A COMPARATIVE ANALYSIS ON MICROFINANCE SECTOR BETWEEN VIETNAM AND OTHER COUNTRIES IN THE SOUTHEAST ASIA

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Abstract - There is a huge part of world population is in need of microfinance services. However, the same mechanism in microfinance cannot work in any given country effectively. This paper stated that each country had its own socio-economic-political legal construction and governance structure; thus, the need for financial services and the way to administer them could be different among even developing countries. A comparison of Vietnam with other neighbor countries is given to explore and compare the main similarities and differences in the practice of microfinance. To sum up, a "one size fits all" solution for microfinance to fight against underdevelopment, and poverty is impossible because of socio-economic-political-legal differences among selected countries.

Index Terms - Microfinance, Developing countries, Poverty, "One size fits all" solution, Socio-economic-political-legal differences.

I. INTRODUCTION

There is a huge part of world population is in need of microfinance services. Many successful international microfinance institutions (MFIs) such as Grameen Bank, FINCA international, SEWA, Accion International, and Indian SHG-Bank Linkages have proven that utilizing market based solution microfinance makes an important contribution in breaking out the vicious cycle of poverty and empowering the poor community.

However, the same mechanism in microfinance cannot work in any given country effectively. In other words, there are significant differences among countries where microfinance emerges. This study stated that each country had its own socio-economic-political legal construction and governance structure; thus, the need for financial services and the way to administer them could be different among even developing countries.

For this purpose, four case studies, including Vietnam, Lao PDR, Cambodia, and the Philippines have been selected to explore and compare the main similarities and differences in the practice of microfinance. Three neighbor countries (Lao PDR, Cambodia, the Philippines) with similar social and cultural characteristics were counted to highlight the different development of microfinance among them[1].
A comparison of Vietnam with other neighbor countries is given using data from the Global FindexReport in terms of savings and loan accounts at formal financial institutions. 21.4% of the Vietnam's population age 15 years and older have a bank account at a formal institution (WB, 2014). This is only much higher than in Cambodia at 3.7% and lower than in Lao PDR at 26.8% and the Philippines at 26.6%. However, the ratios of selected countries are below the average for the world economy (46%) and the East Asia and Pacific region (42%). It is found out that all four countries still have relatively low access to formal financial services (Llanto, 2015) and there is a great challenge faced by the countries in working for greater financial inclusion.

A broad range of secondary data and information has been collected from annual reports, internal organization materials, and online database, and then analyzed to fulfill the argument presented. The study ended with the conclusion that: a "one size fits all" solution for microfinance to fight against underdevelopment, and poverty is impossible because of socio-economic-political-legal differences among countries.

II. LANDSCAPE OF MICROFINANCE PROVIDERS

The microfinance system in selected countries can be generally divided into three major groups: formal, semiformal, and informal MFIs. However, it is important to understand that MFIs take different forms in different countries. The microfinance sector in Cambodia includes formal banks, 18 licensed MFIs, 27 registered MFIs, about 80 unregistered NGO providers, informal money lenders and relative providing financial services to help the rural population in alleviating poverty. ACLEDA and Angkor Mikroheranhvatho Kampuchea (AMK) are two biggest MFIs in Cambodia that are dominating the sector and expanding their outreach. To illustrate,

[1]Other countries in Asian area such as East Timor, Fiji, Indonesia, Myanmar, Papua New Guinea, Samoa, Solomon Islands, and Tonga have less than five MFIs providing data and information, so the authors did not choose them to analysis.

many MFIs in Cambodia have no more than 200 borrowers whereas the ACLEDA has served over 400,000 clients.

The Philippine microfinance market consists of regulated (licensed) MFIs and unregulated (unlicensed) financial institutions (Fujimoto, 2014; Gallardo, 2002). The former includes commercial banks, universal banks (expanded commercial banks), thrift banks (savings and mortgage banks, stock savings and loan associations), private development banks, rural banks, cooperative banks, and Islamic banks. The rural banks in Philippines require capital less than the thrift banks. On the other hand, the latter is classified as NGOs, village "banks" (solidarity groups), insurance companies, investment houses, financing companies, securities dealers and brokers, fund managers, lending investors, pension funds, pawnshops, and non-stock saving and loan associations. Additionally, the financial services are informally provided by traders, input-suppliers, money lenders, ROSCAs.

