



VIETNAM MICROFINANCE INDUSTRY NOTE

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Planet Rating just returned from Vietnam and met a number of government officials and practitioners. Following are some relevant information and our views and interpretations with regard to latest microfinance industry developments in Vietnam.

Vietnam does not have a microfinance law or a microfinance legal framework until recently. The Decree 28 issued about 2 years ago was supposed to “launch” microfinance formalization and professionalization process in Vietnam. Two years later and lots of protracted discussions between various government entities (e.g. Ministry of Finance, State Bank of Vietnam (SBV), The Prime Minister’s Department...etc), this Decree 28 has been replaced by Decree 165 issued a month ago. Like the previous Decree, everyone in Vietnam is waiting for the implementing Circular or bylaws to apply this new Decree. Unlike the previous Circular that was ultimately dropped, this new draft Circular reportedly will come out early January 2008. While history points to possible delays, the SBV looks serious and has the necessary political support to do it.

The main difference between Decree 28 (available in English on SBV or MFWG websites) and Decree 165 (only in Vietnamese at this stage) is the lowering of the capital requirement to make sure the smaller MFIs do not shut down for lack of minimum capital requirements. The Decree highlights are:

1. If not transformed, local MFIs will be allowed to take savings up to 50% of their capital (i.e. very small amounts, “a test for MFIs” for now)
2. Transformed and registered MFIs have no limits on deposit taking except for meeting minimum CAR requirements
3. CAR requirements for transformed MFIs are “likely” to be higher than those for the banks (still the negotiating point of the draft Circular)
4. MFIs are still subject to interest rate cap of maximum of 150% of the SBV reference rate
5. Foreign investors can come and invest in MFIs in Vietnam, but under very strict rules:
 - Foreign investors cannot set up a 100% or even majority-owned MFIs; no majority purchase allowed
 - Vietnamese parties must at all times keep majority/control stake of 51%
 - Vietnamese parties can be mass organizations (e.g. Labor Confederation, Youth Union, Women Union), domestic NGOs, individuals and companies
 - The mass organization or local NGO must be a partner/owner in all MFIs
 - The mass organization or local NGO must keep AT LEAST 25% of the shares at all times
 - A domestic NGO is defined a NGO founded by Vietnamese nationals/entities, local affiliates of foreign NGOs do not qualify regardless of their length of presence in Vietnam

The obstacles to foreign investment into microfinance in Vietnam:

- Security concerns (i.e. worry about the foreign investors working with the poor in rural areas)
- Low interest rates (“we’re serving the poor, not exploiting them”)

The implications:

- Very difficult to take equity stakes in existing Vietnamese MFIs, the current social/mass organizations are not likely to sell, much less to foreigners, mass/social organizations or local NGOs are very politically sensitive, it is typically not career-enhancing to be seen as “selling” to foreigners

- Can't set up new MFIs without Vietnamese partners, one of which must be mass/social organizations or local NGOs and these organizations don't have much experience dealing with foreigners, so it will be time-consuming and frustrating to discuss setting up joint-ventures
- So quick equity deals are not in the cards, not for the next 2-3 years until the government feels more comfortable.
- So in short, the way to go in is to use debt instruments, but investors still need to face the uphill battle to convince them paying market/commercial rates

The Bank for Social Policy:

- Does not report to the SBV, but to the Prime Minister's Office directly
- Offers hugely subsidized loans, does not cover costs, heavy reliance on the State Budget
- Reportedly has a habit of providing bigger loans to pay back or retire late/defaulted first loans
- There is pressure to convert this bank to a normal and more accountable commercial bank

The options beside from working with local NGOs and mass organizations:

- Invest in debts first (easy to gain experience and trust, newly Decree 165-regulated/registered MFIs will be able to borrow for the first time)
- Set up a microfinance unit with a local bank (local banks doing microfinance are not covered by this Decree)
- Go alone to set up a microfinance bank (an expensive option, minimum 10 million USD capital requirement)
- Go alone to set up a non-bank financial companies (also expensive, minimum 10 million USD capital requirement)
- Go alone to set up a non-bank leasing companies (no information of capital requirements)

The potential partners:

- CEP (initiated by the HCMC Labour Confederation) is an attractive debt investing target
- Binh Minh MFI, being a local NGO, could potentially be an equity play, this is very unique, Save the Children is reportedly deemed as a technical partner, not a founder so Binh Minh qualifies as a local NGO that qualifies it as partner, the only issue is it's very small, which put constraints on the potential size of equity stakes for foreign investors
- TYM (initiated by the Women's Union) has improved since receiving technical assistance from CARD Bank/NGO

Conclusion:

Although Vietnam is not moving as fast as one can hope for, but Planet Rating believes that this Decree 165 is a positive if an intermediary step for the Government to see what happens before opening larger the doors. Ultimately, Vietnam will have a proper microfinance law to be voted by the National Assembly (unlike an Executive Decree issued by the Prime Minister). The current legislature is unlikely to take it up until next national elections and installation of a new Government. The Decree 165 will likely be the legal framework for the next 2-3 years to come. The next milestone is the publication of the implementation Circular (expected for early January 2008).