collateral requirements on loans, micro-savings often subjected to certain rules and discipline (Mukherjee, 2005)

Micro-savings in microfinance generally deployed among groups of customers. It has been considered as a way of developing savings discipline and a cash-collateral against micro loans to members. In the past, micro-savings withdrawal is often restricted with regulations but up to present, many MFIs has realize the need for more flexible savings from customer and have responded in different way.

1.1.2 Roles of micro-savings

Micro-savings plays essential roles to financial organizations, especially microfinance institutions and clientele who are particularly the poor, low-income and vulnerable people. It is an effective tool of poverty reduction, employment generation, incomes and living standard improvement for last mile populations and brings about improved efficiency and profitability for sustainability and expansion for microfinance industry.

1.1.2.1 Institutional aspect

Micro-savings plays a role in both financial performance and outreach of microfinance institutions through many major ways (Robinson, 2004). Mobilizing micro and small savings can help MFIs reach financial self-sufficiency.

To supply a mobilized source of relatively cheap and attractive funds from deposit for microfinance institutions
Micro-savings is a source of cheaper, stable source of funds and an incentive to microfinance institutions to improve financial performance and outreach, reaching financial self-sufficiency in such a sustainable manner.

Micro-saving is an attractive source of funds from deposits for institutions as their financial costs are normally lower than funds from the interbank market. It is can be considered as the cheapest and stable source of fund for MFIs. In addition, it also helps the clients of the institution as the lower expense of funding will help to reduce interest charged on microloans.

To provide a more stable funding source than government or donor funds.

Mobilizing micro-savings can also help financial institutions less dependent on borrowing or grants. Thus, giving the bank more autonomy in using the mobilized fund whereas most of funding from government or donors come along with requirements and intervention to the bank’s business.

To mitigate liquidity risk

Micro-savings helps the bank lower liquidity risk as customers often have a small number of withdrawals from small amounts on deposit. The financial institution is less exposed than it would be if larger withdrawals were made from larger savings accounts. (Bamako: Innovation in microfinance, 2000).

Incentives for development

Micro-savings mobilization encourages growth and expansion of MFIs. As savers become an important stakeholder for the MFI, the institutions must pay more attention to improving institutional operation. MFIs focusing on micro-savings mobilization tend to be more discipline, service-oriented and cautious about their reputation.

To increase outreach of institutions and client’s trust

Finally, mobilizing micro-savings helps MFIs to expand their outreach and also increase the loyalty of clients. Savers may have a sense of trust and ownership for the institution where they put their deposit which credit clients do not necessarily have. For some customers, savings may be the beginning step before accessing other services like credit or money transfer. Moreover, micro-savings services help institutions to better organize their customer databases for better research and promotion of other services. (Alliance for Financial Inclusion, 2010).
1.1.2.2 Clients aspect

Many people think savings is meaningless for the poor who cannot afford their daily livings. Actually, experiences have found that poor households are interested in a variety of savings services and products. Deposit services allow them to households to save for large expenses like under three categories: life cycle needs, emergencies and opportunities. (Wright, 1999)

Access to micro-savings services can help poor and low-income households generate incomes, establish a savings habit, and to have proper spending plans to accumulate assets, lift from poverty and likelihood improving.

Life cycle for anticipated needs

Every people need savings to deal with life cycle events such as birth, education, marriage, home-making, old age and death. For the poor, who income is not stable, regular savings for these needs is essential.

Emergencies

Because of weak social security for the poor, micro-savings also can be considered as insurance for them to deal with emergencies. Savings helps clients to mitigate risk and lowering their vulnerability to external shocks. Savings will provide support to the poor in case of emergencies such as natural calamities, accidents, illness or disability.

Opportunities

Savings and its financial returns would be a vital source for the poor to take opportunities like starting a business, acquiring productive assets or just buying necessary home facilities, thus, gradually improving their living standards.

1.1.2.3. Country perspective

Economic growth

Microsavings relates to investment. Micro-savings mobilization helps increase investment, bringing about economic growth and social development. It plays such an important role in improving self-financial autonomy for institutions, raising incomes and likelihood for individuals, contributing to boost business and production, employment generation through fund
mobilization and lending of financial intermediaries. Indeed, micro-savings is a very essential investment resource for industries to help increase GDP for the nation.

Social development

Micro-savings is an effective tool of poverty reduction, improving social security and development for the country.

1.1.3 Channels of micro-savings mobilization

Micro-savings mobilization is often more costly than normal commercial mobilization since customers usually live in rural areas which is harder to access and far from transaction offices of banks. Besides, the cost to manage micro-savings accounts is also large because they are huge in number and each account has low outstanding, unlike in commercial banks where each deposits accounts often have bigger amount. Therefore, MFIs have to innovate to ensure good services with lowest cost charge to customers. The author Madeline Hirschland introduced a few successful channels to mobilizing micro-savings which had been used by MFIs around the world. (MicroBank Bulletin, 2003)

Minimally-staffed offices:

This method was used first by the Hatton National Bank, one of the biggest commercial bank in Sri Lanka. The key point of this method is to minimize cost of office operation both in terms of infrastructure and in human resources by forming small office in the rural area, with only one or two staff each. They then outsource their operation to local employees, part-time or volunteers

Mobile collection:

Rather than founding an office, numerous MFIs choose the method of sending field staffs to collect deposits at convenient locations for customers such as at village markets or local government office. Collectors can be individual or in team, can be full time staff or outsourced workers travelling by foot or vehicles. This method helps institutions in saving the cost of establishing branches and also increase access to customers.

Integrating services with other institutions:

Some MFIs also cooperate with the government or other institutions, to use the local post-offices or the culture houses of the villages as sub-branches for mobilizing. An example is the Union
Bank in Jamaica. The bank serves the rural Jamaicans by offering several products including micro-savings through the country’s 247 post offices. By using the postal buildings, management systems and staffs, the bank not only reduce its administrative costs but also increase its outreach up to 77 thousands of depositors.

Promoting groups:

Self-help group programs cost little since the role of the promoting institution is limited. The promoting institution does not manage credit and savings of the self-help groups. Instead, the institution organizes, trains, and supervises the groups. Group members save a fixed amount at regular meetings and cannot withdraw until the group terminates, or can only have limited withdrawals.

Serving groups:

This method had been used widely around the world. The institution allows individuals to make deposits on behalf of their group. A group leader from each group will collect and record members’ voluntary and mandatory deposits. The staffs of the institution do not need to visit the group regularly and only the leader of the group need to make trips to deposit in the institution’s offices.

Lockboxes or piggy bank:

This method had been widely used in Philippines by its rural banks, even though it is no longer preferred, it was quite successful in the past. The bank provided small lockboxes or, we can say, piggy bank that may be made of wood or light metal with a slot so that savers can make savings any time they want but cannot draw it out. The bank then open the boxes at the end of the month and collect amount inside. By applying this channel of mobilization the Rural Bank of Talisayan in The Philippines reduced its transactions per client while the volume of deposit collected slightly increased.

Automated Teller Machines (ATMs):

ATMs are not popular among MFIs, hence, in the future; ATMs can be used widely since it saves much set up cost as well as operation cost as compare to opening branches. Bolivian MFI PRODEM is an example of using ATMs for their savings mobilization.

Other methods
The increasing use of technology also led to other channels of mobilizing such as via mobile phone, mobile wallet and internet (MIX, 2009). These methods of mobilization may become fast developed in near future, it is the combination between traditional microfinance way of operation and digital channels which are now available with reasonable cost.

1.1.4. Main differences between micro-savings with other general savings products

The common objective of both micro-savings and general savings products is to help customers accumulate money for coping with emergencies, covering food and daily needs, children education, retirement, future of family, marriage, capital to start up or expand business, buy land or housing etc. Saving mobilization in any form is aimed to grow more sources of funds for financial and credit institutions for extending lending to customers. However, to some extent, there are some key differences to be easily realized and clarify between micro-savings and other savings products, as follows:

Target market (customer segments and region)

Micro-savings is in fact savings service for the poor, low income people and other disadvantaged groups living in rural, remote and mountainous areas where they are inaccessible to financial services commercial banks.

Other savings products, in this case mentioned as specifically savings mobilization of commercial banks. Meanwhile micro-savings is mainly applied by microfinance institutions; commercial banks ignore micro-savings. For commercial banks, the biggest purpose is profit and mobilizes capital as much as possible. Therefore commercial banks design savings products mainly serving and appealing their main customers are and individuals with high incomes and better-off living mainly in urban areas.

Savings types and savings balance

Compared with general savings products, micro-savings product has not diversified savings types and attractive options.

Micro-savings product consists of small deposit account. For instance, in case of VBSP, minimum amount for each deposit is VND 20,000 (less than US$ 1)/saver on average. It requires low maintaining balance. Micro-savings basically includes voluntary savings and compulsory savings. Voluntary micro-savings allows savers to make deposit and withdraw money as per requirement.
Mandatory or compulsory micro-savings is a required condition/security for the poor to receive a loan. Micro-savings also applies demand deposit and term deposit. However, demand deposit is applied mainly. It use the method of demand savings deposit including 2 key types: (i) Initial savings - the amount of savings that each member deposits at the first time; (ii) Periodical savings - the amount of savings that each member deposits monthly.

Other savings products consist of bigger deposit account than micro-savings account and require high minimum balance. For example in Vietnam, minimum deposit for each time of depositing into a savings book depends on each type of savings product but shall not lower than VND 1,000,000 (nearly US$ 50). It has more diversified and attractive savings options and programs, such as: Fast Savings, Normal Savings, Interest upfront savings, online savings, super kid savings, and flexible savings. Its method of savings is demand deposit, term deposit or special deposits. It is not only used to transfer loan payments of the owner of savings but also transfer payments to other banks.

Interest rate in micro-saving is basically the same as the demand deposit of commercial banks operating in the same area meanwhile in other savings products, interest rates is variable and depends on each type of savings product.

For multi channels of savings mobilization, obviously commercial banks have more modern information technology than MFIs. They invest various digital financial tools for supporting customers to access savings products such as mobile phone banking, e-wallet, cards, ATM, internet banking etc.

1.2. Assessing a micro-savings product

1.2.1. Requirements for a micro-savings product

In assessing a micro-savings product, firstly, we must understand that micro-savings, as normal savings products which are influences by customers’ decision to save and even more. These are (Bamako, 2000):

1. The design of savings products. It must be compatible with characteristics of different market segments with consideration to earnings, consumption habits, culture, geographical and economic conditions of local areas.
2. Voluntary savings products attract a larger number of customers and a higher savings volume than compulsory savings.

3. Demand for making savings of the poor will increase as savings interest rate increases. Usually, it is assumed that the poor save even under negative real interest rates as long as they are offered with a chance to save, reality research has showed that positive real interest rates actually play a very important role.

4. Low transaction cost is another influencing factor, not only limited in fee for the bank (if any) but in terms of travelling cost, opportunity cost as well. That is why MFIs with large outreach gain much advantages in mobilizing savings. If is not convenient in time and travelling, micro-savings customers in rural areas may well choose informal savings methods such as ROSCA or simply hide their money at home.

1.2.2. Criteria to access a micro-savings product

Based on such needs of customers for a micro-savings product, experiences from the world has showed that an appropriate savings product would need to include 5 basic features (Bamako, 2000)

i. Accessibility – ability to save tiny amounts at low transaction costs; accessibility here includes proximity, flexibility in deposit amounts and speed of processing transactions. The scale and outreach are important criteria to assess mobilization of micro-savings. They show how broadly and how deeply the institution mobilizes micro-savings from the poor.

The number of clients or accounts can describe the scale of outreach. Most institutions are better able to report number of accounts than clients. The total deposit volume is a measurement for the scale of mobilizing deposits. Lastly, the average account balance is a measurement for the depth of the outreach.

ii. Multiple forms - savings in mixed forms so as to distribute risks, such as savings in the form of tree, grains, livestock, and others; for a banking products, it is savings in different terms and products.

iii. Security and sense of ownership – savings is important to the poor, thus they expect high security for what they deposit.
The poor want their savings to be safe. Most of the informal savings are not safe and can result a loss for the poor. The formal savings are mostly more secured than the informal savings. However, the problem of the institution is to gain trust of the poor for their security. The poor feel secure only when their savings are claimed to be theirs. In other word, they want their own savings account with their reasonable rights to these accounts.

Risk management has large effect on mobilization of micro-savings, since the savings mobilization makes the institutions more vulnerable to numerous kinds of operating risks. The operational risks affecting credit institutions in mobilizing include credit risk, liquidity risk, interest rate risk, reputation risk, transaction risk, and fraud risk (Glisovic et al., 2010).

Institution mobilizing micro-savings is vulnerable to other risks associated with mobilization such as transaction risk and fraud risk. Therefore, the quality of risk management of an institution is important in mobilizing savings. Risk management is set of activities of MFIs to identifying, measuring, monitoring, and managing operational risks. “Effective risk management includes the following steps: (1) identify, assess, and prioritize risks; (2) develop strategies to measure risk; (3) design policies and procedures to mitigate risks based on cost–benefit analyses of different measures; (4) implement and assign responsibility for policies and procedures; (5) test their effectiveness and evaluate the results; and (6) revise policies and procedures as needed.” (Glisovic et al., 2010).

iv. Liquidity or diversification in liquidity and terms– that means ease of withdrawing savings and easy access to savings service:

In some emergencies or when an opportunity comes, the poor want to access their savings immediately. However, for expected expenses such as school fees, the poor want to access their savings at a defined time and not beforehand. For this needs, term deposit with lower liquidity is preferable. Basing on demand for each purpose, customers would wish for both liquidity and less liquidity savings products. This complex and diversified demands asks the institution to provide a variety of savings products.

v. Positive returns – customers expect to receive positive value from savings

Financial real returns is not what the poor prioritize for when they use the savings products of MFIs since they do not have much options for formal savings services with their regular but little amount of savings. In some cases, an institution might consider lowering interest rates and using
those funds to improve product or service offerings such as allowing low minimum balances, reducing transaction times, and reducing distance to branches.

However, the poor expect their savings to have real rate of return. Also, the poor want their savings to be protected against inflation. The products of savings that offer too low rate of return may be less attractive for the poor compared with other products alike which offer high rate of return. The similar products that offer, even slightly, higher rate of return can attract much higher volume of deposits.

