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Development Solutions of Microfinance Institutions in Vietnam in the Condition of Integration

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Abstract

A microfinance institution is a type of credit institution that carries out a number of professional activities such as banking to meet the needs of individuals, low-income households and small businesses. In Vietnam, microfinance activities have been recognized as an effective tool to promote the process of hunger eradication and poverty reduction, contributing significantly to reducing the rate of poor households in Vietnam. Therefore, developing microfinance institutions in particular and the microfinance

market in general can be considered an important solution in hunger eradication, poverty reduction and business development in Vietnam under current conditions. integration. In this article, the authors have mentioned the current situation of microfinance institutions, raised existing problems in the operations of microfinance institutions in Vietnam today and proposed some solutions to develop microfinance institutions in the context of economic integration.

Keywords: Microfinance, Integration

1. Introduction

Up to now, after decades of development, microfinance has affirmed its role and importance in hunger eradication and poverty reduction for community development in countries around the world. The importance of microfinance is confirmed through many theoretical studies (Ledgerwood, 1999; Morduch *et al.*, 2003) ^[3], as well as specific case studies (Khandker, 1998; Nguyen Kim Anh *et al.*, 2011; Nguyen Kim Anh, 2013) ^[1, 2] and has also been confirmed in practice for economic and social development through the United Nations choosing 2005 as the year of international recognition. microfinance economy, and the 2006 Nobel Peace Prize was awarded to professor Mohamet Yunus - the founder of Grameen Bank - a famous microbank for the poor of Bangladesh. Like other developing countries, microfinance institutions in Vietnam play an important role in improving the economic conditions of poor working households who otherwise would not have access to financial loans from official credit sources. In the 2010 Law on Credit Institutions, for the first time, microfinance institutions are considered a type of official credit institution. Over time, the operating mechanism of microfinance institutions in Vietnam is increasingly improved and enhanced. Those are the developments and values created for society that are indisputable from the activities of microfinance institutions. However, facing the new demands of the economy, during their operations, Vietnamese microfinance institutions have many opportunities but also have to face many challenges of competition and international integration. Microfinance institutions still have problems that state agencies need to reassess and improve to maximize the value created for the community, while affirming the role of financial institutions. micro politics in the economy and society. Therefore, to develop this area well, it is necessary to have appropriate and timely solutions, both macro and micro, so that microfinance can maximize its potential and improve the lives of poor and low-income people, contributing more to community development.

2. Basic issues of microfinance

2.1 Microfinance concept

According to the Asian Development Bank (ADB) perspective, "microfinance is the provision of financial services such as deposits, loans, payment services, money transfers and insurance to poor people and low-income households operating their individual businesses and small businesses".

According to J.Ledgerwood: "Microfinance is an economic development method that benefits low-income populations..."^[3].

Decree No. 28/2005/GD dated March 9, 2005 of the Government: "Small-scale finance: is the activity of providing a number of small, simple financial and banking services to households.", low-income individuals, especially poor households and the poor"^[4]. Small, simple financial and banking services are defined in Decree No. 165/2007/GD dated November 15, 2007 of the Government as: small-scale credit, receiving mandatory savings deposits; voluntary deposits; some payment services for low-income households and individuals^[5].

2.2 Concept of microfinance organization

According to Clause 5, Article 4 of the Law on Credit Institutions 2017, it is stipulated: "Microfinance institutions are a type of credit institution that mainly performs a number of banking activities to meet the needs of individuals and low-income households and micro-enterprises"^[6]. Accordingly, microfinance institutions are recognized by law as credit institutions, while in many countries, including countries with developed microfinance such as Indonesia and the Philippines, they have not been legalized.

Thus, according to current Vietnamese law, a microfinance institution is a credit institution, a type of enterprise operating in the banking sector, providing microfinance services as specified in Clause 1, Article 1, Decree No. 165/2007/GD, includes: small-scale credit; Receive mandatory savings deposits, voluntary deposits, and some payment services for low-income households and individuals.