Regulated MFIs in Lao PDR consists of deposit-taking MFIs (DTMFIs) mostly operating in the central region, non-deposit-taking MFIs (NDTMFIs) operating in the northern region, and Saving and Credit Unions (SCUs) locating in the central region. The southern region is neglected by the formal MFIs. On the other hand, the unregulated microfinance sectors in Lao PDR are VDFs including both credit funds (19%) and deposit-taking funds (81%) with the total of about 365,608 members. Statistically, 45% of VDFs operate in the central regions, 30% locate in the northern region, and the rests are in the southern region. Particularly, the number of members per VDF in the south is smallest at only 53 members. VDFs are by far the largest subsector of the microfinance industry in Lao PDR.

As regards formal MFIs, the state-owned banks in all countries tried to reach out to the poorest among the poor, whether or not they were 'bankable'. For example, the SBV and the BoL have supported the microfinance sector with a similar motive. Philippines has also taken into account designing an MFI regulatory framework starting with 'National Strategy on Microfinance' to support the formal MFIs (Donaghue, 2004).

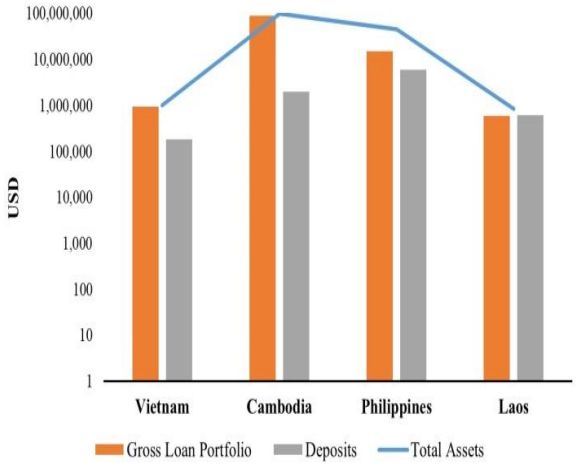
Vietnamese microfinance has a wide network of formal MFIs being high subsidized and protected against private sector. Vietnamese MFIs largely involving in only credit are lower capital requirements compared to deposit taking MFIs. Semiformal MFIs in Vietnam legally are not allowed to mobilize savings from the public, and thus they have not had the opportunity to expand and promote their strengths for this service. This is a big difference when comparing the scale of operating capital of MFIs in Vietnam with other countries in Asia such as Cambodia, Philippines and Indonesia.

Semiformal microfinance providers generally operate under no specific legislation; however, they can register under an existing legal framework. NGOs are the most common form in this group in all four countries. In Philippines, the legal forms of NGOs include corporate, non-profit or cooperative. On the other hand, informal microfinance providers are both unregulated and unregistered. Although there are no clear statistics, they have existed in the numerous types of MFIs and are considered as the oldest financial providers. Indeed, the informal sector in Philippines serves approximately 65%-75% of the credit supply to poor households. It is worth noting that the Philippine central bank has approved money lenders to register as 'private investors' to reduce interest rates and extend outreach.

Essentially, the diversity of providers in the microfinance market is important to meet the different demands. It is in need of a careful determination whether or not an MFI should fall under regulatory environment.

III. PERFORMANCE AND EFFICIENCY

Applying a median method, this section compares the microfinance sector in Vietnam, Lao PDR, Cambodia, and the Philippines regarding landscape, ownership and productivity.