For people taking part in term deposit, changes in interest would affect much to their savings decision than people who make savings in current account under demand deposit category. Offering higher interest rates on term deposit accounts allows banks to attract larger deposits volume.

1.2.3. Factors affecting micro-savings mobilization of MFI

Besides the micro-savings product itself, there are internal factors of the MFI and external factors coming from policy, surrounding environment that can affect mobilization of a MFI.

1.2.3.1 Internal factors

Important internal factor affecting micro-savings mobilization of a MFI includes:

**Strategy**

Strategy of a MFI includes its vision, mission and plans. It is decided from time to time depending on each development phase of the MFI. Each MFI can have a variety of different strategies regarding mobilization of micro-savings. If a MFI chooses to focus mobilization of micro-savings, then investment to this field is also important. The institution would concentrate on development of micro-savings as a vital funding source with proper efforts. Results of micro-savings in these MFI, thus, would be better.

**Reputation of MFIs**

The reputation of MFI is also an important factor in mobilization of micro-savings. Since the poor want their money to be safe and have limited understanding about the market or available service providers, they often chose the institutions with high creditability and have been
recognized in the market. MFIs with no reputation or lack of reputation would have difficulties in mobilizing micro-savings.

Wide operation network

MFI with larger network of offices or representatives will have greater advantages in mobilizing micro-savings. The branches network of a MFI can affect the physical accessibility of the products that the institution offers, and the outreach and scale of the mobilization of an institution. While MFI can access customers through individual agents at community level, physical offices in surrounding areas would be better as customer want to be sure that, they actually can access to the institution any time they like.

Channels of mobilizing

As describe in previous part, there are different channels of mobilizing savings such as mobile banking, ATMs, lock boxes, etc, basing on real situation regarding available technology, capital, geographical conditions, a MFI can decide to choose one which best fit with their target customers. This choice, on the other hand, decide success of mobilization, for example, in community which have many people coming from different provinces for earning livings whose have loosen linkage to others, it may be not a wise choice to select an individual as agent for the bank to collect savings since the community may not know him, hence, not find him/her reliable. Inappropriate choice of mobilizing channels can lead to high operating costs, fraud risk and reputation risk.

Personnel

Traditional micro-savings and other services of MFIs require much interactive between staff of MFIs and customers. Effectively mobilizing micro-savings requires the MFI to have good personnel with proper skills and capacity. There are three factors affecting the MFIs’ personnel qualities including staff recruiting, staff training and staff incentive system. (CGAP, 1999)

Staff recruiting

Staff here is not only employers of MFIs but its volunteers, its agents in the community as well. Beside experiences and skills, these staff should have good inter-personal skill to create trust relationship with customers, understand their culture, custom and willing to work patiently with customers who may even cannot read and write.
Staff training

Training is required for staff working at MFIs, especially soft skill training. Training on simple accounting knowledge is also required, especially for agents of the bank who are local people. Training may not need to be in courses with facilitator but can be simply training at work by direct supervisor.

Staff incentive system

Working in MFIs is a big task requiring devotion of staff to the community, that’s why personnel in this field is not highly available to recruit as in other profitable sectors. Proper incentive system is ideal to encourage performance of staff in mobilizing savings. Staffs can earn a percentage over mobilized fund or some bonus basing on their performance. In addition, incentive can be in non-financial form like vacation, holiday etc.,

Information technology system

Information technology can affect the micro-savings mobilization activities since it involves in the whole process of operation from opening account to management, calculation and payment. The more modern and adequate the IT system of a MFI, the better chance that the MFI can reduce administration cost, personnel cost, transaction time, and well manage customer information. If the IT system is too out of date, it not only results in a bunch of manual work but reduces security of the institution as well.

1.2.3.2 External factors

Mobilization of micro-savings is affected by numerous external factors from surrounding environment.

Regulation and legal framework

This includes relevant regulations for operation of MFI and micro-savings mobilization, for example: liquidity ratios, minimum capital and reporting system. Supportive legal environment can help MFI in pushing its successful operation, otherwise, MFI may find some limitations, hence, cannot develop savings product the way they want.

Economics conditions
Economics conditions are another external factor that affects the mobilization. Poor people are most vulnerable to economic downturn. If the situation is good, the poor can earn more and have more extra cash to save. Similarly, MFI can have more customers asking for loans for income generating activities, thus, need more capital leading to more investment into development of micro-savings mobilization.

*Size of demand and preferences of clients*

Micro-savings customers who are the poor have different preferences to normal customers. The poor tend to prioritize accessibility and security over other aspects of savings such as interest rate or availability of various products (Glisovic et al, 2010). It is necessary for MFIs to study details preferences of their target customers to design most suitable products.

Size of target market is certainly another decisive factor to success of micro-savings mobilization. Again, a study is required to access potential development of the program for adequate investment. The studying of demands of customers may include some aspects such as: (1) the number of poor currently using savings services; (2) the poor who has not used savings products but willing to try if it is available and (3) the expected amounts of savings that could be mobilized from these groups basing on their actual income and the amount wished to save. (Glisovic et al, 2010)

*Competition and availability of substitutes*

The competition between MFIs is also a factor that affects the mobilization. The high competition in the market makes each institution to invest more in competitiveness of the products like designing more attractive savings option, increase interest rate. Competition also encourages the institutions to improve efficiency of operation like reducing administrative cost, improving IT system for time savings and better management.

The availability of substitutes, even informal savings such as the ROSCA or deposits to local money lender also affect the mobilization of MFIs. These informal products usually offer higher return than formal ones and more flexibility. MFIs should focus on promoting its products’ advantages over informal ones like security and chances to access other services to attract customers.
1.2.3.3 Other factors

Other factors such as geography, culture and weather conditions also have large effect on mobilizing micro-savings. The poor in some isolate and remote areas who live far from each other may be more difficult to access to collect savings from them.

The culture differences also create difficulties for institution when mobilizing from different groups of ethnics or different regions. In some culture, savings is habit, in others they may like savings in kind rather than in cash, or they prefer the culture of spending rather than regular savings.

Natural conditions is another remarkable factors, people living in regions which is vulnerable to natural calamities like flood may wish to save more during the year to prepare for flood season.

1.3. Some successful institutions in micro-savings in the world

Grameen Bank was the leading microfinance institution in Bangladesh and also famous in the world for its sharing Peace Nobel Prize with its President, Dr. Yunus. During 2011-2015, Grameen Bank had achieved high results in deposit mobilization with US$ 2,409 million, out of which micro-savings mobilization reached US$ 1,508 million or accounted for 62% total deposits, equal to over 100 percent of total loan outstanding of the bank. The bank is providing both compulsory savings as collateral to access loans and voluntary savings (Grameen Foundation, Past Five Years at a Glance 2011-2015).

Success of Grameen lies in some factors, the first is incentive to staff. Staff and branches were given non-financial incentives such as promotions if they are self-sufficient in funds. New branches were expected to be financial self-sufficient from the beginning which require staff to make their best efforts to mobilize fund from the market.

Secondly, Grameen bank receives support from the Bangladesh government in terms of free tax for its operation with the target of poverty elimination for the people.

Thirdly, to attract savings from customers, the bank requires very low minimum balance, savings frequently is 2 weeks base and bank staff come to each group to collect savings. Besides, interest rates offered by the bank are quite attractive as well. Historically, basic interest rate paid on deposits of Grameen had been higher than that of most of other MFIs in Bangladesh.
The design of products, marketing, broad network and attractive interest rate has made Grameen micro-savings products in particular and its operation in general the best practice of MFI in the world.

**BRI**

Bank Rakyat Indonesia is as state-owned bank of Indonesia which has a long history since 1950. At the beginning of the 1970s, BRI was the financial channel to bring credit of the government to agricultural sectors and rural areas in different program. The bank existed on support from the government and failed to reach financial sustainability.

In the 1980s, the bank realized importance of mobilization of savings, including micro-savings. Successful in mobilizing micro-savings led BRI to financial profitability from 1985 onwards. Up to now, BRI's micro-savings system was the largest in the world.

One success experience of BRI in mobilizing micro-savings was designing savings products with high financial return and incentives. An example of product that BRI offered is Simpanan Pedesaan (SIMPEDES) which will later discussed in this dissertation on lessons it brings to to micro-savings world. Simpanan Pedesaan or Village Savings: a deposit instrument allowing an unlimited number of transactions and therefore favoured the need of full liquidity. It had a positive real interest rate since BRI would adjust the rate to be higher than inflation. To attracting new customers, lotteries are organized every six months with prizes in kind. It achievement is worth to be remarked: 80 percent of BRI micro-banking accounts were Simpanan Pedesaan. (BWTP Network)

**LAPO**

Lift Above Poverty Organization or LAPO was a leading MFI in Nigeria. It served currently more than 130,000 clients in seven states, has instituted both compulsory and voluntary savings products. LAPO success in micro-savings mobilization had been recognized and its experience was shared widely in microfinance sector. The bank offered both voluntary and compulsory savings products. But its remarkable successful is the compulsory product named The Xmas Business Savings program which encourage customers to save from the beginning of the year so that by Christmas they would have significant amount for buying necessities and prepared for Christmas. It is compulsory but the amount saved was variable based on a client’s preferences.
1.4. Micro-savings landscape in Vietnam

Savings deposit mobilization from community into Vietnam banking sector has constantly increased over past decades. Together with investment sources of the whole society, savings deposits have generated important resource for socio-economic development in the country.

Look back in the past, in 1960, total savings mobilization in banking sector only reached 45.9 million new Vietnamese dongs and up to 1963 it increased double at VND 104.8 million which contributed to very large fund sources serving resistance period. After resistance period and country rebuilding, the banking savings source continued to promote its role in country reconstruction. Especially after 1975 up to now, the banking sector constantly developed savings mobilization renovations and brought about credit source for country economic sector. In 1990, the funding mobilization ratio just only reached 20% but up to now total funding mobilization source via banking sector has reached over 100%.

Vietnam was not in the list of less developing countries anymore and became a lower-middle income country in 2009 with GNI per capita of US$1,980 and GDP per capita of US$1,980 in 2015 (World Bank Data, 2015). The savings deposit source always accounts for 55%-60%, even up to over 70% total deposit mobilization in the Vietnam banking sector, which contributes to enhance stability and security for liquidity in the banking industry. In 2016, total Vietnam’s deposit mobilization reached US$ 680 million with around 30 million savings accounts whereas total number of the country’s households was just 24 million (Central Bank of Vietnam 2016). These significant figures show the increasing savings deposit demand of Vietnamese population. However, the figure mainly comes from commercial banks meanwhile micro-savings serving customers living in rural, remote areas is not interested yet in because of its high operating cost and micro-savings mobilization just only very small percentage in responding with borrowing needs. So far, micro-savings is just mobilized by VBSP, VBARD, Lienvietpostbank as the formal players and MFIs and microfinance development projects, as semi-formal organizations, and mainly just among their target group of project beneficiaries.

1.4.1 Targeted customers

Targeted customers of micro-savings are mainly the underserved or last-mile population who are the poor, the near poor, low-income and other vulnerable people inaccessible to commercial banks in Vietnam. In accordance to MOLISA’s multi-dimensional measurement method for 2016
– 2020, poor households in Vietnam account for about 6% of the population (1.44 million households and the near poor account for 5.62% (1.34 million households). The poverty rate is higher in rural areas and ethnic minority groups. Most of these people live in rural areas (80%) and have their income mainly from agriculture activities, small business and other manual jobs. Since their income is irregular, savings is what they need to prepare for spare time at low season.

Majority of the poor have accessed to services of MFI s, according to data of Findex 2014 there are only around 18.9% of adults belonging to the poorest access financial services. But micro-savings mobilization among the poor is still not popular. Most of MFIs mobilize savings from their credit projects or loan program customers, not from the poor public in general due to limited resources and also due to legal framework which allow only formal MFIs to mobilize funding from the public. Until 2014, except for state-owned organization like VBSP, there are only four MFIs in Vietnam (TYM fund, CEP, M7-MFI, Fund Thanh Hoa Poor Women FPW) are certified by SBV as legal MFIs and can raise fund from the community. Therefore, the market for micro-savings mobilization is still open, and the poor population are waiting for more savings products and service providers to come.

1.4.2 Major providers and products

Micro-finance market in Vietnam is mostly policy-driven with a majority of funding sources coming from the Central Budget. Micro-savings and micro-credit are just focused in some main players such as state-owned policy bank VBSP, state-owned commercial banks VBARD, Lien Viet Postal Bank (formerly Vietnam Postal Savings Company), Cooperative Bank of Vietnam (formerly the network of People’s Credit Fund. Besides these main players are several tens of MFIs, NGOs which serve a small group of poor customers with majority funding from foreign sources, of these minor, non-state owned players, TYM fund is the largest in the North, M7-MFI is the largest in the Central and CEP fund is the largest in the South.

As in the table 1 below- VBSP, VBARD, the PCFs, and LienVietPostBank, the latter with its tie-up with Vietnam Postal Savings Company (VPSC), have a combined network of over 25,300 branches and transaction offices that provide savings services quoted by Asian Development Bank (ADB-2015). With 6 million reported depositors, VBSP would appear to be the most effective deposit mobilization organization among the major microfinance players with 70% share of depositors. Likewise, its savings volume significantly increased by 132 % at USD 341
million as of end 2015, from USD147 million in 2014. It is a dramatic leap from 2010 when VBSP only accounted for 22% of micro-depositors and 4.3% of total micro-savings. However, the huge number of VBSP’s depositors only mirrors its number of borrowers with very low average savings mobilized at merely USD 57/depositor. Thus, VBSP only accounts for 12% share in micro-savings generated despite its almost 7 million “captive clients” due to its largely credit-delivery-focused infrastructure and staffing, and its once-a-month operations of transaction points unable to provide even the most basic day-to-day needs of depositors. More importantly, VBSP mobilized deposits could only meet 5% of its lending requirements and it remains heavily dependent on government budget or state-mobilized funds. In contrast, the PCF network is the lead deposit mobilization player with 70% share of savings volume (USD2.018 billion) even as it accounts for only 14% of depositors (2nd ranked at about 1.2 million micro-savers). The following table shows the micro savings profile in the country.

