Independent Completion Report

Capital Aid Fund for Employment of the Poor (CEP) Microfinance Program, Ho Chi Minh City, Viet Nam 5-year Expansion Project

Under Agreement Number 10225
Between
GoA and CEP/GoV

by

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June 2008

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A). General information

A.1: Acronyms and Abbreviations

ACR	Activity Completion Report
AMC	Australian Managing Counterpart/Contractor
AusAID	Australian Agency for International Development
AVI	Australian Volunteers International
BoM	Board of Management
CEO	Chief Executive Officer
CEP	Capital Aid Fund for Employment of the Poor
DB	Daily Basic ***(Gop Ngay)*** loan product
DPI	Development Professionals International Pty Ltd
GFA	Grameen Foundation, Australia
GoA	Government of Australia
GoV	Government of Viet Nam
FSS	Financial Self Sufficiency
HCMC	Ho Chi Minh City
ICR	Independent Completion Report
ILO	International Labor Office
IRR	Internal Rate of Return
KPMG	KPMG Ltd Auditors
M&E	Monitoring & Evaluation
MB	Monthly Basic ***(Gop Thang)*** loan product
MIS	Management Information System
MoLISA	Viet Nam Ministry of Labour, Invalid, and Social Affairs
NGO	Non Governmental Organization
NPHRPE	National Program for Hunger Reduction and Poverty Eradication
OSS	Operational Self Sufficiency
PAR	Portfolio at Risk
PCC	Project Coordination Committee
ROA	Return on Assets
SDI	Subsidy Dependence Index
SR	Savings Ratio
TAG	Technical Assistance Group
ToR	Terms of Reference

VBARD	Viet Nam Bank of Agriculture and Rural Development
VND	Vietnamese Dong
WB	Weekly Basic ***(Gop Tuan)*** loan product
$US	US Dollar
$A	Australian Dollar

A.2: Certification:

A.2.1 The CEP Draft ACR was appraised in April 2008 and revised by CEP, the project implementing agency, in May and June, 2008. The ACR has formed an important source for data and other inputs into the ICR. Both the ACR and the ICR have been completed in accordance with tasking and AusAID guidelines (see Appendix A for CEP ICR ToR and Appendix B for Draft CEP ACR Appraisal).

A.2.2 A bibliography of documents examined or referenced in the ICR forms part of the ICR, while a list of list of persons consulted is presented in Appendix D. A schedule of activities undertaken in the course of field research for the ICR can be found in Appendix B, while a copy of the project MOU and Project Design Description are presented in Appendix C.

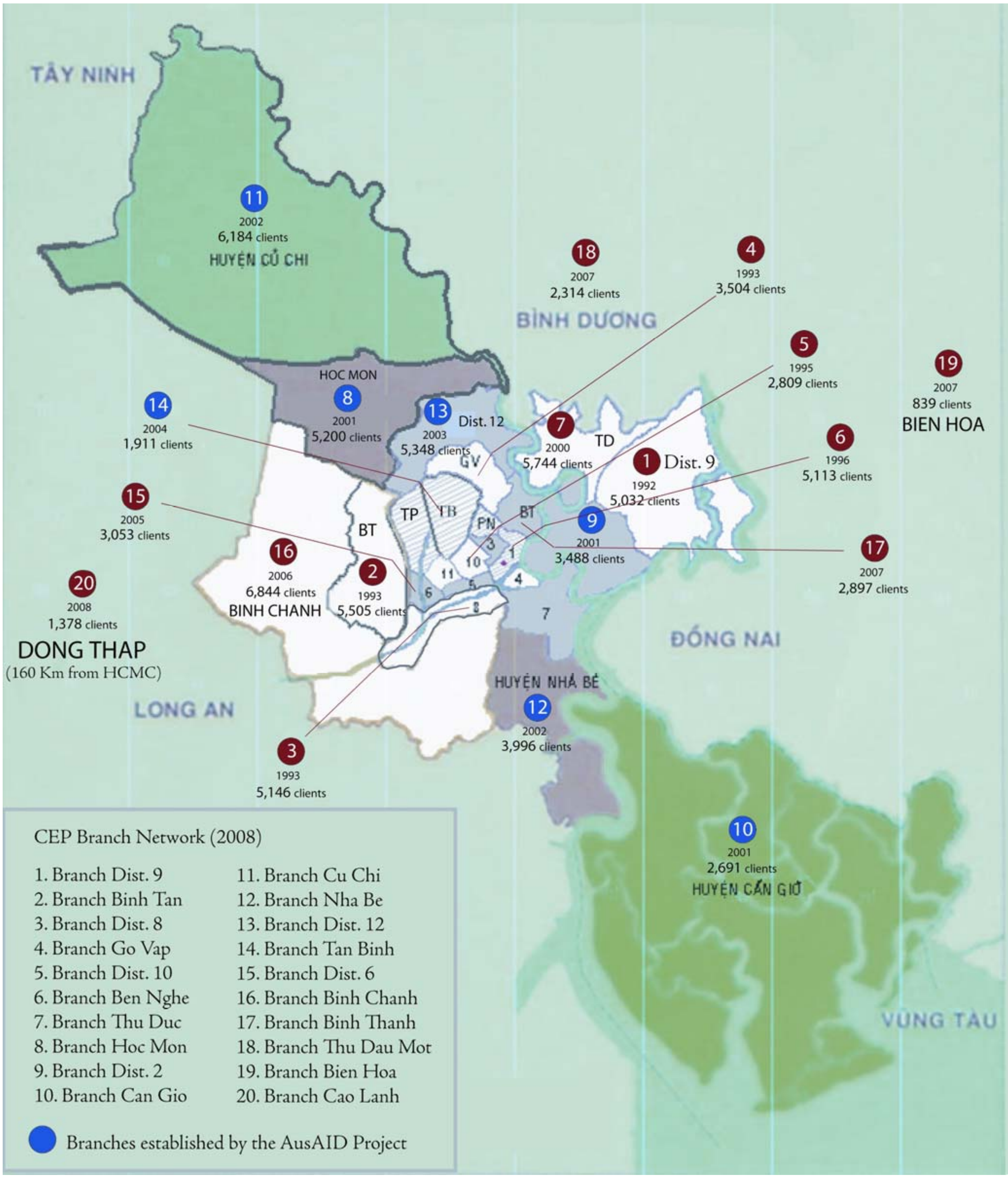
A.2.3 The utilisation of AusAID grant funds by CEP is summarised in Tables 1 and 2, below. An examination of documentation authorising variations in the application of funds from AusAID, together with annual independent audit reports, the results of a mid-term review of the project by AusAID and several specialist topic assessment reports commissioned by AusAID, reveal that CEP has utilised AusAID funds as intended, with no evident leakages.

