

**EUROPEAN
MICROFINANCE WEEK 2014
DEVELOPING BETTER MARKETS**



Session:

Local banking and inclusive finance

**Cooperative Banking and Inclusive Finance:
The People's Credit Funds in Vietnam**

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The challenge of cooperative autonomy vs state control in Vietnam



- Collapse of the 1954-system of credit coops in 1990
- New system of People's Credit Funds (PCFs):
 - the state examines the options,
 - provides a legal framework
 - active oversight by the central bank (*SBV*)
 - capitalizes an apex fund through *SBV* as majority shareholder
- PCFs self-financed and self-managed
- PCF network part of the formal financial sector from the onset

Designing a system of rural credit coops

1980s Collapse of command economy and 1954-system of credit coops

1990 Law on Banks, Credit Coops and Finance Companies

1991-92 examining the options:

- a Government team visits Bangladesh, Germany, Canada
- Technical assistance offered by **DID**, funded by CIDA (*Canada*)

Deciding on a strategy:

- Steering committee: SBV, ministries, Vietnam Cooperative Alliance

Implementation:

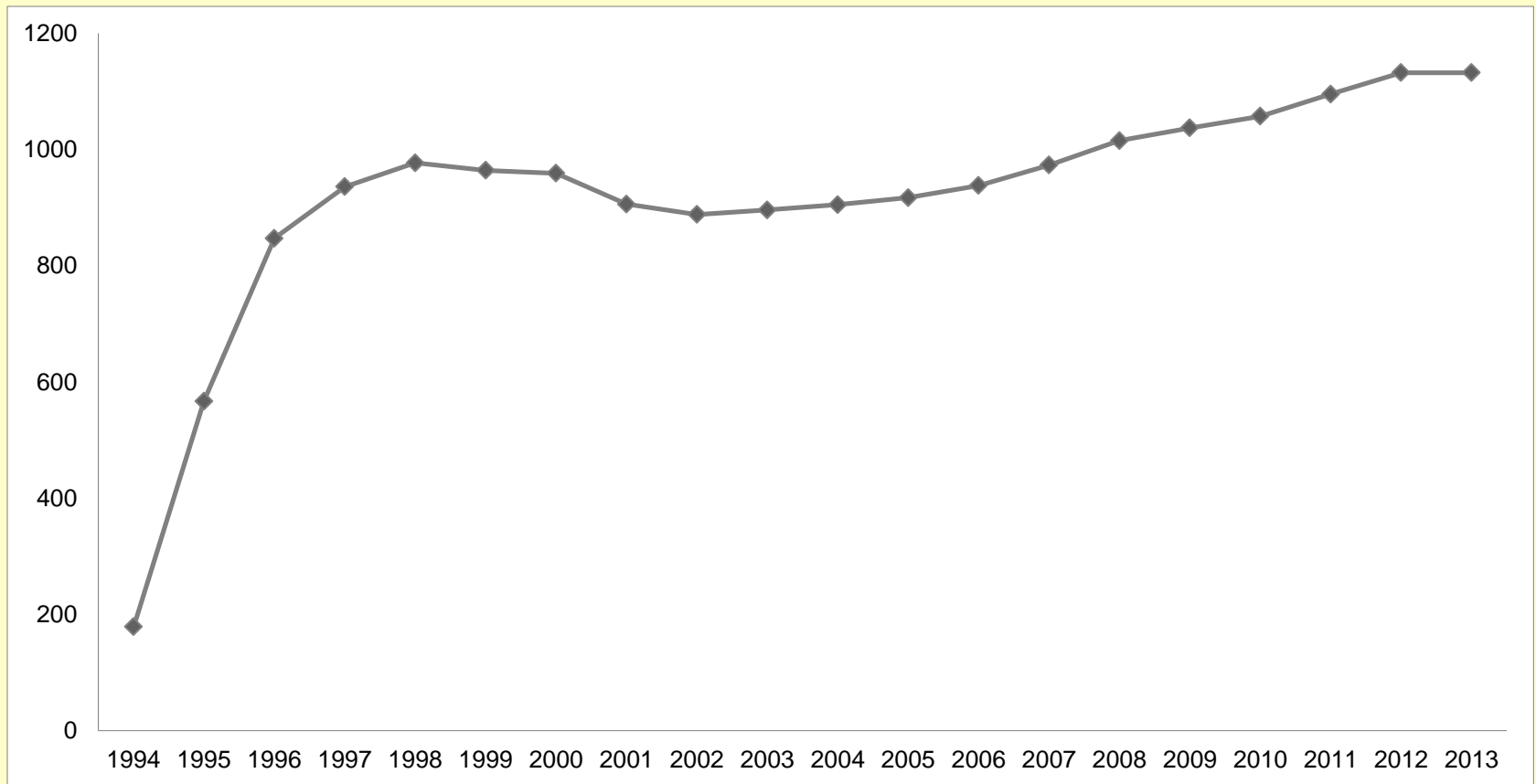
- Steering committees at central, provincial, district and commune levels
- New name: People's Credit Funds (PCF)