Table 1: Profile of Formal Micro-savings in Vietnam (amount in millions)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of micro savers</th>
<th>Total deposit volumes (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VBSP</td>
<td>6.88</td>
<td>5.4</td>
</tr>
<tr>
<td>VBARD</td>
<td>1.05</td>
<td>1.05</td>
</tr>
<tr>
<td>Coop bank/PCFs</td>
<td>1.23</td>
<td>1.44</td>
</tr>
<tr>
<td>VPSC/Lien Viet Post Bank)</td>
<td>0.31</td>
<td>0.32</td>
</tr>
<tr>
<td>MFIs (both licensed and non-licensed)</td>
<td>0.56</td>
<td>0.62</td>
</tr>
<tr>
<td>Total</td>
<td>9.73</td>
<td>8.83</td>
</tr>
</tbody>
</table>

Source: ADB report 2015
Among commercial banks, VBARD and Lien Viet Post Bank (LVPB) are among the top micro-savings mobilization institutions. VBARD has dropped from its lead role in 2010 and ranked fourth in 2015 as it increasingly serves the higher-income market segments. However, its extensive network and commercial banking orientation still makes VBARD a major micro-savings mobilization institution in rural areas. LVPB, a 100% private domestic commercial bank, has great potentials to be a key player with the newly issued SBV Circular No. 43/2015/TT-NHNN (Dec. 2015) on organization and operation of postal savings transaction offices (PSTO). This circular only benefits LVPB due to its exclusive tie-up with the PSTOs, which according to article No. 7, can carry out the following activities (i) mobilize deposits, (ii) open transaction accounts; (iii) provide blank checks, cash withdrawal from transaction accounts, payment on behalf of customers; (iv) collection service for customers; (v) remittance in cash, foreign currencies; and (vi) acting as insurance agent. This can be a significant push for private sector entry to microfinance services that can be further enhanced digital banking. Licensed MFI do offer savings services but are not competitive, due to relatively higher operating costs. Semi-formal MFPs/MFOs also mobilize savings, mainly in the form of compulsory deposits that can only be withdrawn upon full repayment of the loan and viewed more as a partial guarantee to the client’s micro-loan. Collectively, MFI/MFPs/MFOs have very negligible share of micro-savings both in terms of depositors and amounts mobilized.

Micro savings market in Vietnam is still under-developed which limit the chance for the poor to make savings, access to formal financial services and also the chance for financial institutions to mobilize fund sources.

1.4.3 Future perspective

Interest of commercial banks to provide financial services to the unbanked and low-income people

Lien Viet Post Bank is currently interested in providing financial services to the low-income market given its exclusive tie up with Vietnam Post Corporation (VNPOST) to utilize the latter’s Postal Savings Transaction Offices. SBV Circular No.43/2015/TT-NHNN\(^1\) allows these postal savings transaction offices to engage in basic banking operations (e.g. mobilize deposits, open transaction accounts, provide blank checks, cash withdrawal from transaction accounts, payment

\(^1\) Circular No. Circular No.43/2015/TT-NHNN on operations of postal transaction offices.
on behalf of customers, collection for customers and be an insurance agent). Similarly, VBARD, given its huge network of more than 2,300 branches and transaction offices, has increased its loan portfolio for the poor and near-poor households. Because most of the unbanked and low-income people are located in remote rural areas, commercial banks will be able to bring down cost through the use of agents such as postal and retail outlets (e.g. grocery stores, pharmacies, agricultural retailers, gas stations) instead of merely relying on bank branches and field offices. Setting up branches and transaction points is also costly due to capital and infrastructure requirements. There are also limits in the number of branches and transaction offices that a bank can establish in a given area.

$LienVietPostBank$ - The merger between LienViet Bank and Postal Savings Company.

On July 29, 2011, The LienVietPostBank, a joint stock bank in Vietnam announced the new name after completing the planned merger with Postal Savings Company to exploit the services, technology, and nearly 10,000 transaction unit of the Postal Saving Company.

This merger gives the first post office bank in Vietnam - a combination of commercial banks with traditional postal savings services, which make it becomes a strong bank in terms of coverage. The bank's charter capital increases from VND 7,453 billion to VND 100,800 billion, with a large network of 1,198 transaction points, including 131 bank transaction offices and 1,067 postal transaction offices across 63 cities/provinces of Vietnam; more than 10,000 nationwide post offices which can be upgraded to postal transaction offices. With this scale, the bank is now in the top 10 largest private banks in Vietnam in terms of total assets and owner’s equity, in the list of top 100 Vietnam strong brands for 4 consecutive years.

In the strategy of LienViet Post Bank, it aims to take advantage of the system of post offices into deposit mobilization as well as expanding banking and payment services. CEO of the Bank has stated that from their survey, they found out that in a poorest district of a mountainous province, Cao Bang, savings outstanding was the biggest and that savings were from little amounts of farmers. Therefore, he believes that with his new banking network, more micro savings will be mobilized from rural areas. "Now anyone can go to the bank" is the saying from the Post Bank.

The establishment of the bank gives the market the first joint-stock commercial bank which is dedicated to the poor, rural households in the country. The bank will use vast network of old postal savings company to deploy formal banking services in the whole country. This utilization
can make services of the bank less expensive and much more convenient. Postal Savings has long been known to many people, especially in the northern mountainous, rural areas of the Northern Delta and central provinces. Now with good interest policy and customer care, new LienViet Post Bank certainly will attract a large number of customers, including customers who previously left the Postal Savings only for reason of less attractive interest rates and service.

It can be seen clearly that the Post bank will become biggest competitor of VBSP in micro-savings mobilization in the whole country. If VBSP does not invest in improving its services, micro deposits may well flow into post bank.

*Granting financial institution legal status to MFIs*

In the past, MFIs in Vietnam are operated under forms of funds or project only, which, by law are not authorized to mobilize funding from market including micro-savings. The situation has changed, Law on Credit Institutions issued in 2010 officially recognized MFIs as a type in the formal system of credit institutions (Vietnam Microfinance Group Study 2014). The State Bank of Vietnam is completing legal framework to facilitate development of MFI models.

In 25/8/2010, TYM - the first microfinance institution in Vietnam was licensed microfinance activities in accordance with Decree No. 28/2005/NDCP and Decree No. 165/2007/ND-CP by State Bank of Vietnam. Following TYM, other MFIs are trying to get this license. To date, three MFIs (CEP, M7-MFI, FPW). Once the MFIs are recognized by law as formal financial institutions, they can join freely in the market of micro-savings mobilization. Although most of MFIs are very small as compared to VBSP, they still can become strong competitors in areas of their operations as they often work very closely with target customers and provide them with technical services beside financial services.
CHAPTER 2
CURRENT STATUS OF MICRO-SAVINGS MOBILIZATION OF VIETNAM BANK FOR
SOCIAL POLICIES

2.1. General introduction about Vietnam Bank for Social Polices (VBSP)

2.1.1 History of VBSP

Vietnam Bank for Social Polices was developed from a small fund for the poor and then became part of the state-owned bank Vietnam Bank for Agriculture and Rural Development until it is separated in 2002. Up to present, VBSP is now the dominant player in micro-finance in Vietnam, and one of biggest MFIs (in term of capital and number of customer served) in the world.

The Fund for the Poor

In the early 90s, Vietnam was a less developing country with high rate of poverty. Financial support for the poor at that time was undeveloped whereas commercial lending often required collaterals and complex procedures which made poor people come to illegal financial activities like ROSCA and money lenders. There was a strong demand for a formal financial channel for low income people. In March 1995, the Fund for the Poor was established under Decision No. 74/QD-NHNN of State Bank of Vietnam, with participation from Vietnam Bank of Agriculture and Rural Development State Bank of Vietnam (SBV) and Bank for Foreign Trade of Vietnam.

As the fund come to operation, it soon faced with issues of insufficient funding sources and poor management. There was not a separate management body for the fund from central to grass-root level to control the loan capital. At that time, each poor household borrower received VND 200,000 regardless of loan utilization purpose; many of them thought that it was a welfare amount from the government which they did not have to pay back due to their limited understanding and to poor information dissemination from the fund as well. In addition, fraud from group leaders such as taking money for their own in the name of villagers also existed and the fund did not have enough capacity to solve it.

The Bank for the Poor

To address the disadvantage of the Fund for the Poor, VBARD suggested to SBV for proposal to the Prime Minister to transform the fund into a state-owned bank in order to mobilize larger fund sources for the national targeted program of poverty reduction and to manage such fund. As the
result, on August 31st, 1995, the Prime Minister issued Decision No. 525/TTg on authorization of establishing the Bank for the Poor and on September 1st, 1995, SBV’s Governor issued the Decision No. 230/QD-NH5 on establishing the Bank for the Poor with international transaction name of "Vietnam Bank for the Poor" (VBP). The VBP started its operation on January 1st, 1996 and was a part inside VBARD managed by a Deputy General Director of VBARD. It used the network and human resources of VBARD. After 7 years of operation, total capital of VBSP was VND 7,000 billion with 6 million turns of borrowing customers contributing to improving living standard of the poor. However, besides VBP, policy funding sources for supporting the poor and other policy beneficiaries were allocated to other stated-owned banks and institutions which brought about overlapped activities and poor management. It was essential to put all the preferential capital sources to the poor under one management body.

_Vietnam Bank for Social Polices_

To separate policy banking from commercial banking activities, in 04/10/2002, the Government of Vietnam launched Decree No 78/2002/ND-CP on providing preferential credit for the poor and other social policy beneficiaries and the Decision No 131/2002/QD-TTg on establishment of VBSP based on re-organization of VBP and detached the bank from VBARD. On March 11, 2003, VBSP officially started its operation as a financial institution under Policy bank category regulated in item 2, Article 4 and Article 17 of Law on credit institution. Its life is 99 years.

VBSP acts as a non-profit credit institution providing policy credit to the poor and other policy beneficiaries with a compulsory reserve ratio of 0% and solvency is guaranteed by the Government. It is exempted from deposit insurance, tax and State Budget’s remittances. As of 2010, VBSP’s charter capital is VND 10,000 billion and total assets are nearly VND 100,000 billion.

_2.1.2 Organization structure of Vietnam Bank for Social Polices_

VBSP is a legal entity with its financial autonomy and operation sustainability. VBSP has the own seal, legal assets and nationwide transaction network from central to local level. VBSP set up a nation-wide unified management and administration apparatus, its Headquarter is based in Hanoi. Its time activity is 99 years. Issuing VBSP’s the policies by the relevant ministries. Managing VBSP is General Director. The Governance structure consists of: The Board of Directors at central level and the Board of Directors at provincial/city and district level.
The Board of Directors (BOD)

The Board of Directors comprises 14 members in which 12 part-time members and 02 full-time members. 12 part-time members among them the Governor of State Bank of Vietnam is the Chairperson; 11 part-time members are Vice Ministers or equivalent-ranking officials of relevant ministries, agencies and mass organizations such as: Ministry of Finance, Ministry of Planning and Investment, Ministry of Labour, Was Invalids and Social Affairs, State Bank of Vietnam, Ministry of Agriculture and Rural Development, Committee of Ethnic Minorities, Vietnam Women’s Union and Vietnam Farmer’s Association, Veterans Union and Youth Union. The two full-time members are the General Director and the Chief of Supervision Board of VBSP.

The BOD is in charge of governing VBSP’s activities; issuing directions, policies, and the annual and five-year development strategies for VBSP; deciding the operational and organizational mechanism of VBSP at various levels; passing resolutions of the BOD on an ad-hoc, quarterly, and annual basis. In addition, the part-time members of the BOD directly steer their own agencies to take part in managing and overseeing VBSP’s activities. Supporting teams of BOD is BOD’s Advisory Team and BOD’s Supervision Board.

BOD’s Advisory Team has the function of advising BOD on the governance of VBSP. Members of the Advisory Team are senior experts nominated by ministries, agencies, and mass organizations that have their representatives on the BOD of VBSP. Other experts may be selected by the Chairperson of BOD.

BOD’s Supervision Board is responsible for surveillance and supervision of the activities of Representative Units of the BOD at the provincial and district levels and of the Management Board of VBSP with respect to the execution of the Government’s directions, policies and laws, VBSP’s charter, and BOD’s resolutions and decisions.

Representative Units of the BOD at the provincial and district levels: As the representatives of the BOD in the local area, these units are tasked with supervising the implementation of BOD’s directions and resolutions by VBSP’s provincial branches and district transaction offices. These units also jointly give directions on the linkage of policy-based credit provision, poverty reduction, and socio-economic development projects in local areas so as to better utilize capital source.
Representative Units of the BOD at the provincial and district levels: as the representatives of the BOD in the local area, whose members are equivalent members at central level (but only part-time members). Accordingly its members are the management officials of relevant departments, agencies and mass-organizations at local, the heads of the Representative Units are the Chairperson or Vice Chairperson at relevant levels. At the Representative Unit at district level particularly, the Chairperson of the Commune People’s Committee participate as its mandatory member. The director of VBSP branch at equivalent level is the supporting member of the Unit. Currently, there are 63 BOD representative units in provincial level and over 650 BOD representative units in district level.

Board of Management

VBSP’s operating network stretches from the Headquarters down to provinces and districts. At the helm of VBSP is the General Director, who is assisted by a number of Deputy General Directors and functional departments at the Headquarters.

* At central level:

The Head Office is the highest level in the management mechanism of VBSP under leadership of the General Director. The General Director takes charge of managing the operations of VBSP, assisting him or her include Deputy General Directors, Directors of professional departments and centers.

Members of Management Board: one General Director and five Deputy General Director

Professional departments: Personnel Department, Department of Emulation – Commendation, Accounting and Financial Management Department, Credit Department for the Poor, Credit Department for the Disadvantaged Students and Other Target Groups, Department for Risk Department, Capital Resources and Planning Department, Internal Supervision and Auditing Department, Internal Control and Audit Department in Southern region, International Cooperation Department, Department of Construction and Facilitating Management, Treasury Department, Legal Department, Administration Office.

Training Center is located in Hanoi and seven training establishments in seven provinces and cities.
IT Center is located in Hanoi with two database processing bases in Da Nang and Ho Chi Minh cities.

The Transaction Center is located in Hanoi.

* At local level

Provincial branches: under management of the Headquarters, act as the entity representative authorized by the General Director in directing and managing VBSP’s operation in localities. Directors shall manage provincial branches and be assisted by a number of deputy directors and professional divisions.

District transaction offices: under management of provincial branches, located in districts, directly conduct VBSP's expertise in localities. Managers shall manage transaction offices and be assisted by one deputy director and two teams of accounting & credit. As of 31th December 2016 there have been 629 district transaction offices.