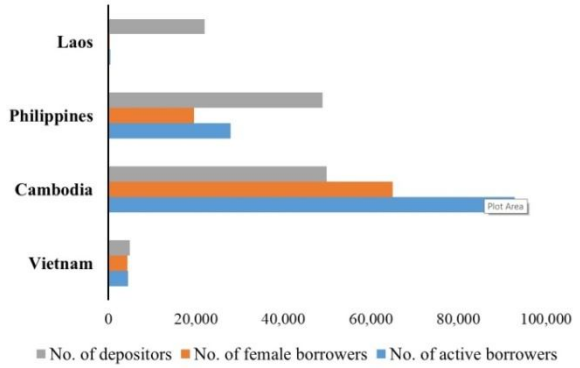


Source: Vietnam Microfinance Working Group

Figure 1: Scale of Operation (as of January 2016)

Figure 1 illustrates that Cambodia is leading in terms of total assets and gross loan portfolio among four countries. With the lowest number of deposits, operation indicators of Vietnam are modest compared to the Philippines and Cambodia. Only four MFIs in Vietnam are categorized as "large credit institutions" with total assets of more than US$8 million, and that of the rest are between US$27,000 and US$5 million. Philippines is the country with the highest deposits

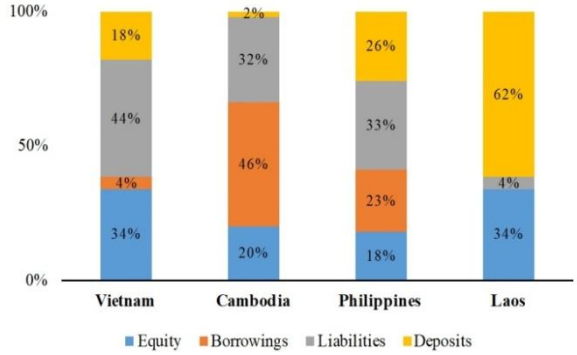
reaching $6 million while Vietnam just attains a value of $185,963.



Source: Vietnam Microfinance Working Group

Figure 2: Number of Clients (as of January 2016)

The group lending model is mainly utilized in developing countries where people live together in densely populated areas and share comparable socioeconomic background and ethnicity. Figure 2 reveals that Cambodia has the largest number of borrowers who are twenty times higher than that of Vietnam. It is worth noting that about 97% of Vietnamese MFI' clients are women while this ratio in the three remaining countries is about 70%. Moreover, the number of depositors in Vietnam is lowest among four countries at only one-tenth of that of Cambodia and the Philippines. It implies that microfinance sector in Vietnam has still operated on a small-scale and is just above Lao PDR. Microfinance in Vietnam is still heavily subsidized by the government, and most of MFIs or social funds are closely working with VWU to provide financial services to the poor.

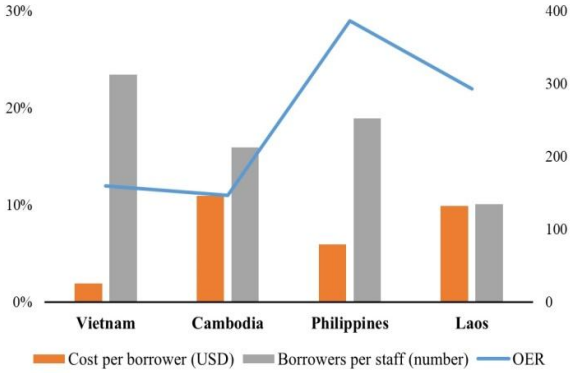


Source: Vietnam Microfinance Working Group

Figure 3: Capital Structure of Microfinance Sector in Vietnam Compared to the Peer Countries in the Area (as of January 2016)

A clear ownership structure is important that help the authorities and investors understand how the MFIs operate. MFIs typically have three main types of funds: deposits (through customers), loans and other liabilities (through investors), and equity (through investors and retained earnings). Figure 3 presents that the capital of microfinance in Vietnam has a high proportion of equity (34%) and liabilities (44%) compared to other countries in the region. However, the share of loans at only 4% is much lower than Cambodia (46%), the Philippines (23%). This is because the capital of Vietnamese MFIs is largely subsidized by the government, and local and international organizations for the implementation of programs. Other liabilities of Vietnamese MFIs are mainly debts for operational costs (or Payables). Although, the microfinance sector in Cambodia still has extensive subsidies and development aid from the government as well as foreign donors, its capital structure seems to be better.