Mandatory training and supervision: by SBV branches

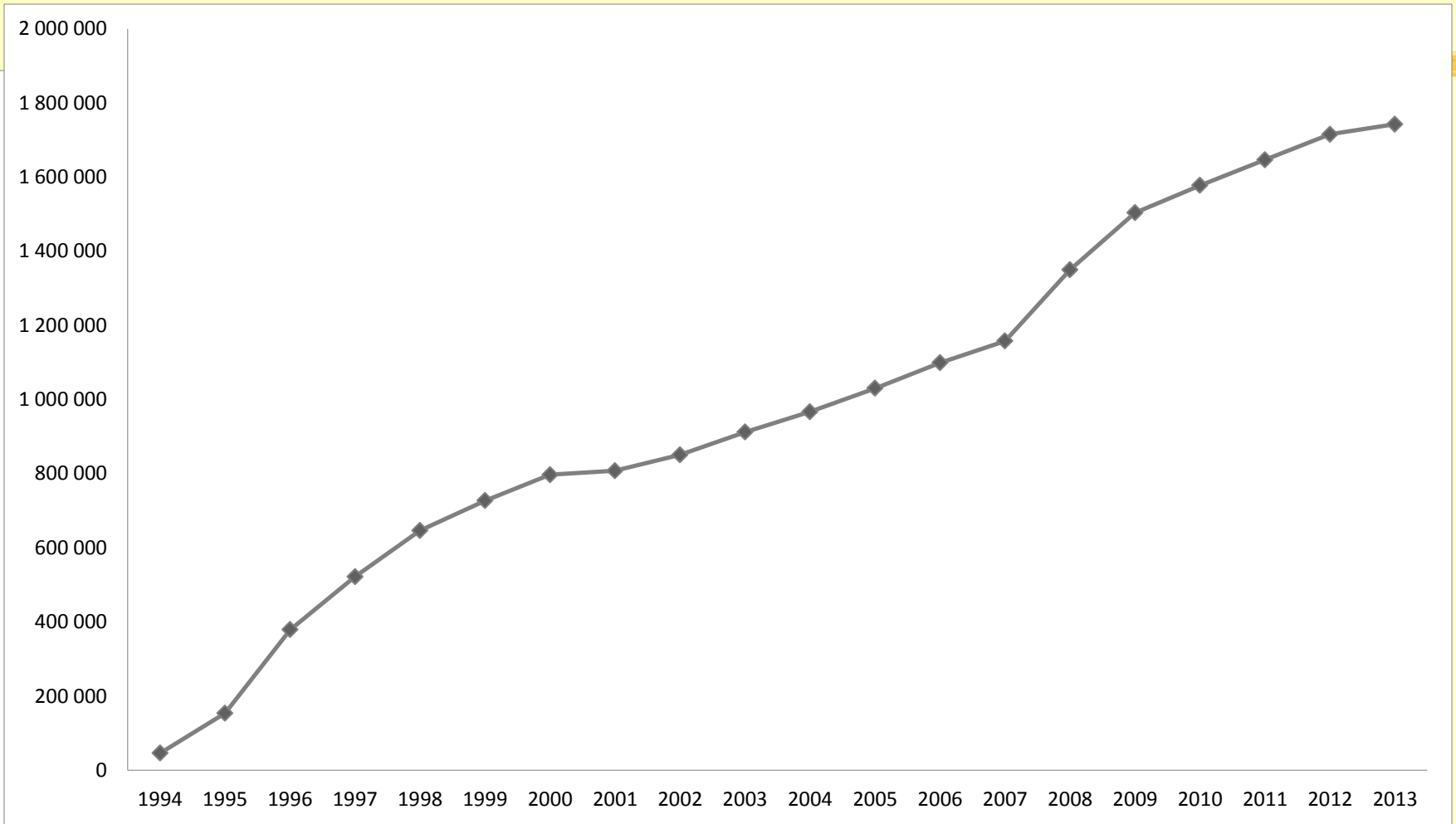
Evolution of the PCF system

- **1993 – 2000** pilot project
- **1993** first 179 PCFs established
- **1995** Central People's Credit Fund (CCF) established, apex fund for liquidity exchange, refinancing, representation, advocacy)
- **Assessment 1999:** 82 non-performing PCFs closed (out of 977)
- **2000** CCF adds financial intermediation with the general public (SMEs)
- **2006** Vietnam Association of People's Credit Fund (VAPCF) formed
- July 2013 CCF transformed into Co-opBank
- 2014 Safety Fund established, managed by Co-opBank, supervised by SBV, Co-opBank & PCFs contribute 0.08% of annual average total loans
- Capacity building of PCFs initially by SBV branches, gradually transferred to CCF/CBV: accounting, loan appraisal, general, credit, risk and liquidity management, business law, payment, money transfer, IT...
- A successful reform of the financial coop sector

Number of PCFs, 1994-2013



PCF membership, 1994-2013



The PCF model



- Membership: individuals, cooperatives, local enterprises, social organizations
- Governance: Elected board of 3-9, appoints MD (approved by general assembly, confirmed by *SBV*)
- Deposit mobilization from members and non-members
- Lending outreach restricted to members in one commune (~ 4 villages); up to 10% of portfolio to poor non-members