Coordination with People’s Committee and mass organizations at commune/wards/town: VBSP collaborate with four mass organizations which are Women Union, Farmer Union, War Veteran Union and Youth Union in process of extending microcredit to poor households and other disadvantaged beneficiaries in order to promote the community empowerment in the fight against poverty reduction, equality and social security.

Commune transaction point: in order to increase the accessibility to preferential credits provided by the government to the poor and other policy beneficiaries, to reduce transaction costs for the borrowers and also as an effort to publicize the use of policy loans as well as to strengthen the steering of local authorities and cooperation in monitoring the loans and providing assistance to help the borrowers use the loans for the right purpose to maximize its efficiency, the VBSP has officially established fixed date transaction points at communal level since August 2005. Up to 2016, there have been 10,917 mobile transaction points.

Savings & credit groups: VBSP coordinates with mass organizations to establish savings & credit groups which include poor households voluntarily joining and this is the VBSP's channel of delivering preferential loans to targeted clientele effectively and efficiently.

VBSP extend loans to group members through entrusted mass organizations. The savings and credit groups formed by such mass organizations are the linking hands of VBSP, which ensure
that the Government’s concessional credit approaching the poor and policy-based beneficiaries who are in need of capitals. Each SCG must have 5 to 50 members, in reality; on average each SCG of VBSP comprises 35 to 50 members. The SCG must be established and operated under regulations set by VBSP. Each SCG has an elected board of management leading by a group leader. These group board of managements are provided with training from VBSP.

SCG is a very important unit of VBSP operation which directly approach target customers, proposing eligible customers and managing borrowers. Group leaders also take charge of collecting loan interest and savings from members to submit to VBSP which they receive commission from VBSP basing on the collected amount. As of 31st Dec. 2016 there have been around 200,000 savings and credit groups partnering with VBSP.
Chart 1: Organization Structure of VBSP

- **BOARD OF DIRECTORS (BOD)**
  - ADVISORY TEAM
  - MANAGEMENT BOARD (General Director, Deputy General Directors, functioning departments)
  - SUPERVISION BOARD

  - TRANSACTION CENTER
    - TRAINING CENTER, IT CENTER
  - PROVINCIAL BRANCHES
    - PROVINCIAL AND MUNICIPAL REPRESENTATIVE UNITS OF BOD
  - DISTRICT TRANSACTION OFFICES
    - DISTRICT REPRESENTATIVE UNITS OF BOD
    - SOCIAL – POLITICAL ORGANIZATION
      - Borrower
    - SAVINGS AND CREDIT GROUPS (SCGs)
      - Borrower
    - PEOPLE’s COMMITTEE AT COMMUNE
      - Borrower
2.1.3. Operation of Vietnam Bank for Social Polices

As a policy bank, VBSP currently conducts such basic banking operations as: capital mobilization (from international and domestic individuals and organizations; receiving capitals from the government and People’s Committee, etc.); providing loans to the poor and other policy beneficiaries as mandated by the government and providing payment services.

Funding sources

VBSP gets its funding from the (i) Central budget and local budget under the form of charter capital and loan with low interest rate, (ii) loans from SBV; (iii) bonds guaranteed by the government; (iv) compulsory deposits of state-owned credit institutions, i.e. each commercial bank must deposit 2% of its total mobilized fund to VBSP for policy lending, for this mobilization category, VBSP must pay with market interest rate plus commission fee to depositors; (vi) fund mobilized from the market, including micro-savings and (vii) loans from foreign organizations, these loans are not directly borrowed by VBSP, they are channeled to VBSP through MOF and is guaranteed by the government. Detail of fund mobilization of VBSP up to 31/12/2016 is as in the table below:

Table 2: Funding of VBSP as of 31th December 2016

<table>
<thead>
<tr>
<th>No</th>
<th>Sources of fund</th>
<th>Amount (billion VND)</th>
<th>Percentage over total fund (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Budget</td>
<td>27,727</td>
<td>17.1</td>
</tr>
<tr>
<td>2</td>
<td>Loans guaranteed by the government</td>
<td>22,737</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>- Loans from SBV</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Loans from State Treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Loans from foreign sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Fund mobilization</td>
<td>93,930</td>
<td>58.7</td>
</tr>
<tr>
<td></td>
<td>+ Compulsory deposit of state-owned credit institutions</td>
<td>44,035</td>
<td>27.1%</td>
</tr>
<tr>
<td></td>
<td>+ Government guarantee bond issuance</td>
<td>39,301</td>
<td>24.2%</td>
</tr>
<tr>
<td></td>
<td>+ Deposits of individuals and organizations in the market, out of which:</td>
<td>11,939</td>
<td>7.4%</td>
</tr>
<tr>
<td></td>
<td>* Micro-savings</td>
<td>5,435</td>
<td>3.3%</td>
</tr>
<tr>
<td>4</td>
<td>Funding from local budget</td>
<td>6,783</td>
<td>4.2%</td>
</tr>
<tr>
<td>5</td>
<td>Others funding</td>
<td>10,866</td>
<td>6.7%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>162,426</strong></td>
<td></td>
</tr>
</tbody>
</table>
It can be clearly seen that funding source of VBSP mainly stem from the mandating of the government meanwhile fund mobilized from community savings in general, and micro-savings in particular account for very little percentage over total capital of the VBSP.

**Lending activities**

To minimize management cost and to make sure that loans come to eligible borrowers who are the poor and social beneficiaries, VBSP cooperates with four local mass organizations, i.e. Vietnam Women Union, Farmer’s Association, War Veteran Association and Youth Union to conduct lending activities. These mass organizations are entrusted to take charge of some lending steps of VBSP, such as establishing and managing savings & credit groups, supervising and urging borrowers in using loans properly, collecting loan interest, savings for VBSP. The bank conducted the rest steps including loan disbursement, loan collection and safe treasury management. Loan programs of VBSP are describe in following table:

Table 3: Loan outstanding of VBSP as of 31th December 2016

<table>
<thead>
<tr>
<th>No</th>
<th>Name of loan programs</th>
<th>Targeted customers</th>
<th>Outstanding loan (billion VND)</th>
<th>Number of active borrowers</th>
<th>Percentage over total outstanding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Poor households</td>
<td>Poor households&lt;sup&gt;2&lt;/sup&gt;</td>
<td>36,166</td>
<td>1,649,315</td>
<td>23</td>
</tr>
<tr>
<td>7</td>
<td>Near- poor households</td>
<td>Near- poor&lt;sup&gt;3&lt;/sup&gt; households</td>
<td>29,799</td>
<td>1,192,369</td>
<td>19</td>
</tr>
<tr>
<td>8</td>
<td>Newly poverty lifted households</td>
<td>Newly poverty lifted households</td>
<td>11,828</td>
<td>405,858</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Disadvantaged students</td>
<td>Student from disadvantaged families</td>
<td>19,375</td>
<td>830,012</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>Business households living in disadvantaged areas</td>
<td>Poor and non-poor</td>
<td>16,344</td>
<td>641,005</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Safe water and rural sanitation</td>
<td>Poor and non-poor</td>
<td>23,894</td>
<td>2,512,231</td>
<td>15</td>
</tr>
<tr>
<td>12</td>
<td>Migrant workers</td>
<td>Social policy beneficiaries</td>
<td>399</td>
<td>11,339</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Job creation program</td>
<td>Households and enterprises</td>
<td>8,101</td>
<td>364,655</td>
<td>5</td>
</tr>
</tbody>
</table>

<sup>2</sup>&<sup>3</sup> According to the national poverty standard applied in 2016 - 2020
<table>
<thead>
<tr>
<th>No.</th>
<th>Loan Purpose</th>
<th>Category</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Housing purpose with deferred payment</td>
<td>Poor and non-poor</td>
<td>974</td>
<td>80324</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>Housing for the poor</td>
<td>Poor</td>
<td>3,831</td>
<td>453553</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>Extremely disadvantaged ethnic minority households in Cuu Long river delta</td>
<td>Poor ethnic households</td>
<td>432</td>
<td>42523</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Merchants in disadvantaged areas program</td>
<td>Poor and non-poor</td>
<td>318</td>
<td>7083</td>
<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Extremely disadvantaged ethnic minority households</td>
<td>Poor ethnic households</td>
<td>925</td>
<td>55474</td>
<td>1</td>
</tr>
<tr>
<td>19</td>
<td>Enterprises using drug-detoxified employees</td>
<td>Enterprises/businesses</td>
<td>10</td>
<td>413</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>Small and medium enterprises</td>
<td>SMEs</td>
<td>108</td>
<td>261</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Forest sector development program (FSDP)</td>
<td>Poor and non-poor</td>
<td>495</td>
<td>15355</td>
<td>0</td>
</tr>
<tr>
<td>22</td>
<td>Other loan projects (funded by foreign organizations)</td>
<td>Depending on project policy</td>
<td>63</td>
<td>2476</td>
<td>0</td>
</tr>
<tr>
<td>23</td>
<td>Other loans</td>
<td>Depending on project policy</td>
<td>1,971</td>
<td>184981</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>157,372</strong></td>
<td><strong>8,449,227</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Total loan accounts is 8,449,227; total active borrowers is 6.8 million as of 31/12/2016

**Scale and Outreach**

As the only policy bank in Vietnam, VBSP had the dominated market share with 6.9 million active borrowers compared to only average of 6,640 borrowers of other nine MFIs in Vietnam (Source: MIX-2015). It also owns a huge network of branches up to district level and even commune level with its commune transaction points. Among banks in Vietnam, VBSP has the second best outreach to the rural community just after Lien Viet postal bank, a newly established commercial bank.

Every year, VBSP manages to increase its loan portfolio by 10-15%, depending on the target mandated by the Government. After 15 years of operation, its loan portfolio reaches more than 7 billion USD making it the top five biggest MFIs in the world.

Table 4: Institutional Characteristics, Outreach, Balance Sheet and financial performance and of VBSP in 2014 – 2016
Financial performance

The ROA of VBSP was usually low, about 0.3 percent in average. The ROE also remained very low, approximately 2 percent every year. (Source: MIX)

However, these ratios did not imply the operation of VBSP were not as effective as other MFIs. Since VBSP is a non-profit social organization and subsidized by the government, it charges very low interest rate to loans provided to its customers. Its actual yield on gross loan is negative; the gap is subsidized by the government.
Table 5: Details of calculation on operational and financial sustainability level of VBSP during 2014-2016

<table>
<thead>
<tr>
<th>CALCULATING OSS - FSS FOR VBSP</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income (VND millions)</td>
<td>12,144,977</td>
<td>11,853,644</td>
<td>13,206,486</td>
</tr>
<tr>
<td>Of which: total operating income</td>
<td>12,119,441</td>
<td>11,847,153</td>
<td>12,100,751</td>
</tr>
<tr>
<td>Total cost</td>
<td>11,779,904</td>
<td>11,462,998</td>
<td>12,960,860</td>
</tr>
<tr>
<td>Of which: total operating cost</td>
<td>11,770,920</td>
<td>11,455,172</td>
<td>12,007,368</td>
</tr>
<tr>
<td>Average equity</td>
<td>27,605,371</td>
<td>30,287,389</td>
<td>30,900,134</td>
</tr>
<tr>
<td>Average fixed assets</td>
<td>2,141,306</td>
<td>2,113,366</td>
<td>3,670,256</td>
</tr>
<tr>
<td>Inflation rate (%)</td>
<td>4.09%</td>
<td>2%</td>
<td>4.74%</td>
</tr>
<tr>
<td>Cost of inflation</td>
<td>1,041,480.26</td>
<td>563,480.46</td>
<td>1,290,696.22</td>
</tr>
<tr>
<td>Reduction on the donation and direct subsidy</td>
<td>1,936,811</td>
<td>750,183</td>
<td>1,083,151</td>
</tr>
<tr>
<td>Total adjusted income</td>
<td>10,182,630</td>
<td>11,096,970</td>
<td>11,017,600</td>
</tr>
<tr>
<td>Total adjusted cost</td>
<td>12,812,400.26</td>
<td>12,018,652.46</td>
<td>13,298,064.22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OSS and FSS calculated by VBSP</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>OSS</td>
<td>102.96%</td>
<td>103.42%</td>
<td>100.78%</td>
</tr>
<tr>
<td>FSS</td>
<td>79.47%</td>
<td>92.33%</td>
<td>82.85%</td>
</tr>
</tbody>
</table>

Source: ADB & VBSP

Table 5 above is details of calculation on operational and financial sustainability level of VBSP. It indicates VBSP has achieved the fair sustainability level (OSS = 102.4% per year). The financial sustainability of VBSP is also at a low level, approximately around 85%. However, the best point in the operations of VBSP is the lower rate of non-performing loans (0.78%) compared with other organizations. This is a significant achievement of VBSP during 15 past years.

Fund mobilization is such a very essential funding source of VBSP. Refer to Table 2.3 above, fund mobilization of VBSP represent around 60% out of total funding in 2016, of these deposits, a large portion belong to the category “compulsory deposit of state-owned credit institutions”, the rest small portion is savings from community.

Why savings from community accounts for a tiny portion in VBSP while its interest rate is equal to average interest rate provided by commercial banks in the same location. The main reason is, VBSP cannot decide how much it can mobilize from public savings, there is a big gap between market interest rate that VBSP has to pay to depositors and the interest it collects from borrowers (eg. Currently, market interest rate for term deposit is 14%/year whereas the highest rate that VBSP lends out is 9.6%/year). This gap will be subsidized by the government, thus, it is the government who decides how much it can subsidized before VBSP can set up the target savings mobilization with market interest rate.

However, for micro-savings mobilization, it is the different context. Micro-savings is paid with demand deposit rate which is much lower than term deposit (3%/year as compare to 14% a year in 2015). Besides, micro-savings can be a strength of VBSP due to its huge outreach to the poor and rural areas in general. From this point of view, VBSP set micro-savings mobilization as one of its important initiatives in the development strategy up to 2020.

2.2.1 Background of micro-savings services in Vietnam Bank for Social Polices

During the early 2000s, most poor people wished to participate in the formal savings system but found it difficult to make deposit with tiny amounts. At that time, none among formal financial institutions offered a solution to make savings a practical product for poor community. Although the poor in Vietnam were getting to be familiar with savings. However, there was hardly any product suitable for them from formal financial institutions or such product from some NGOs could not be accessible nationwide. Lack of services and formal savings products let to informal services rises throughout Vietnam.