The legal framework for licensed MFIs when borrowing is not suitable for the characteristics of Vietnamese MFIs. First, many MFIs are still not familiar with relevant regulations as a majority of their staffs are part-time and unprofessional. Second, the link between MFIs and other financial institutions is limited that makes them difficult to find out the reasonable resources. Third, MFI's business capital to satisfy the borrowing conditions in the formal financial market is limited while most of them cannot provide collateral to borrow from other financial institutions. Last but not least, MFIs is not active in call for investment capital for their development and expansion as they are still funded to operate in the safe zone. It is uncertain that microfinance in Vietnam is growing with sustainability.



Source: Vietnam Microfinance Working Group

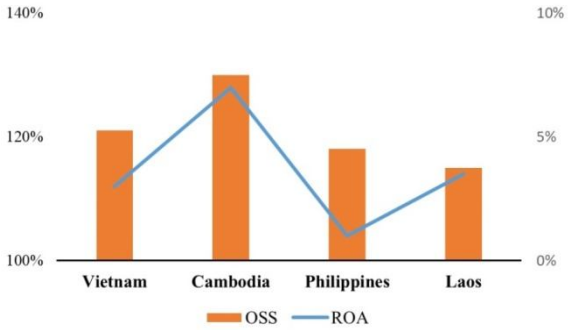
Notes: OER: Operating Expense Ratio; $\text{Cost per borrower} = \frac{\text{Operating Expense}}{\text{Average number of active borrowers}}$

Figure 4: Productivity of Microfinance Sector in Vietnam Compared to the Peer Countries in the Area (as of January 2016)

As shown in Figure 4, the productivity of credit officers of MFIs in Vietnam is highest at 313 borrowers per staff while the OER is quite low compared to other countries at 12%. It implies that the assets are being used efficiently and might be profitable for investors, and that less of income can cover operational and maintenance costs. Similarly, Vietnam also has the lowest cost per borrower at US$26 whereas MFIs in Cambodia spend US$146 for a borrower. The highest cost of Cambodian MFIs may be due to most of them operating in rural areas

that have high operating expenses, since their clients are more dispersed.

Tahir and Tahrim (2013) found out that during the period from 2008 to 2010, MFIs in Vietnam attained relatively high efficiency level at 87.6% in 2008 and 2009, 90.8% in 2010, and 91.3% in 2011 compared to other countries. MFIs in Laos were concluded to be least efficient (45% in 2008, 43.8% in 2009, 60.8% in 2010, and 62.5% in 2011). Moreover, pure technical efficiency level is lower than the scale efficiency level for Cambodia, Philippines and Vietnam, suggesting that the source of inefficiency of MFIs in these countries is mainly due to the waste of cost rather than the wrong scale of operation. The result was different when concerning the case of Laos. MFIs herein operated at the wrong scale and were suggested to reduce excessive usage of inputs.



Source: Vietnam Microfinance Working Group
Notes: Operational Self-Sufficiency (OSS); Return On Assets (ROA)

Figure 5: Profitability and Sustainability

Although operating on a smaller scale in the region, microfinance sector in Vietnam has a net return on total assets (ROA) of 3%, and a 121% self-sustaining rate (OSS) which is not inferior to other countries (Figure 5). There are main two reasons to explain for this achievement. First, many Vietnamese MFIs have operated in collaboration with local organizations and MOs to lower operational costs as shown in Figure 4. Second, the improper evaluation and inaccuracy on the provision on the loans result in a decrease in the costs and then an increase in net income, net profit-to-total assets ratio and revenue-to-cost ratios. The low ROA in Lao PDR might come from the negative ROA of SCUs and NDTMFIs (-0.4% and -0.5% respectively) whereas DTMFIs achieve an ROA of 2.1% due to heavy subsidies and grants.

IV. MICROFINANCE INSTITUTION REGULATION FRAMEWORK

Generally, microfinance in both developing countries using market based solutions has provided financial services toward poverty alleviation and community empowerment. However, there are considerable differences among microfinance practices from them.

Table 1 provides the basic outlook of the legal framework among the sample countries. Basically, the central bank or the state bank and the government manage and nominate the operation of MFIs under the banking law.

The supervision of MFIs can carry out on-site or off-site by the government, the local authorities and the private supervisory institution. Central bank appears as the most common regulator among countries that plays an important role in developing a suitable financial infrastructure for MFIs. For instance, the SBV established and supervised a numerous PCFs, a new kind of Vietnamese cooperative, to serve more Vietnamese poor. Additionally, other governmental agencies may take part in administer the registration and other issues, including permission to operate, registration fee, etc.