3. Current status of microfinance institutions in Vietnam

3.1 These achievements

In Vietnam, microfinance activities have been recognized as an effective tool to promote the process of hunger eradication and poverty reduction, contributing significantly to reducing the rate of poor households in Vietnam. During the process of formation and development, the activities and goals of microfinance are increasingly closer to the goal of financial universalization. Therefore, microfinance has now become an important part to promote comprehensive finance in countries, including Vietnam.

In order to ensure the goal of comprehensive restructuring of the financial market, a series of legal documents were issued and strongly govern microfinance activities. Specifically: On December 6, 2011, the Prime Minister issued Decision No. 2195/D-PM approving the Project to build and develop the microfinance system in Vietnam until 2020. Next, On June 12, 2017, the Prime Minister issued Decision No. 20/2017/D-PM regulating the activities of microfinance programs and projects of political organizations and political organizations - society, non-governmental organizations. The birth of Decision No. 20/2017/D-PM has contributed to realizing the goal of developing the microfinance system according to the Project on building and developing the microfinance system in Vietnam until 2020 and is the first legal basis to guide the content and scope of activities for microfinance programs and projects, creating a foundation for state management agencies to have a unified management basis. Microfinance programs and projects are operating small, diverse and spread across the country^[7].

In Decision No. 149/D-PM dated January 22, 2020 of the Prime Minister approving the National Comprehensive Financial Strategy to 2025, with a vision to 2030, microfinance is considered a important pillar towards comprehensive financial development in Vietnam, thereby actively contributing to hunger eradication, poverty reduction, and comprehensive and sustainable development of Vietnam's economy^[8].

According to the State Bank, by the end of 2022, there are 04 microfinance institutions including: Tinh Thuong Single-member Limited Liability Microfinance organization (TYM), Limited Liability Microfinance Institution M7 Limited Liability Organization (M7 – MFI), Thanh Hoa Limited Liability Microfinance Institution (Thanh Hoa – MFI), CEP- Single Member Limited Liability Microfinance Institution has been licensed to operate by the State Bank under the Law on Credit Institutions.

According to the 2022 Operation Report of the Microfinance Working Group, in terms of network and number of customers, the total number of branches of 04 microfinance institutions is 62 branches, operating in 25 provinces and cities across the country. Among them, CEP has an operating network with the widest coverage, including 35 branches in 9 provinces and cities; TYM includes 21 branches, 39 transaction offices in 13 provinces and cities, serving 190,000 customers with a total loan balance of nearly 2,400 billion VND; M7 - MFI has 03 branches in 02 provinces and cities and Thanh Hoa - MFI has 04 branches, 11 transaction offices in 267 communes, 19 districts, towns and cities in the province, serving nearly 53 thousand customers, including nearly 20 thousand customers participating in loans, with total outstanding debt as of July 2023 reaching 456.8 billion VND. The operating network of 04 microfinance organizations has the number of member customers up to 603,590 customers and the number of customers receiving loans up to 467,935 customers.

Implementing the policy of the Vietnam General Confederation of Labor on developing and expanding microfinance activities of the Trade Union to become a reliable financial fulcrum, helping poor workers have the opportunity to improve their quality of life, increase income, proactively prevent "black credit", in 2023, CEP implements the project "CEP and trade unions prevent and combat "black credit" among workers". The content focuses on groups of CEP solutions implemented in the period 2023 - 2028: (1) Increasing access to CEP products and services for workers; (2) Improve financial knowledge, help workers proactively prevent "black credit" and effectively manage personal finances; (3) Additional capital sources to meet workers' loan needs. In 2023, CEP continues to develop and improve the CEP App, complete procedures to meet practical requirements and State management agencies, and deepen Community Development programs, focused support on the most difficult customer groups. As of September 2023, CEP has provided capital to 5,522,384 customers with a turnover of 84,622 billion VND. There are more than 342,120 workers and employees receiving loan support from CEP with a total outstanding loan of over 5,521 billion VND. CEP's core activity is community development to support customers and households to effectively use loans, improve capacity, overcome difficulties, and improve sustainable well-being. During its operation over the past 32 years, CEP has built and repaired 1,331 roofs, awarded 405,321 scholarships and study gifts,

organized financial education programs, and the program "CEP - Sharing love, together with workers and laborers to prevent "black credit" and many other support activities. Currently, CEP continues to make efforts and be steadfast with its set goals, while promoting the application of digitalization in improving products, services, customer care... to help support poor workers and laborers. quickly and promptly, contributing together with trade unions to gradually repel "black credit".