Studies at the time indicated that most poor people wished to participate in the savings system but could not find any reliable, simple and convenient savings product to deposit their small amount of money (in 2003, the number of small savings deposit amount of less than $ 31.39 only accounted for 2% of total deposits). At that time no formal institution devised ways to make
savings become practical products for poor communities. The formal credit institutions offered “opportunity to access loans” as tools to improve livelihood of poor households without recognition that savings was also an effective way to help the poorest people getting the habit for a financial service to be able to actually have the capacity to effectively use other financial services. Many of the projects of NGOs intended to diversify sources of income among the poor while promoting savings habits and rules. These programs consistently demonstrated that the poor were disciplined savers.

As the bank serving the poor and other disadvantaged populations, VBSP has implemented savings mobilization in the poor community through Savings & Credit Groups (SCGs) since the bank was Bank for the Poor. Besides mobilizing public savings like other commercial bank in Vietnam, VBSP use the model of Credit & Saving group to mobilize saving from the poor under 2 forms: voluntary and compulsory. As of 31/12/2007, the balance of savings deposits from poor communities was around VND 350 billion (0.96% of total capital of the VBSP). Many SCGs had done the task of savings mobilization well, thereby helping the poor to raise awareness, habit of savings to have an additional repayment source at debt maturity.

However, savings mobilizations through SCGs revealed some shortcomings such as not really encourage poor households to practice savings and misappropriation of SCGs leaders did happen. Savings were only implemented in few of SCGs with very small amount, largely compulsory as a condition for joining the group. The proportion of savings mobilization was very small, negligible compared with the total capital of VBSP. Up to 2007, VBSP mobilized only about VND 350 billion savings from the poor while outstanding loans to poor households during the same period reached VND 18,791 billion. Thus, savings from poor households was only 1.86% of total outstanding loans to poor households. VBSP has to strive to find new methods to more effectively mobilize saving from the poor.

Along with the perception of inefficient savings mobilization in rural financial market, VBSP conducted a study and pilot implementation on new savings product for the poor under sponsorship of the Ford Foundation.

The new product was expected to protect millions of poor families from income fluctuations and maintain consumption levels even during the famine. Savings can be used as provision for
emergency, business risks, seasonal changes, floods or death which can push the poor households to destitution.

2.2.1.1 The Pilot Savings Program

In 2007, VBSP received a grant from the Ford Foundation for the project of “Strengthening savings services for the poor via researching and experimenting on new means of mobilization by VBSP” to launch a pilot savings program. The project is implemented in 3 symbolic provinces in different regions in Vietnam (Hoa Binh, Hai Phong, Gia Lai), 4 districts in each province and 3 communes in each district.

VBSP used the structure of its savings and credit groups to implement the project. These savings and credit groups are formed within one village or living quarter, lead by a group leader and managed by a mass organization. VBSP mobilize savings of the poor who are members of SCGs. Basing on a written agreement among members in the group which defines that they are voluntary to conduct savings activities, leaders of SCGs receives deposits from group members and submit to VBSP monthly or quarterly on commune transaction day. Each SCG has only one savings book to keep track of members’ savings.

Each member is given a passbook stamped "FORD" by the project. Each time of depositing, the leader notes incurred and savings balances in the loan book of depositors and the book of the group and sign for certification. Members sign in the payer column. The deposited money is put in a metal box given by the project with witness of the payer. In case a member cannot make deposit due to objective reasons, the member can make late deposit on the next period; such delayed submission should be no more than 3 times in a row for monthly savings and 2 times in a row for quarterly savings. On the day VBSP works at the commune transaction point, or in VBSP office, SCG’s leader hands in savings of members to bank staff. Bank accountant fills in Receipt of savings from group members basing on Record on savings collection and payment form. Bank treasurer receives savings from a SCGs’ leader, sign for confirmation and return the Savings book to the leader.

At maturity of debt repayment in a SCG member’s loan book, VBSP automatically transfer his/her saving balance to debt repayment. When the member complete debt repayment (interest and principal) to VBSP, if he/she wants to withdraw savings, he/she can directly withdraw the money at VBSP after VBSP and the SCG compare the balance and certify in Savings book of
such member. The project applied the form of term deposit. The amount depends on economic capabilities of each member, maximum amount is not controlled. Minimum amount for each deposit is from VND 20,000/member. The interest rate is applicable to 3 months term deposit of VBSP at the time of interest payment.

At the end of 2009, right after 2 pilot launching years, the project mobilized roughly VND 1.5 billion with savings balance of VND 1.3 billion, nearly 7 million depositors. The deposit volume reflected the level of success. On average, the one-year savings balance of each household was VND 135,500.

Table 6: Results of the pilot program of VBSP in 2009

<table>
<thead>
<tr>
<th>No.</th>
<th>Target</th>
<th>Unit</th>
<th>Hòa Bình</th>
<th>Hải Phòng</th>
<th>Gia Lai</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of districts involved in the project</td>
<td>District</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Number of communes involved in the project</td>
<td>Commune</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>3</td>
<td>Number of savings &amp; credit groups</td>
<td>Group</td>
<td>60</td>
<td>69</td>
<td>60</td>
<td>189</td>
</tr>
<tr>
<td>4</td>
<td>Number of savings depositors</td>
<td>Household</td>
<td>2,405</td>
<td>2,708</td>
<td>1,589</td>
<td>6,702</td>
</tr>
<tr>
<td>5</td>
<td>Total deposits mobilized</td>
<td>VND in millions</td>
<td>274,903</td>
<td>868,350</td>
<td>383,000</td>
<td>1,526,253</td>
</tr>
<tr>
<td>6</td>
<td>Savings balance</td>
<td>VND in millions</td>
<td>335,655</td>
<td>868,350</td>
<td>195,000</td>
<td>1,300,005</td>
</tr>
<tr>
<td></td>
<td>Average deposits per household</td>
<td>VND thousand</td>
<td>108.0</td>
<td>159.5</td>
<td>138.8</td>
<td>135.5</td>
</tr>
</tbody>
</table>

Source: VBSP operation report
Through surveys during the project, customers and local authorities were agreed that the deposit product was prospective, accessible and effective. The project provided the poor with awareness and saving habits as provision for illness and as accumulate assets for greater spending or emergency, contributes reduce usury or unsafe ROSCA. The bank could also raise the population's idle funds and reinvest to lend to poor households participating in the project.

Surveys of the project clients also showed that the households had average loans of VND 8 million for the duration of three to five years, so they needed other mean of saving to meet the loan payment. The clients of this project had an average annual income of VND 18.5 million per household, so the deposit accounted for less than 0.75 percent of the households’ income or only three percent of income per capita (Nguyen, 2009). This might imply that there were large potential of savings VBSP could mobilize.

Customers had the same idea that the product is simple, easy to implement, easy to reach and be accepted by the people. However, the pilot project still showed limitation: (i) minimum deposit amount of VND 20,000 was still high for some low capacity poor households in Hoa Binh; (ii) interest rate applicable was the rate at withdrawal date which make it difficult for depositors to know in advance how much they would get and for the bank to estimate interest payment; (iii) certification of group leader to depositors as receiving savings was not ensured legally; (iv) VBSP automatically transfer savings balance to debt repayment make savings become compulsory rather than voluntarily; (v) SCGs’ leaders receive commission from interest collection only, not from deposits of members, thus, they had less motivation to promote depositing from the group.

Based on the learnt lessons and experiences achieved of this pilot program, VBSP conducted research and re-adjust the savings product to match with the actual context and respond with customers’ demand, then expand and roll out the product nationwide.

2.2.1.2 Nationwide roll-out of micro-savings services

In early 2009, based on the initial results of the pilot savings program, VBSP researched and formulated the new savings model of VBSP: "Mobilizing savings from the poor community through savings and credit groups". From experiences and lessons achieved in the pilot deposit project, VBSP rolled out the product with significant improvements.
On February 19th, 2009, VBSP officially started micro-savings mobilization nation wide after launching document No.244/NHCS-KH on guidance of savings mobilization of the poor through qualified SCGs.

Description of VBSP’s micro-savings services

The general purpose of the micro savings mobilization programme are to (i) meet with the demand of the poor and low-income households based on voluntary savings, build savings habit for the poor to help them create their own capital for incident expenses and future investment as well as get familiar with formal financial services served by VBSP, and to (ii) grow more capitals for VBSP to provide credit for rural community, contributing to poverty reduction, job generation, improve local likelihood and ensure social security.

Targeted customers are members of eligible savings and credit groups (SCGs) of VBSP only. The group members are targeted customers of VBSP who are the poor, near poor and other disadvantaged beneficiaries.

Eligible SCGs are subject to such criteria as (i) established and operated in compliance with regulations on organization and operation of SCGs issued by VBSP; (ii) having an agreement on savings recorded in group meeting minute. Savings amount is decided within the group based on financial capacity of members; (iii) having its group management team trained by VBSP on skills of savings mobilization, book keeping and having good creditability to the bank.

Savings product is voluntary demand deposit, there has not been term deposit for these customers. Savings contains two components: initial savings, deposited when a person takes part in a SCG and monthly savings. Savings deposit is accepted from VND 5,000 at minimum that makes favorable condition for the poor and low-income households.

Savings interest rate is decided by director of each VBSP provincial branch based on average demand deposit interest rate applied by commercial banks at local areas. In 2011, on average, interest rate is 3% per year.

Savings mobilization process

Micro savings mobilization of VBSP is implemented through four following step:

Step1- at savings and credit group level: Based on a written agreement among members in the group which defines that they are voluntary to conduct savings activities, the group leader
receives savings deposit from members monthly. As receiving savings from members, the group leader or an assigned representative of the group’s management board shall count, check and journalize the amount of savings deposit into Record on savings collection and payment form; request signature from the member for his/her savings amount and simultaneously sign in Savings record paper of the member, then give the record paper to the member.

Step 2: At commune transaction point of VBSP: on a fix date per month, VBSP go to conduct transaction with customers at the commune, or in VBSP office, SCG’s leader hands in savings of group members to bank staff.

Step 3: Bank accountant fills in Receipt of savings from group members basing on Record on savings collection and payment form.

Step 4: Bank treasurer: receive savings from a SCGs’ leader, sign for confirmation and return the Savings book to the leader.

Savings withdrawal

Depositors can deposit or withdraw their savings according to their demand. Although, group leaders have transactions with the bank at the fixed date monthly, when members need to withdraw their savings or use savings for paying interest of loan for VBSP in interval, there’s still available cash for transaction.

When members need to withdraw their savings or use savings for paying loan interest for VBSP, members should inform the group leaders in advance about the amount of savings that they want to withdraw. The group leaders will decide payment based on savings balance he/she holds. If the balance is not enough for withdrawal payment, group leader shall make a list of savings withdrawal amounts and submit to the bank at transaction day for money withdrawal.

Interest rate for savings

Interest on savings account will be paid by VBSP on June 30th and December 31st yearly or when the group wants to add interest into principal savings in the group savings book. Time for calculating interest is counted from the date that the group leader deposits savings to VBSP. On the commune transaction dates of January and July annually, the bank shall base on the amount of savings balance with counted interest recorded on savings cards (kept at the bank) to journalize the amount of interest added to savings principal the group. At the same time, the record is sent to
group leaders so that group leaders can journalize the interest amount into the savings forms of members.

Incentives for group leaders

In order to incentivize savings collection, the leaders of SCGs would receive commission of 0.1% per month which is calculated basing on monthly savings outstanding of the group. Commission is paid right after the bank receives savings from the group leader. If some members of the group come to the bank directly for depositing, not through their group leader, the group leader still receives commission for the amount. Therefore, the group leader will do the best to encourage his/her members practice savings with VBSP.

In summary, from monitoring the pilot product, VBSP completed and launched the deposit product for members of SCGs nationwide with remarkably improvements, including: (i) members of SCGs can make deposit with very small amount (from VND 1.000) instead of VND 20,000; (ii) members of SCGs make deposit under the Group savings book kept by the group leader, however, the members can withdraw their savings directly at VBSP transaction points or offices; (iii) VBSP offers demand deposit including initial deposit (the first depositing amount when a member joins a SCG) and monthly deposit. Interest was as applicable to normal demand deposit; (iv) depositors can make deposit and withdraw on demand from VBSP or from the group leader. VBSP shall not automatically transfer customers’ savings to debt repayment unless they voluntarily require; and (v) SCGs’ leaders receive a commission of 0.1% of the group’s average monthly savings balance. Commission is paid right after the leader deposit money to VBSP. If a member of a SCG goes directly to the bank for depositing, the deposit is still count for calculating commission of such member’s SCG leaders.

During product implementation process, VBSP always monitored and evaluated the pros and cons of the deposit product for members of SCGs to improve the service delivery quality. On December 2014, VBSP has issued a document to improve some of the disadvantages of the product, according to which (i ) instead of a joint account, each member of SCGs has his/her own demand deposit account, withdrawal from the account can be done directly at VBSP instead of through SCG leaders; (ii) to avoid unlimited withdrawal of depositors while their savings are still small and they in fact are not in emergency for using savings, VBSP decides that savings of
SCGs’ members must be for interest and principal payment first. The SCG members can only withdraw savings after completion of repayment obligations to VBSP.

2.3. Business figures on micro-savings mobilization of VBSP

Since the beginning of 2009, VBSP has deployed its savings services. By the end of 2010, among nearly 200,000 savings and credit groups nationwide, there have been 142,739 groups eligible for mobilizing savings deposit, and around 99,000 SCGs started to mobilize savings. The total balance of savings deposit has reached VND 344.539 billion at the end of September 2010. Approximately there are three million poor households depositing their savings through groups. By June of 2011, total micro-savings mobilized increases significantly to VND 862 billion, twice the number of 2010. Number of SCGs take part into savings activities increases to 147,359.

After continuous improvements since 2014, deposit activity has many positive changes. VBSP staffs, mass organizations, management board of SCGs and the borrower are fully aware of the meaning and effect of the practice of saving everyday, creating a regular habit to make deposit monthly, to accumulate, create resources for the repayment to VBSP and gradually establish their own capital for improving livelihood. The deposit product for members of SCGs has been appreciated and supported by local government, mass organizations, management board of SCGs and the borrowers, thus, brought about significant results. Besides, VBSP has also broadcasted publicly its service through printing posters, leaflets, documents and making video clips for communicating and training savings service. And at the same time, VBSP has composed and issuing the guiding manual for group leaders so that they can manage the operation of the groups effectively.