Table 1: Regulatory Framework of Microfinance Sector in Southeast Asia

Country	Main regulation	Regulator	Supervision Method	Remarks
Vietnam	CIL	SBV	Off-site and on-site supervision done at branch or sub-branch level	The legal form of MFIs: NGOs or company, upon acceptance of application the license is issued in 90 days
Cambodia	'Parkas', government decree on microfinance regulation; (*) Two main laws: LNBC in 1996, and LBFI in 1999	NBC	Credit Information System: share negative credit information	The application for being licensed MFIs is required when MFI's loan portfolio reaches US$247,000, and number of depositors or borrowers reaches 1,000
Philippines	General Banking Law; Law on Corporations; Rural Banks Act; Thrift Banks Act; Law on Trusts and Non-Profit Foundations; Cooperatives Code	BSP; Securities and Exchange Commission; Cooperative Development Authority (CDA)	On-site and offsite review. NGO-MFIs: PCFC, Delegated supervision Other: MFI networks monitor observance to standards	NGO-MFIs: Registration with Securities and Exchange Commission, Central Bank or Cooperative Development Authority Cooperatives: Development Authority
Lao PDR	Implementation Guidelines; Old SCU Regulation from 2008	BoL; Provincial authorities	On-site and offsite supervision. The regulations are issued separately for the two subsectors and for different types of MFIs within them.	

Source: Synthesis by the authors
Notes: LNBC = Law on the Organization and Conduct of the NBC; LBFI = Law on Banking and Financial Institutions

Financial and credit activities in the Philippines are under the regulatory jurisdiction of central bank in Philippines, BSP, with the General Banking Law of 2000 and various laws governing MFIs. The BSP has supported the development of MFIs by opening opportunities for private-sector investment, as well as welcoming market forces to operate. The BSP regulated 100% locally owned rural and thrift banks while the cooperatives are regulated and supervised by the CDA. On the other hand, the majority of NGO-MFIs in Philippines are mainly self-regulated as semiformal institutions, owned by the private trustees and monitored by the apex organizations and NGOs-MFIs. The remaining NGOs are supervised

by the Securities and Exchange Commission (SEC) and the BSP.

The framework for microfinance activities in Cambodia such as Credit Information System (CIS) is still lack of information and usefulness to MFIs. One example is the limitation of the ability of MFIs to provide multiform products and services. Moreover, the high cost of funding hinders MFIs from remaining sustainable while serving the low end of the market. Despite lending is much larger in Cambodia due to its rural population, the guidelines for the licensing of NGO-MFIs is still stringent. The NBC is in charge of supervision and regulation but has no system for enforcement and often gives a license to many NGO-MFIs without significant oversight that may result in more harmful practices with their high costs of operations. Two larger banks, ACLEDA and AMK, have operated on their own code of ethics because of the lacking of the industry-wide guideline. Moreover, the dominant civil groups, Cambodian Microfinance Association, just act as a liaison between MFIs and the government without concerning to the benefit of microfinance clients (Zhou, 2015). There is not a channel for inexperienced people to ask for redress that pushed them into an extremely vulnerable to a power imbalance that might benefit the lenders. The smaller MFIs operating in the rural provinces are not regulated by the government and are taking advantages of the largely uneducated and rural poor.

The BoL set down the separate regulation framework for commercial banks and non-bank financial institutions in Lao PDR, including three regulations for DTMFI, NDTMFI and SCUs since 1992 and the Prime Minister's Decree on MFIs in 2012. From 2008, the "Implementation Guidelines" was issued to regulate the operation of DTMFIs, NDTMFI and other microfinance projects, while the old regulation for SCUs is still in effect. Like Vietnam, non-banks were not allowed to mobilize funds from the public and from issuing shares or bonds. The VDFs do not fall under the banking law and have been subsidized and technically assisted by village fund promoters (governmental, non-governmental and international organizations) such as ADB, GIZ, and ILO. They are authorized by the provincial authorities and identified by the district village authorities as semi-formal MFIs.