- Approx. 30% of borrowers are women
- PCFs pay income tax up to 25% after the first 2 years

Oversight




- Daily internal control
- Random on-site inspections by SBV branches
- Off-site supervision by SBV

Reporting:

- Monthly reports to SBV and Coopbank branches (*now online*)
- SBV branches forward reports to PCF Division of Banking Supervision Department of SBV

PCF prudential standards and the role of SBV

(as of 2007 – Oct 2014)



- Minimum capital D100 million (= \$17,000 in 1993, \$4,640 in 2014)
- Risk-weighted capital adequacy ratio of 8% increased to 9%
- Fixed asset ratio not exceeding 50% of equity
- Reserve requirements of 1% of Dong and 8% of US\$ deposits (placed interest-free at SBV)
- Single borrower limit 15% of equity
- Adequate maturity matching (maximum of 10% of short-term deposits used for term loans)
- Observance of SBV's provisioning rules
- Regulatory framework by SBV (loan appraisal, collateral, provisioning, record-keeping, reporting)
- Supervision and enforcement by SBV, including closure

Minimum capital requirements for local banks: a comparison among 4 countries (2014)

- Vietnam (PCFs): *1993: Dong 100 million*
= \$17,000 in 1993, \$4,640 in 2014
- Indonesia (BPR): *1988: \$ 29,000*
\$50,000 to \$500,000, depending on location
- Philippines (Rural Banks): *1953: ?*
\$115,000 to \$ 2.3 million, depending on location
- India:
\$26.6 million (*draft law, 2014*)