Table 7: Savings mobilization data of VBSP during 2011 - 2016

(Unit: million dong, SCGs, households)

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Total number of SCGs</th>
<th>Number of SCGs having savings balance</th>
<th>Number of household having savings balance</th>
<th>Savings balance</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The number of SCGs decreases as VBSP consolidates SCGs to improve operation efficiency.

The deposit product for members of SCGs has a trend of gradual increase since being launched, especially since improvement in 2014, savings balance and number of depositors increase remarkably. However, if taking a comparison to total capital or total loan outstanding of VBSP (as of 31/12/2016, the total capital and total loan outstanding of VBSP are roughly VND 162 trillion and 157 trillion respectively), savings mobilized from members of SCGs counts for a very small percentage (3-5%), not reflecting the real capacity of such a large bank in microfinance as VBSP. The reason is due to limitation in policy communication and dissemination leading to improper understanding of the poor and policy beneficiaries on purposes and meanings of the deposit product of VBSP. Besides, some limitations on the deposit product have not yet been fully resolved.

Although micro-savings of VBSP witnessed a good growth since it is developed, the number, if taking comparison to total capital or loan outstanding of the bank, take a very small percentage which do not reflect the real capacity of such a big bank in microfinance like VBSP. The bank needs to look closer to its savings mobilization operation for improving.
2.4 Analysis of VBSP’s micro-savings product

2.4.1. Targeted market

The micro-savings deposit product is developed to serve the poor, the near-poor, household who has just lifted from poverty and other vulnerable groups according to the national poverty standard, who are ignored and underserved by commercial banks. The product just only serves customers who are members of savings and credit groups.

* The criteria to identify the poor and near-poor according to the multi-dimensional poverty standard in 2016 – 2020 issued by the Prime Minister:

- the poor in rural areas: respond with one or two following criteria:
  + Average income per head/month: ≤ VND 700,000 (~ US$ 30).
  + Average income per head/month over VND 700,000 - VND 1,000,000 and lacks from 03 indicators and over to measure the inaccessible level to basically social services (i.e. healthcare, education, housing, clean water supply, information access).

- The poor in urban areas:
  + Average income per head/month: ≤ VND 900,000 (~ US$ 40).
  + Average income per head/month over VND 900,000 – VND 1,300,000 and lacks from 03 indicators to measure the inaccessible level to basically social services.* The non-poor: average income per head/month over VND 1,000,000 in rural areas and over VND 1,300,000 in urban areas.

The target area includes both urban and rural areas, especially rolled out in remote, mountainous areas or island or anywhere the poor are living.

Currently, to join the micro-savings product of VBSP, these targeted clients must be members of savings and credit groups.

Therefore, the non-poor or the poor who has not demand for loan and not want to join SCGs are not allowed to join the micro-savings product.

2.4.2. Accessibility

*Low transaction costs*

VBSP does not charge any service fee or require any minimum balance so the transaction costs for savers are minimal, especially compared with other commercial banks, who often require a minimum initial deposit of 50,000 VND and/or a transaction fee (like in VBARD). Furthermore,
cash-in and cash-out services are conducted at commune level transaction point where VBSP can approach to clients nearby their home so the clients do not have to go to the bank transaction office for transaction, therefore there does not arise traveling cost and time. The survey participants have reflected that the guidelines are easy to understand and the services provided by the staff (group leaders) have been friendly. This means that, liquidity aside (discussed earlier in the Accessibility section), the costs of transaction with the Bank have been relatively low.

Furthermore, by delegating the deposit collection, and potentially the withdrawal function, to the group leaders as an intermediary, VBSP did not need to prepare many staff and facilities at the grass-root level. In fact, VBSP has one of the lowest staff-to-clients ratios among microfinance institutions – VBSP has current 9,000 staff covering the whole country, serving roughly 7 million customers.

It could offer access residence of poor households often living in rural and remote areas. In combining the credit and deposit functions, the Bank saved on the transaction costs, the group leaders saved another trip to the members’ houses and the savers had their deposits collected at their door step, which saved them time and money in traveling.

Broad network

Among banks in Vietnam, it can be said that VBSP has broadest network and highest accessibility to target customers. VBSP has a coverage network of 63 provincial branches, 629 district transaction offices, about 200,000 savings and credit groups which are established based on village/hamlet and 10,917 of fixed date transaction points in total 11,161 communes in Vietnam where commercial banks have no access. This means that the bank has its POS to every commune- the smallest geographical administration unit in Vietnam. Furthermore, VBSP even can reach its customer door to door with the mechanism of collecting savings though SCGs’ leaders. Target customers only have to take few steps from their home to access to the bank’s services by meeting with their group leaders living in the same village, who are entrusted by the bank. By this way, VBSP is close to any people who want to use its savings services.

Time flexibility

Depositors of VBSP do not have to go to the bank branch for depositing during working hours as in other commercial banks; they can access to their group leaders at any convenient time for
them, may be during evening or lunch time. In addition, it does not take much time of them since their group leader is in the same village which they can walk to his/her house.

Low minimum requirements for savings

VBSP regulates that customers can save even from 1,000 VND which is a very minimum amount of money. Everybody even the poorest can deposit savings in VBSP.

2.4.3. Product diversification

Lack of product diversity

At present, VBSP has only conducted micro-savings mobilization through savings and credit groups with only demand deposit with scheduled deposits (determined by the groups based on the group’s economic ability and the region’s economic conditions) and unlimited withdrawals. This type of product only meets demand of customer who want highly liquid account. In fact, most of poor savers like more medium and long term savings services with flexible deposit types such as demand deposit, term deposit etc. and allows them to (1) deposit small, variable amounts frequently and (2) access larger sums in the short, medium, or long term (Rutherford, 2001). Each saver will have different demand for their savings, for example, long term savings for their investment, medium savings for crops etc. They expect savings product to give them higher benefit with longer term.

Ultimate purpose of the bank in doing savings program is to help the poor getting used to savings and having money to pay debt for their loans in VBS, but with unlimited withdrawals, the poor may not wait until they have a pretty good sum of money to withdraw.

Signs of compulsory savings instead of voluntary savings

Although the savings mobilization program was said to be voluntary savings, its features implies many compulsory points.

Firstly, the program was served for members of SCGs only; these are also current borrowers of the bank. In the document No. 295 /NHCS – TDNN dated 22/02/2010, VBSP requests each of its provincial branch to have at least 80% of SCGs in the area taking part in the savings programs. For this reason, all customers may understand that doing savings is a prerequisite to getting the next loans of VBSP.
Secondly, in the new form of collecting payment of customers (principal and interest), there is a column for payment transfer from savings account. It means the bank wants to use deposit as an insurance for loans to reduce defaults and late payments. In the case members failed to pay loan installments on time, the VBSP could automatically transfer money from their savings accounts.

As a result, many participants of the savings program perceived the savings to be an additional cost of borrowing. Because clients do not control the timing of deposit and withdrawals, but it is made in group, and depending on transaction day of the bank at commune level, they often do not perceive savings of VBSP as a deposit service, but as an additional cost that must be born in order to access credit. This make savings become responsibility for them, thus, few would continue after finishing their loans with VBSP and do not expect to get the next loans. Clients even stop making savings at the end of their loan payment periods as they suppose their savings is enough to transfer to loan principal and interest payment.

Similarly, this sense of being urged to save make customers not willing to save more than the agreed amount within their group. And in the future, even if the service is opened to outsiders of SCGs, it is difficult to attract them due to local mindset of a compulsory savings service.

2.4.4 Security

High institutional creditability

Being a government-owned bank, VBSP likes a trade mark guaranteed by the government. People in Vietnam often have higher trust to state-owned institutions rather private-owned since they believe that state-owned institutions often care more about social aspect beside profit aspect and ensured by the government for the institution’s solvency. Thus, most depositors agree that their deposits are secure with state-owned banks.

Being the only policy bank delivering loan programs for the poor and the disadvantaged in rural and remote areas for around 15 years, VBSP has gained strong reputation and creditability among the poor community. It is not only famous for its devotion to the society but also for the big network and good relationship with local authorities. Looking back at the structure of the bank, we can see that representatives of the bank’s board of directors are from local authorities, which is usually led by a vice chairman of local people’s committee. This strong coordination brings to the bank great support from local government, in human resources and infrastructure (giving the
bank a room in local government’s office on its monthly transaction day at commune level) and more importantly makes the bank well-known among the local community.

Besides, contractual agreement of the bank with mass organizations also makes it become closer to the community. Most of people in rural areas are member of one among four mass organizations, Youth Union, Women’s Union, Farmer’s Association and War Veteran Association. VBSP has these organizations form and manage its SCGs making its name quickly spread among local people.

In general, the bank has been successfully in building its image as a government’s bank delivering preferential financial services to the poor and not making profit from their customers, a bank existed for the benefits of the disadvantaged community not of itself. This is a very strong advantage of the bank in deploying any of its service in the community not only micro-savings mobilization.

Transparency

The bank mobilizes micro-savings through SCGs’ leaders, the process as described in the above section is rather proper. A group leader receives deposit from their members, records it in his/her books and in the member’s book. The bank, after receiving deposits from the group leader, confirm the information again by announcing the each group member savings balance on the board at the transaction points. Also at the commune transaction point, VBSP informs on public all information savings deposit such as its current interest rates, changes in regulations, the local deposit balance of the village this month and how it is being used (liquidity, lending, reserve, etc) on the information board beside the door of transaction office. Depositors can come and check if their information is recorded properly. This is to avoid fraud or mistake of group leaders if any, and again ensure the high creditability of the bank’s service.

Lack of accountability of group leaders- the entrusted service intermediary of VBSP.

VBSP regulates that group leader must be elected by group members and only group leader who are trained by VBSP can mobilize savings for the bank. The group leaders could be removed if fraud were found or they are complained by their group members. There is a hotline of the bank that customers can use to leave comments on their group leaders once they find out something wrong. However, there are still many rooms for intentional or unintentional mistakes of group
leaders in doing the services for the bank which is difficult to detect and even to solve once they are discovered.

As described above, in micro-savings mobilization, the bank actually contact with group leaders only, not with each individual group member. In practice, the transactions between the group leaders and the Bank are relatively secure. The group leaders’ record books were checked and stamped by the district staff as they submitted the collected deposits to the Bank. The information on savings amount of each group member then are recorded into the bank’s system basing on the record form given by group leaders. Information is restored both in computer and in paper. This practice is secure and reliable but on the other hand the transactions between the group leaders and the savers are much less secure.

Deposits of each group member are recorded only in the savings record paper of the members and the savings-credit record books of the group leaders with the signatures of both. These two signatures are meant to ensure double check but the bank only meet with the leaders, thus, only savings book hold by group leaders are checked, not every savings record papers hold by group members. Depositors have only their group leader signature as receipt for their savings amount.

Actually, the bank had much experience with fraud and mistake of group leaders in the past, for example, group leaders make members give him/her part of preferential loans as joint loans under the name of members, or group leader collecting loan interest and never pay it back to the bank etc. To avoid the case, the bank now has publicized information on loans, savings amount of each group member in the board at commune transaction point so that everybody can come and check. However, the Bank is not responsible for group leaders’ act if he or she make mistakes with deposits of customers since the bank does not work directly with customers. If the group leaders lose or damage the record books, they could ask for a replacement. Therefore, when there is fraud, even if it is revealed, customer will be the one suffering most.

2.4.5 Financial returns

Negative real return

The program interest rate is average demand deposit interest of commercial bank in the same areas, currently, it is around 3%/year. It is not low as compare to other commercial banks; however, if the bank can provide more medium and long term savings products, the customers
can have more benefit from savings. Interest rate does influence the decision of the savers. The low interest rate makes people think that bank deposit is not an effective investment and they may get attracted to other kind of informal savings which often offer higher return or coming back to traditional savings method like buying gold.

2.5. Reasons for current weaknesses of the bank regarding micro-savings mobilization

2.5.1. Internal reasons

Management of the program

Micro-savings is under management of Credit for the poor department instead of Capital planning department, this again implies that the program is in tie with credit program of VBSP.

This management structure also affects effectiveness of the program as main focus of Credit department is to manage numerous credit programs to the poor which is already overloaded to them. Micro-savings, for the credit department is just a small component in attachment to their lending activities. Therefore, improper investment for research and development of micro-savings product is easy to understand. The current micro-savings product is developed from a pilot savings product by International cooperation department of the bank. After termination of the pilot project, savings is spread out nationwide but with only few adjustments from the product designed at the beginning. Since then, no new consideration of making the product better was made by the bank.

The Credit for the poor department just set a target in terms of participants not amount of money for branches to mobilizing savings without further concern at how to make the product become more attractive and how to mobilize more money from customers.

Lack of effective incentive system

The incentive system for group leaders of VBSP is not attractive enough. In this micro-savings program of VBSP, group leaders is actually the most active stakeholder who takes charge of mobilizing group members to save, savings collection and transaction with the bank. Nevertheless, the group leaders only received 0.1 percent of collected deposits, which is already in small scale. This problem might limit deposit collection and hence affect the scale of micro-savings in VBSP.

Information system and technology channel for facilitating service delivery
The information technology of the Bank is out of date basing on FoxPro system which is no longer used in commercial banks for years. Up to 2015, VBSP completed an IT modernization project with the development of the core-banking system which allows modern IT solution to its operation management. However, the commune transaction software is just only offline (before going to transaction point, the field staff input internal data from the server into the laptop for mainly performing transactions of Groups. After coming back office, the staff transfers transaction data to the concentrated software system Intellect.

Currently, VBSP has not deployed modern technology means such as mobile money, mobile phone banking or internet banking to help customers deposit savings more conveniently, faster and flexibly instead of using only one option of group members handing in savings to group leader for him to deposit to VBSP at commune level transaction point.

Communication & marketing promotion

The communication between the Bank and its clients is slow and improper. The poor still mostly communicate with the Bank by traditional letters and telephone hotlines. Investment in improving website and email contact as a channel of communication is still limited. Savings mobilization is mainly through the intermediary as group leader, therefore there is not yet direct interaction between the Bank and clients.