Generally, all selected countries have an existing financial institution regulation to cover microfinance activities. Philippines has been recognized as the first in the world in terms of policy and regulatory framework for microfinance (Economist Intelligence Unit, 2012). Remarkably, the BSP is the first central bank in the work establishing a dedicated advocacy to support all financial inclusion initiatives, including financial education and literacy.

The variety of MFIs obviously suggests a diversity in the regulation and supervision. Rillo (2014) pointed out that regulatory issues are still a big challenge faced by Asian countries in improving financial access. Although each country has own MFI regulation, the focal point might be the same in supervising the institution, protecting the clients, and remaining poverty alleviation.

V. INTEREST RATES

The policies in interest rate vary from country to country. It is noting that informal sector is unregulated and thus creates its own interest rates.

The central banks in Philippines and Vietnam are main authorities in regulating financial service interest rates. With highly subsidy from the government, the formal microfinance market in Vietnam has participation rates of 7% - 20%. The semiformal MFIs in Vietnam also do have interest rate cap.

MFIs in Cambodia have regularly charged at a higher rate (between 35% and 45%) for their lending compared to neighboring countries that could be 'extortionate' (Fernando, 2006; Thapa, 2007) while money lenders lend at the interest rate of nearly 70%. This is due to the high operational costs of reaching customers in rural provinces and small loan sizes. Because of the lack of infrastructure, the MFIs in Cambodia have to locate in the nearest village or go door-to-door causing an extremely costly venture. Moreover, the competition in rural areas is low and the clients usually do not receive good education (Brix, 2009). Since April 2017, the NBC fixed the interest rate cap at 18% for micro-loans to protect the poor from expensive loans. However, this new regulation has been criticized by MFIs in the country as it could cause microfinance to become loss-making business and thus many MFIs will not be ready to provide small loans to poor customers as before.

Similarly, Philippines has the median rates for loans was over 35% as the MFIs herein tend to follow a high cost, high-yield strategy. The BSP regulates the interest rates that shall not be below the market rates and calculated by the sum of interest, fees, insurance and tax[2]. The informal financial providers charged at extremely high interest rate (over 120%) compared to the rate at around 34% of rural banks, between 60%-81% of NGO-MFIs. For cooperatives, there is no regulation in terms of interest rate ceilings.

The BoL does not impose interest restrictions resulting in high interest rates compared to international standards at about 4% per month. Moreover, extra charges and the cost of mandatory

[2] Retrieved May 20, 2017; from: https://www.mftransparency.org/microfinance-pricing/philippines/

savings (if any) have made the cost for micro-loans much higher. On the other hand, credit VDFs being externally subsidized lend at 1.4% per month that is lower than that of deposit-taking VDFs at 2.3% per month. Informal money lenders in Lao PDR provide the flexible loans with the interest rates between 15% to 20% per month or higher.

CONCLUSION

This paper presents attention to different practices of microfinance in sample countries and how the national context affects the constant adaptions of microfinance models in each country. It is evident that all countries have reached out to the poor communities of the society in terms of regulation framework and market orientation. Thus, microfinance seems to be the solution to the countries' poverty.

However, a 'one size fits all' model should not apply even in developing world that has severely different needs, construct and context. It is impossible to find out which microfinance model is ideal for every country: stated-owned banks, commercial banks, NGOs, private banks, or credit institutions working together MOs.

Vietnamese microfinance is quite different from other selected countries as its targeted policy lending with large subsidies from the government and international donors. Despite following the same approach of microfinance for social development and poverty alleviation, the microfinance sector in Vietnam employs the dual approach, including market-driven and state-driven to control the operation of microfinance. In contrast, other countries are based on financial deregulation supporting market-drive rather than directly joining in providing microfinance service in rural areas like the case of VBARD and VBSP in Vietnam.

Another difference of Vietnam's microfinance compared to other countries is the active involvement of MOs and SBV on behalf of the government and local government authorities in NGO-MFIs. This intervention could cause inequality in executing the operation due to the management teams from MOs who often lack of knowledge in microfinance, and the lack of transparency. The SBV then should find the solutions to create a fair market for all investors to prevent the restriction on the development of national microfinance industry.

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