For activities of microfinance programs and projects: Up to now, the State Bank has issued registration certificates for 69 microfinance programs and projects operating in 38 provinces, cities, including 03 microfinance programs and projects of foreign non-governmental organizations; 02 microfinance programs and projects of domestic non-governmental organizations with operating areas of 02 provinces and cities or more; 64 microfinance programs and projects of socio-political organizations and domestic non-governmental organizations with operating areas in 01 province, city. It can be affirmed that microfinance institutions, microfinance programs and projects have contributed an additional channel to provide production and business capital to the agricultural and rural economic sector, thereby, Contributing to the development of comprehensive finance in Vietnam. "All people and businesses can safely and conveniently access and use financial products and services that suit their needs, at a reasonable cost, provided by licensed organizations supply responsibility and sustainability", that is the general goal set out in the National Comprehensive Financial Strategy to 2025, with a vision to 2030 approved by the Prime Minister on January 22, 2020.

Regarding contributions to society, nearly half a million customers have accessed loans from microfinance institutions. The average loan size of microfinance institutions is about 15.8 million VND/customer - equivalent to nearly 1/5 of Vietnam's current per capita income. With such a loan scale, microfinance institutions have been focusing on lending to their target customer segments, which are the poor, low-income people, small and micro businesses. In addition, microfinance institutions still maintain non-financial activities, as they implemented before converting to microfinance institutions.

In general, microfinance institutions, microfinance programs and projects have contributed to providing production and business capital for the agricultural and rural economic sectors, thereby contributing to the development of comprehensive finance in Vietnam.

3.2 The problems are limited

Besides the above results, the operations of Vietnamese microfinance institutions also have the following limitations:

The legal framework for microfinance institutions in Vietnam has not been completed. Although the legal framework for the operations of microfinance institutions is increasingly focused, the scale and organizational form of microfinance programs and projects in Vietnam are still widespread, many Microfinance programs and projects are implemented by many organizations, so the implementation process still faces some obstacles, requiring the legal framework to continue to be improved to better support the activities of microfinance organizations, so that microfinance becomes an effective tool to contribute to

implementing the State's policy of minimizing black credit, reducing poverty sustainably, and promoting comprehensive national finance.

Microfinance institutions still do not meet the capital needs of the poor. Due to the impact of economic integration, the need for capital for the poor is increasing, and especially the need for capital required to serve agricultural development such as modernizing farming methods, animal husbandry, and production to meet the needs of the poor. Meeting the increasing demand of the market is huge. However, currently the capital scale of microfinance institutions is still relatively limited, not fully meeting the actual needs of the poor. According to data published by the World Bank, in Vietnam today, up to 79% of poor people do not have access to financial services from banks and microfinance institutions. In addition to data provided from the microfinance working group, microfinance currently only meets 5% of rural credit needs. This reality poses new requirements for microfinance institutions, which is how to increase the scale of capital to meet the rapidly growing needs of the poor across the country.

Savings mobilization activities of microfinance institutions are still limited. Compared to micro credit, current micro savings mobilization activities are still relatively small. In addition to TYM and MFI M7, which are official organizations allowed to mobilize voluntary savings from the population widely (according to the Law on Credit Institutions 2010), semi-official microfinance institutions mobilize very limited savings, mainly in the form of forced savings. Compulsory savings can only be withdrawn upon discontinuing participation in the program and the loans have been paid in full and are often seen as a partial guarantee for the customer's micro-loan. Non-governmental microfinance institutions provide limited voluntary savings services because they cannot compete in paying market interest rates for savings.