2.5.2 External reasons

Autonomy

The bank has less autonomy to decide its own program as compare to commercial banks. It is put under management of the government; it acts as a channel to bring policy credit to the poor and policy beneficiaries. All of its credit programs are preferential credit with very low interest rate, in some programs it is even zero interest rate. Gap between interest paid to mobilize fund and interest charges to lending out is covered by the government. Operation cost of the bank is also come from the state budget. Amount of fund mobilized must be in the plan sent prior to the government and must be approved by the government. Therefore, the bank is actually cannot decide everything details relating to any loan or savings program, it can set up regulations for implementation of the program rather than important decision like interest rate.

Culture
Cultural and geographical factors also restrained the scale and outreach of the mobilization. Even though VBSP has a large network to even remote and isolate areas, hence high accessibility to the people, Vietnamese people in general and the poor in particular are still not familiarized enough with the banking products. Only the poor in current SCGs has been introduced to formal savings. If a person does not have demand for borrowing, he/she would not join into a SCG to have chance to know about micro-savings.

Besides, in rural areas, although not permitted by law, there is high availability of informal savings and credit which is flexible, high liquidity, and no complex procedure. In a survey done by VBSP and Women’s Union in Thanh Hoa province regarding a credit scheme to the poor, nearly 100% of the interviewees answered that they at least once used informal financial services due to its availability and convenient. Example of informal savings services are *ho* or *hui*, a ROSCA. What is more, other kind of savings such as buying gold is very popular among Vietnamese, and it actually can be more attractive since the formal product offered low interest and higher risk of inflation than gold. Those kinds of informal savings and in-kind savings could take the market share of formal savings offered from the Bank.

**Economic Environment**

Over one past decade, the world must face with serious economic downturn and recession, bringing about challenge and obstacle to all countries and has been affecting economies at various levels. Accordingly, the Vietnam’s economy also is negatively affected with chaos and unpredictable changes across the country, resulting in increasing unemployment rate and inflation.

Mobilized interest rates constantly reduce, thus it is difficult to keep the resident’s deposits. Meanwhile, VBSP must comply with the interest rate policy regulated by Central Bank of Vietnam. Also, the VBSP’s interest rate is always lower than that of commercial banks in the same locality.

Due to the economic recession, a lot of credit institutions and MFIs must approach deposit mobilization to low-income and poor customer segments, in rural areas, bringing about increasing competition with VBSP on market share. For instance, Lienvietpostbank, Cooperative Bank, Tym, CEP etc.
The economic crisis and unemployment also has an impact on declining household incomes, bringing about the reduction of depositor volume.

CHAPTER 3
SOME SOLUTIONS TO IMPROVE THE MICRO-SAVINGS PRODUCT IN VIETNAM BANK FOR SOCIAL POLICIES

3.1. Development orientation of VBSP up to 2020

3.1.1 General orientation

After fifteen years of operation, VBSP has gained remarkable achievements and creates good foundation for the coming development. It is recognized as an effective financial tool of the Government to fight against poverty and a bridge to move from small-scale and self-sufficiency production to market-oriented economy to get out of poverty and become better off lawfully.

To strengthen its role in financial inclusion and adopt with new situation, based upon the policies on poverty alleviation and social welfare, rural and agriculture development, the development strategy of banking system and experiences of other countries, VBSP has formulated the Development Strategy of VBSP up to 2020.

The long-term objective is to develop VBSP towards stability and sustainability in terms of operation and finance, promote capacity to better provide financial services and products more effectively and efficiently for the poor, near-poor households and other disadvantaged beneficiaries.

The specific objectives are identified include:

+ 100% of poor households and other policy-based beneficiaries who have borrowing needs and eligible conditions are entitled to access to products and services provided by VBSP;
+ The annual average growth of outstanding loans is about 10%;
+ The delinquency rate is below 3% in total outstanding loans;
+ Simplification and standardization of professional procedures;
+ Diversification of products and services;
+ Modernization of expertise operation, integration with global and regional banking systems;
+ To improve and promote effective and efficient operation of controlling and monitoring systems, analyzing and warning risks
To coordinate and integrate policy credit activities effectively with technical assistance, technology and science transferring, industrial extension, agricultural, forestry and fishery extension and activities of mass organizations with a view to rapid and sustainable poverty reduction and social security

*For targeted clients*

The target groups of VBSP includes poor households, near poor, household who has just lifted from poverty and other policy beneficiaries, especially in remote, rural and mountainous areas where commercial bank cannot reaches well as extend to micro enterprises, small and medium enterprises, low-income households and non-poor

*For products and services diversification*

Expand financial services responding with the demand of the poor and clients who have needs for savings, payment, money transfer, and remittance services.

Provide collection services (receiving and paying) for agencies and enterprises such as collecting electricity fees, water tariff, salary and allowance, insurance etc.

Carry out services as training, microfinance consultancy for building capacity to trustee staff, SCGs and clients.

### 3.1.2. VBSP’s orientation of capital mobilization in future

VBSP set a target to become a financial self-sustainability with emphasis in self-sufficient in funding. The bank defines following mobilization forms to get more funding self-sufficient, which are:

- Deposits of individuals and organizations at home and abroad.
- Deposits from credit institutions lawfully operating on the territory of Vietnam as stipulated by the Government;
- Savings of the poor and other policy beneficiaries;
- Deposit mobilization from resident community;
- Borrowings from credit & financial institutions at home and abroad;
- Borrowings from the State Bank of Vietnam;
- Borrowings from the Vietnam Social Insurance Corporation;
- ODA loans (VBSP mobilizes itself / or being channeled from the State);
- Bond issuance guaranteed by the Government, deposit certificates and other valuable papers.

It is clearly seen that micro-savings will be more important to the bank in the future, not only that it will be a critical source of fund but also a channel to get customers for other services. When a customer gets used to savings service of the bank, he/she might be interested in other payment
service. In order to take those benefits the bank must consider improving micro-savings mobilization from now.

3.2. Some solutions to improve micro-savings product in VBSP

Based on analysis of VBSP’s micro-savings product as well as its strengths and weakness and experience lessons from micro-savings mobilization models in the world, the chapter would like to figure out some following solutions to improve micro-savings product in VBSP.

3.2.1. Improve internal procedures of micro-savings deposit program in VBSP

Management mechanizm

As analyzed in section 3.2 Chapter 2, one of the current weaknesses is management of micro-savings program in VBSP. Micro-savings management should be transferred to capital and planning department instead of Credit for the poor department. In the capital department, micro-savings must be seen as a critical channel of fund raising which needs proper investment in research and development. The capital department, with its function, also can make changes to detach micro savings from credit programs.

There should be a small strategy for developing this savings service in the department and actions must be quickly implemented to take over the market. As analyzed in previous part and as looking at prospective of near future micro-savings mobilization in Vietnam, it can be seen that VBSP at present is dominating the micro-savings market and has no strong rival. But just within two or 3 years from now, when LienVietPostbank and formal MFIs have done their preparation and jump into the market. VBSP will have to face with great challenges from those competitors who have equal strength in terms of network and accessibility and may be more convenient services. Thus, VBSP must start changing soon to get benefits of first mover.

Internal operation auditing system

In order to ensure secure of transaction between customers and group leaders, the bank should invest in setting up a system to prevent fraud or mistake at every step of the cash handling and delivery process, especially in the deposit phase between group leaders and savers.

The group leader is responsible for the consistence of recording between their books and the savers’. Since the district offices cannot check all savings members’ books and compare with those of group leaders at every transaction session, the bank can choose to randomly check one
group at once. Group leaders are subject to fines or replacement if there is any mistake, for example if they fail to deliver fully and on time his/her member’s deposits and if they lose their record books. Also the bank can request for sharing responsibility from mass organizations who manage the group leaders in case group leader’s fraud is detected.

At present, the bank has publicized information on savings accounts of each customer on the notice board at its transaction point, this can mitigate fraud of group leaders, and however, it violates confidentiality of customers’ information. This practice is applicable to loans, i.e. to ensure that preferential loans come to the right beneficiaries. But savings is personal choice, thus, should not be publicized to the community. People may not be happy letting others know how much he/she having on savings account. The bank can choose to print out the detail list and give it to the group leader, requiring that when a customer comes to group leader for depositing, he/she will also check and sign in the detail list of their previous month savings. At the next transaction session, the bank will ask for presentation of this list with signatures from all savings members.

3.2.2. Capacity building for VBSP staff and stakeholders

Training sale skills and expertise for VBSP staff

Micro-savings mobilization is a service that VBSP would like customers to voluntarily join, it is totally different with the services that VBSP is provide in lending schemes where loans are lent with preferential interest rate and customers, actually, must stand in line to get such loans. Therefore, there is need to further training to staff of VBSP regarding sale skills and expertise of customer service and saving mobilization. In the pilot savings program, some training courses have been delivered to staff of pilot provinces with the feedback that is very useful and new to them. After the pilot program, VBSP does not invest more in training for such courses. It can be costly, but the bank can consider mainstreaming this content to its regular training program on credit and government policies conducted each year by Training Center and management staff at various levels.

Annually, VBSP should set up training plan based on training needs from local levels; formulate training materials and manuals on micro-savings product for bank staff.

Training the trainer bank staff is such an important foundation for them guide and orient savings and credit group leaders and group leaders reorient to group members.
Moreover, the Bank can consider other training channel such as e-learning to support traditional training method with information technology and internet; through video clips/internal bulletins/magazines posted on website; or send materials and documents through internal network system, fastnet, group meetings/discussion etc.

*Training group leaders, customers and partner mass organization staff*

Group leaders play such an important role in delivery of micro-savings program to customers. They act as an intermediary for savings collection from group members, book-keeping and then hand in deposit for VBSP at transaction session in commune/ward/town transaction points. However, as mentioned in Chapter 2, group leaders lack skills on tracking, book-keeping. In some case, group leader write savings amounts wrongly on savings deposit forms of the bank or intentionally abuse or fraud savings amounts of group members.

Therefore, it is very essential to organize skill training course on book-keeping of micro-savings deposit and financial education programs for group leaders. From TOT course for VBSP staff, the staff will guide and orient group leaders through training classes, group meetings or transforming at transaction session in commune transaction point.

Mass organization staff is coordinators helping VBSP manage savings and credit groups operation. Therefore, participants attending training classes at local level should include representatives from Women Union, Farmer Union, Veteran Union and Youth Union.

After training group leaders, they will take responsibility for guiding and orienting group members at group meetings or at home etc.

*Upgrading customer service quality at commune transaction points*

To promote micro-savings program at commune transaction points, the Bank should equip adequate facilities and infrastructure (network, laptop, printer, security box etc.) at commune transaction points with a view to conduct micro-savings mobilization in the most effective and efficient manner.

**3.2.3. Incentives to group leaders, customers and bank staff**

The bank can consider increasing commission to group leaders which is currently 0.1% of total savings outstanding collected. Or, the bank can choose to build a scale of incentives for group
leaders to encourage their efforts in mobilizing savings. For example, from one specific amount, group leaders can receive 0.05% (which is lower than current rate of 0.1%, but when the amount reaches some level, he/she can receive 0.1% and then, 0.15%)

It is very important to set some incentives to cater to the market to attract customers deposit savings, such as gift/lucky programs etc.

Not only group leaders should receive incentives for collecting deposits, the local staffs and local branches need to be rewarded for their good performance as well. The reward can be in financial form or non-financial form or both, for example giving them the title of best fund mobilization branches through launching internal emulation/competition programs.

3.2.4. Marketing, promotion and public awareness

Promotion and public awareness raising through different channels:

- media (articles, stories, and information through websites);
- Bulletins and news of VBSP
- Network meetings and workshops inside and outside Vietnam sharing experience on savings deposit implementation for the poor and lessons with other MFIIs and banks;
- Designing posters & leaflets;
- Video clips, audio on promoting micro-savings service at rural, remote areas.

3.2.5. Product variety & positive returns

In addition to the unlimited savings products, the Bank should offer some term savings account to allow the poor to save for specific purposes and benefit from higher interest rate. Surveys in the pilotsavings program revealed that the most common time when there is highest need for largersums of money is around the traditional New Year, when people need to spend money on new clothing, gifts, foods, and occasionally for big projects scheduled after new year(house repairing, marriage, etc.). Therefore, an account that allows savers to withdraw before each special time like schooling time orat the end of the year would potentially be popular.

The bank already has demand deposit ofunlimited terms with unlimited deposits and withdrawals. People often use this serviceto put money away, safe from their daily needs and withdraw in
emergency situations. For this kind of savings, interest rate is certainly low because savers have enjoyed high liquidity and flexibility.

In the future, the bank should consider other fixed term deposit products of twelve months, or semi annual with flexible or before their deposits. People could put in money throughout the year and withdraw at the end of the year children’s schooling time to purchase necessary items for their children study or to spend for celebrating New Year Eve. The limit in withdrawal should be in exchanged to higher interest rate so that customers can choose to save based on their needs and benefit from higher return. Customers still can withdraw money before maturity date but this breakage will result in demand deposit interest rate only.

Moreover, the Bank should diversify savings product with various terms that appeal customers such as Accumulated savings, Smart savings, Flexible term, Escalated rate based on account balance etc.; provide different savings products such as: Lucky Savings, savings for children future, Savings for Lucky Draw, Prosperity Saving, Saving with Flexible Fund Withdrawal etc.

**Positive returns through interest rate**

Although the bank cannot offer high interest rate for savings because if people are allowed to borrow at a low rate and save at a higher rate, they could potentially deposit their loans and pay them off with interests from savings. But the savings interest must be attractive enough to get customers, at present VBPS is the dominator in micro-savings mobilization, but in near future the status can be changed with market penetration of MFIs and other banks.

VBSP can take the lesson from BRI - *Positive Return at Low Costs – Bank Rakyat, Indonesia (Klauss, 1999)*, i.e. encouraging customers to save more by applying differentiated interest rate to different size of deposit account. The bank can take current average loan outstanding of each household as average deposit amount size (which is roughly VND 100,000) to be charged with, says 3%/year for demanding account, higher than that, it can be from 4-5%, and lower than VND 100,000 it can be up to 1% only. As soon as customers see difference in interest rate applied to deposit size, they will be encouraged to save more for their best benefits. The practice of lottery upon deposit account is also widely used in banking sector of Vietnam. VBSP can consider adding this incentive to its savings products as well
3.2.6. Develop other methods and channels of mobilizing savings besides SCG model

The Bank had other options which had similar effects with SCG but also improving the security and rigidity weaknesses of the SCG model. There are other options the Bank could consider.