Crisis resilience of PCFs and CCF

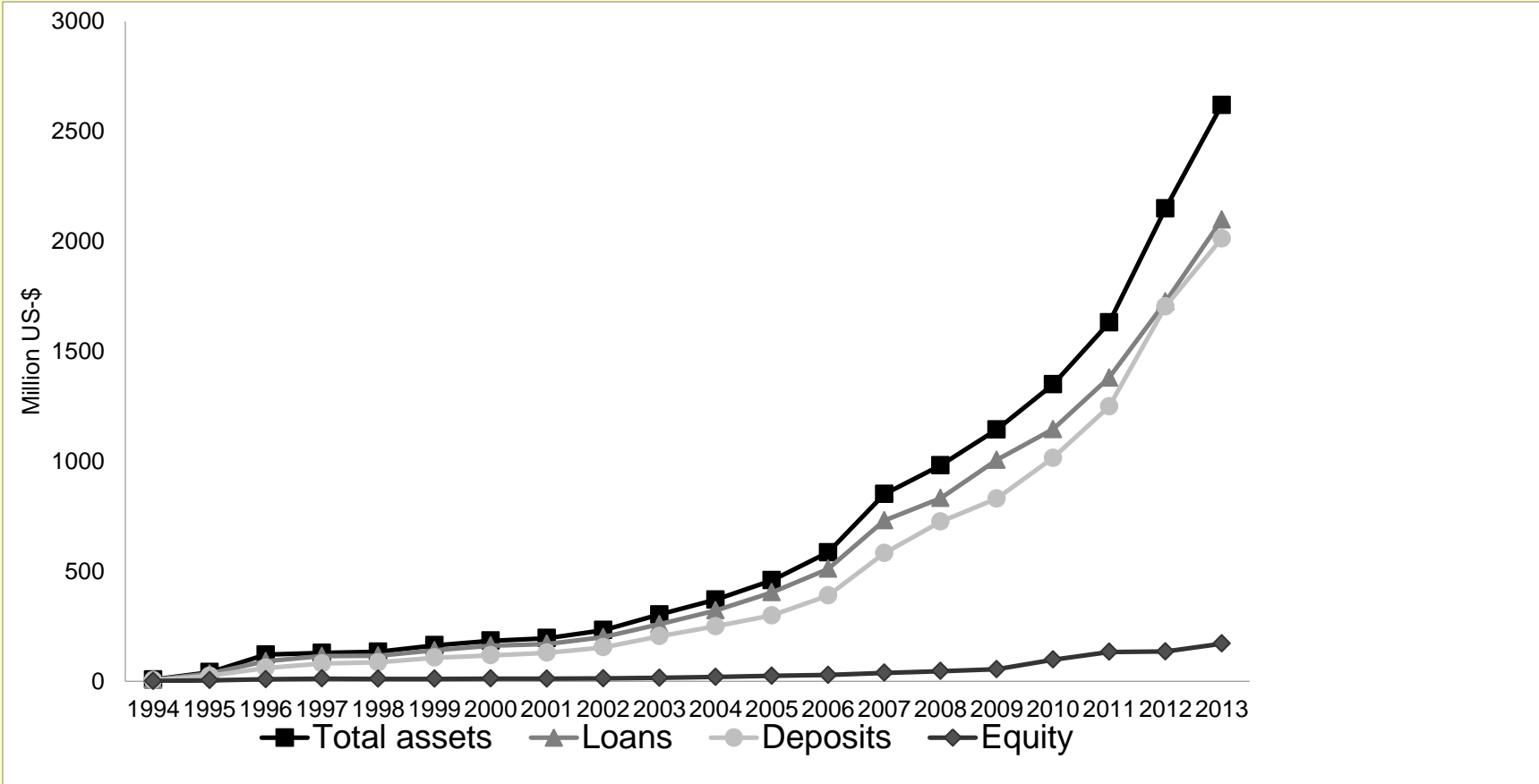
Asian financial crisis, 1997/98:

- Both PCFs and CCF unaffected

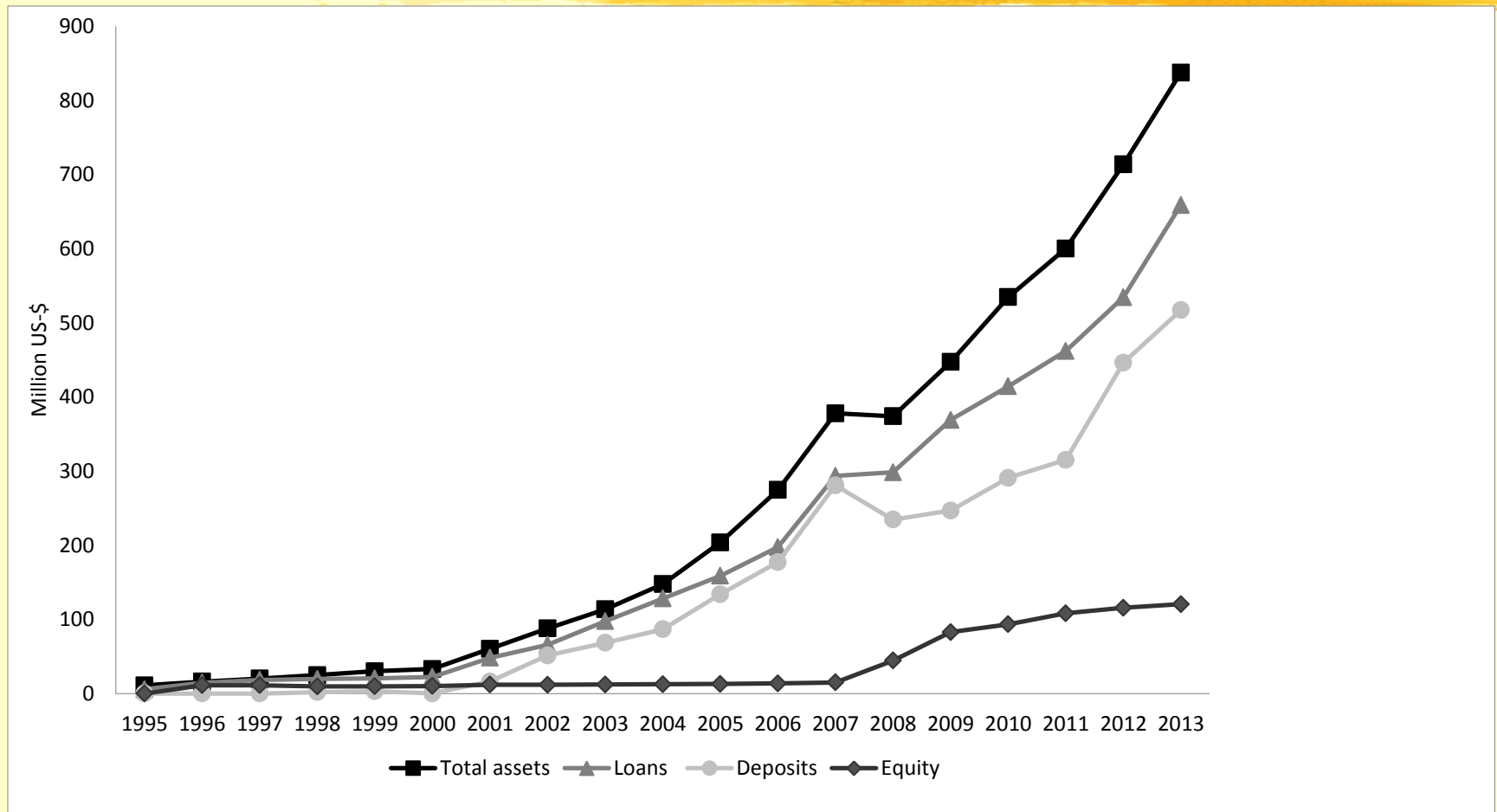
Global financial crisis:

- Global microfinance industry strongly affected
- PCFs unaffected
- CCF:
 - deposits from the general public (SMEs) declined in 2008, then resumed growing
 - loans to the general public flattened in 2008, then resumed growing
 - intermediation with PCFs remained stable

PCFs: Total assets, loans outstanding, deposits and equity, 1994-2013 (in million US\$)



CCF/CoopBank: Total assets, loans outstanding, deposits and equity, 1995-2013 (in million US\$)



Outreach and performance of PCFs and CCF/CBV, June 2014 (amounts in billion US\$)

	PCFs	CCF/CBV	Total
No of PCFs	1,145		
Total assets	3.2	0.95	4.15
Loans outstanding	2.4	0.64	3.04
Deposits	2.6	0.65	3.25
Owners' equity	0.17	0.11	0.28
NPL ratio (percent)	0.97	2.09	
Av. return on assets in %	1.03	0.99	
Av. return on equity in %	16.02	6.51	

Average size of PCFs, 1995-2013
(amounts in US\$)

	1995	2013	Increase in %
No of PCFs	567	1,132	100
No of members	271	1,539	467
Total assets	71,728	2,314,930	3,127
Loans outstanding	61,552	1,853,959	2,912
Deposits	43,545	1,778,347	3,984
Equity	7,619	151,172	1,884
<i>Own funds in % of</i>			
<i>total assets</i>	<i>71</i>	<i>83</i>	

Lessons from PCFs: success factors

- Political will to create a sustainable system
- Participatory process of examining the options
- PCFs/CCF-CBV under prudential regulation and central bank supervision
- State control through central bank without undue intrusion
- Enforcement of standards by closing non-performing PCFs
- Mutual support network + self-financed Safety Fund (*new*)
- Controlled outreach to the very poor

Continual policy issue: Interest rate interference by SBV – an (ineffective) attempt to control inflation



Thank you!