The development of microfinance services is still limited and relatively underdeveloped. With the current scope of operations (mainly receiving savings and loans), microfinance institutions have difficulty diversifying products and services to suit customer needs. Especially services such as savings mobilization, remittances, domestic money transfer... received very little attention from customers. Regulations on new establishment, conversion of microfinance programs and projects need to be researched and reviewed to be consistent with current conditions and more feasible. It can be said that microfinance services are limited because customers are mainly low-income working people, whose main need is to borrow capital; Some who are doing better use savings and almost no one needs to transfer money, make payments or other services through these organizations. Furthermore, many microfinance institutions have not been officially licensed, so the provision of financial services is significantly limited and the operations of these organizations also face many difficulties.

Microfinance institutions find it difficult to compete with conventional credit institutions. In the context of integration, fierce competition taking place in the banking and financial sector along with the rapid modernization and active market share expansion of commercial banks has caused microfinance institutions to fall into a weak and passive position. Since Vietnam joined the WTO, we have seen commercial banks continuously increase capital, expand networks, modernize technology, and diversify products and

services. This greatly affects the operations of microfinance institutions, especially capital mobilization operations. For example, regarding interest rates, the reality is that commercial banks can more easily change interest rates than microfinance institutions. Because microfinance institutions have a special customer base, it is not possible to increase interest rates just because they want to. This results in the products and services of microfinance institutions not being as "attractive" to customers as those of commercial banks and other credit institutions.

The level of sustainability of Vietnamese microfinance institutions is not high. The results of the actual assessment of the operations of microfinance institutions show that the level of sustainability of Vietnamese microfinance institutions is actually not high and uneven. In particular, the level of financial and institutional sustainability is relatively low. Specifically, many organizations have not achieved OSS and FSS, and very few organizations have achieved ISS. Regarding sustainability in operations, many organizations do not achieve this, especially self-developed organizations affiliated with the Vietnam Women's Union and Farmers' Union at all levels. This stems from reasons such as: (i) small scale of operations - mainly in a few communes/wards in 1-2 districts, while operating costs are large, especially due to the Closer to customers so total costs are higher; (ii) income from credit is mainly, but quite small because interest rates are not high, while donors' free funding sources are very few and tend to decrease; and (iii) the unprofessionalism of these organizations since their inception makes cost-income management more difficult. Regarding the level of financial sustainability, many microfinance institutions have not included operational costs such as: equity costs (mainly from sponsors or accumulated capital with microfinance institutions that have been operating for a long time), inflation costs (i.e. the value of equity decreases due to annual inflation), opportunity costs due to receiving loans or preferential interest rate mobilizations. Incentives, no or low paid expenses (office and personnel expenses of socio-political organizations). Credit risk provision costs are also almost not fully calculated like credit institutions or according to international practice. In addition, the revenues of many microfinance institutions include unsustainable amounts such as grants and subsidies. Therefore, if calculating the level of financial sustainability, very few microfinance organizations achieve FSS standards > 100%. Regarding the level of institutional sustainability, only a few organizations meet the standards of ISS standards such as international standards (governance structure and legal status; plan, strategy and vision; standard financial reporting; professional and transparent MIS). There are some organizations that only meet one of the above criteria, or are in the process of achieving the above criteria. Currently, only two organizations, TYM and M7 MFI, are licensed to achieve ISS according to Vietnam standards (licensed, managed and supervised by the state bank; reasonable ownership structure and management structure ensures sustainable development both from a financial perspective and reaching target customer groups). Some organizations are preparing licensing documents to transfer to state banks to have the opportunity to achieve ISS. Thus, many microfinance organizations today still lack many elements to reach the ISS level - which is extremely important in

developing the organization in a sustainable and long-term way.

The issue of propaganda to customers and the community has not been done well: Only those who are already customers can feel all the strengths of this type, and many customers become loyal to microfinance. However, due to the limited scope of operations of microfinance institutions, limited resources and personnel, the social community in general and managers and policymakers do not really understand clearly about benefits and characteristics of microfinance. The impact of microfinance on rural agricultural economic development and poverty reduction has not been fully and clearly communicated.