Digital banking as flexible distribution channel of micro-savings

Besides using SCGs as the linkage between VBSP and customers, VBSP is considering digital to make deposit and withdrawal at commune transaction points conveniently, however, the product is still simple with mostly fixed monthly small depositing, not yet meeting demand for making savings and withdrawal on demand of customers. Such digital technology solutions as mobile banking, mobile wallets, e-wallet, mobile money, internet banking, prepaid card or debit cards will help customers to make deposit, withdrawal and money transfer for bill payment or debt repayment in a more convenient, flexible, faster and cheaper manner. The service can mitigate risks of mistakes in savings books and can promote direct interaction between VBSP and customers. Besides, the service can facilitate development of variety savings products basing on demand and capacity of customers.

Using local small businesses, merchants, retail shops and markets acting as agents to collect deposits

In complementing the group model, the Bank could also utilize local stores, local marketers to be the collection and withdrawal points. The advantages of these locations were that they were visible and accessible by most of the population. Especially, the stores of small business were open most of the time of the day and also open at night in some areas. This method, therefore, ensured both proximity and frequency for transactions for the savers.

This model would not be too costly. If the Bank chose the store of small business, the compensation of the store owners would come from their mobilized deposits. The Bank, however, needed to choose the store owner and train them on basic accounting and book keeping. The cost of training and monitoring would be considerable. Also, the responsibly and accountability of the store owner would be questionable, similar to the case of group leaders.

3.2.7 Expanding opportunities for non-member of SCG at commune level

Many poor people do not have demand for loans, thus, they are not member of SCGs, and however, they have demand for savings for their risk or emergency provision or building their own capital. The deposit product for members of SCGs did not allow non-member (who are any
3.2.8 Modernization of information technology and digital solution for more flexible low-cost, reliable and timely deposit and withdrawal

Beside the system of using group leader as connection between customers and the bank, VBSP can consider other channel of taking deposit and withdrawal for customers.

Within channels to mobilize savings presented in chapter 1, VBSP can think of applying Automated Teller Machines (ATMs), however, this requires large infrastructure investment and development of not only savings but other banking services.

Mobile phone banking service

It is one of the most potential measures for VBSP to pilot and roll out in the coming time. Currently VBSP is in progress of market research, product design and technical solution development.

Today, Vietnam has undergone an increasing evolution in information, communications, and technology (ICT) with a telecommunications network covering almost the entire country, and nearly 100% of adults having cell phones. The number of mobile subscribers nationwide is increasing rapidly to comprise nearly 140 million by end of 2015, ranking Vietnam as five top
mobile subscriber countries over the global. Despite this widespread telecommunications coverage, the use of mobile technology to facilitate electronic transactions (e.g. “mobile money”) is still a relatively new concept in Vietnam, where cash transactions remain the predominant method for payments and banking. The Government of Vietnam has begun pushing the use of ICT to replace cash transactions and has accordingly issued a number of basic regulations on e-transactions. In recent years, some commercial banks have started introducing mobile money services, albeit to a limited client base of a small portion of the country’s urban population. Over two-thirds of Vietnam’s 90 million populations, particularly the rural poor, have little access to banking services. This presents a great challenge but also a great potential market for retail banks in Vietnam. The use of mobile phones to facilitate small-scale financial transactions is increasingly recognized and employed as a means to expand access to financial services among poor and low-income populations in many countries. This, however, has not yet been pioneered by any microfinance service providers in Vietnam while at the same time; commercial banks have yet to expand their services to reach the low-income and unbanked market.

Mobile phone banking is recognized as a way to help financial service providers improve financial governance by reducing costs, increasing transparency, and diversifying their services. Innovations in mobile banking can allow microfinance service providers to better meet the different financial needs of their client groups who come mostly from poor and low-income populations and are not yet reached by traditional bank branch networks. It can reduce the costs of service delivery while at the same increasing their clients’ access to services through an ICT-based delivery channel thanks to availability of communication services even in disadvantaged area in Vietnam.

If VBSP deploy this initiative, this will be the first mobile phone banking model for the poor in Vietnam. Thus, poor and near-poor households, and other social policy beneficiaries will be able to access sustainable and effective financial services contributing to alleviate poverty and connect the poor with the economy.

Applying new technology is in line with the Vietnam Government’s socio – economic development strategy for the period 2011 – 2020 and contributes to achieving the goals set in VBSP’s development strategy to the year 2020 which was approved by the Prime Minister. This will be one of the tools to diversify bank’s products/services and increasing VBSP’s efficiency in
order to serve the increasing number of its customers. It also paves the way and provides valuable lessons learned for other microfinance service providers in Vietnam to apply it in their business; and at the same time contributing to finalization of a legal framework on digital finance in Vietnam.

VBSP can begin the project in two stages as follows:

Stage 1: VBSP shall launch SMS notification (messages via mobile phones) to periodically update transaction information to clients for transparent communication, helping the clients to collate transaction information with group leaders, remind them of interest and debt payment etc.

Stage 2: VBSP shall pilot Mobile Phone Banking services for clients (group leaders or borrowers) to use their mobile phone to firstly effect some transaction as payment of interest, loan installments, making deposits. Then, VBSP shall gradually expand services to effect payments on mobile platforms such as savings deposit or money transfers, bill payments, utility payments, insurance premiums etc.

From practical experiences in providing mobile banking services by different commercial banks in Vietnam, VBSP should choose the option of partnering with a reputable technology partners who already have a firm telecommunications infrastructure instead of building a new one. This option will reduce difficulties, save a lot of investments in equipments and large up-fonts and human resource development costs. In addition, building a new one will also not advisable if the investment period last long or the technology become obsolescence, the investment shall be a waste and cannot offset. Following is some successful models of mobile banking in countries over the world for VBSP’s reference and study.

1. Case study: M-PESA for Small and Micro Enterprise Program, Kenya

Small and Micro Enterprise Program (SMEP) is a deposit taking microfinance institution in Kenya that offers its 168,000 customers the ability to use M-PESA for loan repayments, loan disbursements, and savings mobilization. The service was introduced in 2009.

SMEP uses group solidarity method of lending. The group members are acquainted to one another and are willing to guarantee one another for loans even where the borrower does not have security for the loans. The group guarantee instills peer pressure, making clients able to pay loans when due. The groups are made of 10 to 60 entrepreneurs who are known as KIWA or (Kikundi cha Wanabiashara). The programme starts lending small amounts and allows the businesses to grow. The clients are allowed to grow in loan amounts as business demands but not more than twice their previous loans amounts. All the loans are paid during the weekly, biweekly or monthly group meetings. The groups also maintain individual collateral savings account with SMEP, where all mandatory savings are deposited and
managed by SMEP. This is in an effort to mobilize the savings in one account for all members, thus attract higher interests, which the groups can be given at the end of the year. The savings also serve as cash collateral for loans advanced.

For a customer (group or individual loan), SMEP disburses the loan into his/her SMEP a/c. Customer has the option of moving the loan amount to his M-Pesa account as well. This way, the customer has the flexibility of withdrawing the loan amount from his bank account, from his ATM or from an M-Pesa agent.

For loan repayment, a customer can approach a nearby M-Pesa agent and use “Pay Bill” option on M-Pesa to repay the loan installment without any additional charge. The group meeting continues to take place as per schedule where the loan officer verifies the payment made by the customer. At the back-end, SMEP middleware connects directly with M-Pesa MIS and real-time reconciliation takes place between SMPE loan tracking system and M-Pesa MIS.

Benefits for Customers
- Faster disbursement of loans compared to cheques (used before M-Pesa), and easier, safer and less costly repayments (no need to travel to SMEP branches with cash)
- Reduced opportunity costs due to shorter and less frequency group meetings

Benefits for SMEP
- Reduced length and frequency of meeting is reduced due to which field staff can focus on sourcing good quality loans; and monitoring the end use and repayment of loans
- Reduced disbursement cost by eliminating need to issue checks (45% cost reduction) and cost of accountant to reconcile bank statements
- Leveraging M-Pesa for deposit mobilization (30-40% of SMEP’s total savings deposits per day comes via M-PESA) which is a cheaper source of funding

Lessons learnt from the model
- Despite reducing frequency of group meetings from weekly to monthly, there was no negative impact on repayments
- Group members used to flexibility to pay whenever it was convenient (weekly or monthly; before or during group meeting)
- MFIs that do not reduce the length or frequency of meeting are not likely to full realize cost reduction with introduction of mobile banking
- MFIs that provide free doorstep collection find it difficult to convince customers to pay for using mobile banking for repayments. This is easier in cases where responsibility of transporting cash is with customers

Investment in a middleware that better integrates MIS with the e-money issuer is critical to avoid need for manual reconciliation

---

Case Study 2: Axis Bank, India

Axis Bank, the third largest private sector bank in India, offers retail microfinance services (social collateral based lending) leveraged on existing branch network in rural/semi urban
areas, sales staff of in-house service company and card-based technology provided by third party technology service provider (TSP). The service was introduced in 2013. Under this model, Axis Bank has created a hub and spoke model of delivering retail microfinance services in rural/semi-urban area. As per this model, the bank has created an in-house service company which helps the rural/semi-urban branches in activities like area selection, promotion meeting, joint liability group formation, and compulsory group training (CGT). Further, the rural/semi-urban branch staff members complete the Group Recognition Test (GRT) and are the facilitating agency for appraising the loan application and forwarding them to regional branch for sanction. Once the loan is sanctioned at the regional branch, the loan is disbursed to the JLG members at the rural/semi-urban branch which is closer in distance to the members.

**Benefits for Customers**

- Easy access to low-cost collateral-free credit facility without any processing fee, insurance premium, and mandatory savings feature
- Reduced liquidity issues as monthly repayment frequency is apposite with cash flow cycle
- Reduced opportunity cost due to shorter and less frequent group meetings
- Easier and safer repayments through POT machine at bank’s branch

**Benefits for Axis Bank**

Increased profitability on account of

- Direct access to client base without the presence of any intermediary
- Utilisation of existing branch network without any additional capital investment
- Reconciliation of accounts through TSP without additional manpower allocation

**Lessons learnt from the model**

- Despite introducing monthly repayment frequency vis-à-vis the weekly/fortnightly frequency used by competitors, there was no negative impact on repayments
- Clear communication on zero additional charges (processing fee, insurance premium and mandatory savings) attracted the client base to avail the credit facility even at high interest charges
- Investment in the card based technology (provided by TSP) reduced the time and cost involved in reconciliation of accounts in the banks CBS
- Longer credit period of 18 months (vis-à-vis the usual credit period less than 12 months) increased the book size of the bank and helped in achieving the priority sector lending targets

Leveraging on subsidiary’s human resource reduced the overall cost of delivery of credit services
CONCLUSION

The master thesis has indicated that micro-savings mobilization from the poor, near poor, low income households and other disadvantaged groups plays such a very important role in the funding source of credit institutions, especially microfinance institutions. Therefore developing micro-savings mobilization services is a challenging task for a MFI as it requires stricter criteria than general savings mobilization from the public. In looking at different aspects of the savings product in VBSP, i.e. accessibility, variety, security, liquidity and financial returns, we have found that the bank has great strength regarding outreach, institutional creditability, mobilization flexibility and low transaction cost. Nevertheless, the micro-savings product of VBSP is not still not as attractive as its potential due to some weaknesses as analyzed in the research. With current number of served customers and broad network, VBSP savings mobilization capacity can be much larger than current results. Standing from the point of view of customers, the research’s solutions suggested measures that the Bank can take to address those weaknesses.

The thesis has pointed out what could be done to increase demand for savings among the poor, what impact they have in terms of benefits and costs for the Bank and what are needed to implement them. Most of recommendations will certainly be costly but they are all critical in helping the Bank to develop a savings program that is most attractive and beneficial to the poor, because, the ultimate purpose of VBSP operation is not profitability but to serve the poor and other social beneficiaries at their best. In turns, VBSP can be benefited from a good savings product, the bank is dominating micro credit market in Vietnam, with the potential market it may also get in terms of savings, the bank can get a large amount of funding for it operation, thus, decrease the financial burden for the state budget and also allow the bank to be more autonomy in decision making.

The thesis is hoped to be valuable suggestions to the Bank’s decision as the bank is on the way to complete its development strategy. Future researches on the matter will be precious and may concentrate on the market and demands of customers in each region of Vietnam. In the future, with majority of population living in rural areas and many of them can be target customers of micro-savings, proper investment for development of the micro-savings in particular and microfinance in general is necessary.
LIST OF REFERENCES


4. Microfinance Development Program Subprogram 2 (RRP VIE 42235-023), ADB-2013


14. Klaus Maurer, Eschborn- Bank Rakyat Indonesia (BRI); Indonesia (Case study) -1999

15. Dr. Neela Mukherjee - Alternate Model/s to Micro-savings for the

16. ‘Bottom-of-the Pyramid’ in Rural Areas: Lessons from India, Bangladesh and Nepal and Some Policy Doables, 2005


21. Websites

http://www.bwtp.org/arcm/indonesia/II_Organisations/MF_Providers/BRI.htm

http://www.bwtp.org/vbsp.html

www.cgap.org

http://www.gdrc.org/icm/glossary/

http://www.gdrc.org/icm/model/1-credit-model.html

www.grameen-info.org

www.microfinancehub.com

http://www.mixmarket.org/en/glossary

http://www.mixmarket.org/mfi/vbsp/compare

http://www.themix.org/about-microfinance/glossary-terms

www.themix.org

www.vbsp.org.vn

http://www.mobilephonebanking.rbap.org/article/archive/15


APPENDIX- Form 01/TK

Form 01/TK

(01 copy to SCG’s leader)

RECORD ON SAVINGS DEPOSIT AND PAYMENT

Month ……. year ……..

Leader: ……………. Group leader code:……….., Organisation …………….

Address: ……………………………..

<table>
<thead>
<tr>
<th>NO</th>
<th>Full name of members</th>
<th>Customer code</th>
<th>Balance of previous period</th>
<th>Deposit amount</th>
<th>Withdrawal</th>
<th>Signature of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCG name:.................</td>
<td>Group leader code:......</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Address:………………………                                           Organisation: ………..

<table>
<thead>
<tr>
<th>NO.</th>
<th>Full name</th>
<th>Customer code</th>
<th>Withdrawal amount</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total

Requesting VBSP ……………………..for withdrawal of a savings amount of:
In number:…………………………

In words:…………………………………………………………………
……………………………………………………………………………

for the Group to pay upon group members’ request.

.........., date... month... year......

GROUP LEADER