4. Solutions to develop microfinance institutions in Vietnam in the current period

Vietnam is currently far behind many countries in the region in the process of promoting comprehensive finance. Microfinance is the foundation for comprehensive finance in Vietnam. Therefore, to develop microfinance activities towards comprehensive finance in Vietnam, it is necessary to synchronously implement the following solutions:

- **Firstly**, the State needs to build and amend the legal framework for microfinance in Vietnam to implement the principles stated in the National Comprehensive Financial Strategy and the Vietnam Banking Industry Development Strategy to promote healthy competition and cooperation according to market principles. This will also align Vietnam's regulatory framework with global good practices; promote comprehensive financial empowerment for people. At the same time, support the move towards an appropriate and encouraging legal framework; arouse the interest of foreign investors and donors in the microfinance sector in Vietnam.
- **Second**, the state bank creates favorable conditions that can be considered to allow microfinance institutions to open payment accounts for customers, especially microfinance institutions with Core Banking application. At the same time, adjust the regulations on maximum outstanding debt limit per customer and outstanding debt ratio for other customer groups, amend Circular No. 03/2018/C-SB to add "low income" subjects. to comply with the provisions of the Law on Credit Institutions to promote the development of microfinance organizations, programs and projects serving the poor, low-income people, women and micro-enterprises, flexible and suitable for financial products and services in a safe, effective and sustainable way.
- **Third**, microfinance institutions need to: Continue to carry out the mission of reducing poverty for individuals and low-income households through more diverse financial and non-financial services, more suitable for each specific customer, focusing on The combination of responsibility and love is the core value for the method of operation, with improving living standards and reducing the rate of poor households as the final results of microfinance activities. Gradually and steadily expand the scope of operations on the basis of mobilizing capital and credit. At the same time, build a roadmap to increase capital from capital contributions and support from the State, socio-political organizations, unions, international

organizations and mobilize other legal capital sources in society as well as the savings of loan members.

Focus on applying information technology to payment activities, credit capital management and reform of loan and repayment processes for each member to improve management and operational efficiency and create more favorable conditions for members in accessing and using products and services. Diversify products, cooperate with credit institutions and Fintech to increase opportunities to access financial services for people, innovate information technology systems at organizations to be ready to meet the requirements this bridge; Strengthen capacity building activities for members, especially in the field of digital technology, helping people access and effectively use financial services on digital platforms.

Increasing sustainability through reducing costs, increasing revenue sources Microfinance institutions can reduce operating costs through (i) applying a good operational management system, especially an MIS system, (ii) using technology to reduce costs (for example, taking advantage of the internet, telephone... to serve office management and non-financial services at branches applied in advanced MFIs). However, Vietnam's current operating costs are very low compared to other countries in the region, so it will be difficult to reduce operating costs in the short term. Furthermore, interest rates are already lower than in the region, so the possibility of a deeper decrease is very limited; (iii) reduce unnecessary operating costs to the maximum extent, saving operating costs; (iv) better debt management to reduce risk provision costs, apply a strong MIS system and increase credit information sharing with local credit institutions to avoid debt accumulation; (v) expand operations in breadth and depth to reduce costs per 1 dong of loan capital and diversify customer types; (vi) reduce capital mobilization costs of microfinance institutions by attracting domestic and international investors in the market. In addition, increasing revenue sources also needs to be done in parallel through (i) diversifying revenue sources and increasing cross-selling to encourage current customers to use more microfinance services; (ii) develop more diverse types of microfinance products, such as agent services (money transfer via phone, insurance, collection); (iii) apply diverse forms of debt collection to have continuous cash flow; (iv) continuously innovate to improve operational efficiency.

Enhance propaganda: Propaganda should focus on key issues in microfinance for both customers and implementing and monitoring units. Clarifying the difference between microfinance and traditional finance in terms of purpose, customer target, and operational characteristics. Provide clear and transparent information about interest rates and transaction costs. Strengthen propaganda about benefits to customers and the community. Launch research and survey programs on financial knowledge of the population in order to develop programs and strategies to improve financial knowledge of the population.

5. Conclusion

Economic integration is always a difficult problem for developing countries, including Vietnam. Integration also poses many challenges for Vietnamese microfinance. To well carry out the task of hunger eradication and poverty reduction, we really need reasonable policies from the state and state banks as well as practical solutions from the microfinance institutions themselves to promote microfinance can exist and develop in the new context, contributing to the socio-economic development of the country

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