A.2.4 The ICR is presented in accordance with the format prescribed in AusAID guidelines for the preparation of a project ICR.

A.3: CEP Location and Areas of Operation:

A.3.1 CEP has 17 branches in HCMC and three branches in neighbouring provinces and districts, as shown in the Map A.3.1, below. The 7 sites established with AusAID support are shown in blue.

Map A.3.1: CEP Branch Network, 2008



A.4: Implementing Agency:

A.4.1 Capital Aid Fund for Employment of the Poor (CEP). Established in 1991 under the auspices of the Labor Confederation of HCMC, CEP is registered as a Vietnamese NGO. Its primary mission is pro-poor social development, with the provision of microfinance products and services as its key approach to poverty reduction. CEP had seven fully functioning branches prior to the start of the AusAID expansion project in July 2001, based on a well rehearsed model of poverty targeting and a set of three basic loan products distinguished by frequency of repayment (daily, weekly and monthly). At that time CEP did not offer its clients a voluntary savings product. All savings mobilised were on the basis of compulsory savings, which CEP used as a form of loan repayment default risk management instrument. A brief summary of the project is presented in Table 4, below.

A4.2 The Chair of CEP's Board of Management is also the Chair of the Labor Confederation, though only one other trade union sector representative, the Finance Director of the Labor Confederation, is on the CEP Board of Representatives. Of the nine members of the Board, five are from the private sector, one from DoLISA and one from the Industrial and Commercial Association of HCMC. CEP is, therefore, well credentialed at Board level, with the Chair of the Board meeting frequently with the Director of CEP, who is also a member of the Board, which compensates for the fact that the Board formally meets only once per year.

A.4.3 AusAID contracted directly with CEP for implementation of the project and management of project funds (see project MOU in Appendix C). There was no AMC, though a project monitoring agency was active for the first year of project implementation. A review of annual audit reports and PCC meetings with AusAID staff confirm that CEP performance in project documentation, funds management and reporting conform to AusAID requirements.

B.1: Key Dates:

B.1.1: Project Cycle:
2000, April, Request for assistance
2000, May, AusAID Appraisal recommends that project design processes be initiated
2000, August, CEP Financial Audit, Arthur Andersen
2000, September, CEP Expansion Project Design Mission (SHARE/GFA)
2001, January, CEP Expansion Project Design Document completed
2001, June, CEP Microfinance Expansion Project Agreement 10225 is signed
2003, September, CEP and AusAID make an amendment to Agreement 10225 (Amendment 1)
2006, May, CEP and AusAID make an amendment to Agreement 10225 (Amendment 2)
2007, June, CEP and AusAID make an amendment to Agreement 10225 (Amendment 3)
2008, June, Completion of the 7-year Expansion Project

B.1.2: Project Governance
2001, May, 1st Project Coordination Committee Meeting
2001, July, 1st External Monitor (GFA) Visit to CEP and Report to CEP/AusAID
2001, December, 2nd External Monitor (GFA) Visit to CEP and Report to CEP/AusAID
2002, February, 2nd Project Coordination Committee Meeting
2002, March, 3rd External Monitor (GFA) Visit to CEP and Report to CEP/AusAID
2002, July, 3rd Project Coordination Committee Meeting
2002, August, 4th & Final External Monitor (GFA) Visit to CEP and Report to CEP/AusAID
2002, November, 4th Project Coordination Committee Meeting
2003, June, 5th Project Coordination Committee Meeting
2004, February, 6th Project Coordination Committee Meeting
2004, September, 7th Project Coordination Committee Meeting
2005, January, 8th Project Coordination Committee Meeting
2005, October, 9th Project Coordination Committee Meeting
2006, March, 10th Project Coordination Committee Meeting
2007, June, 11th Project Coordination Committee Meeting

B.1.3: Project Reviews/Appraisals/Audits:
2000, September, CEP Expansion Project Design Mission
2001, January, CEP Expansion Project Design Document Completed
2001, January, CEP Financial Audit, Authur Andersen
2001, July, First Quarterly External Monitoring Report, Grameen Foundation of Australia
2002, January, CEP Financial Audit, Authur Andersen
2002, January, Independent Review of CEP MIS Requirements, Baxendale Report
2002, May, AusAID CEP Expansion Project Appraisal
2002, May, AusAID MIS Software Needs Appraisal, Fredericks Report
2002, August, Fourth Quarterly External Monitoring Report, Grameen Foundation of Australia
2002, December, AusAID Review of Reporting and Technical Assistance Needs, World Education
2003, April, Financial Audit, KPMG
2003, July, Planet Finance Institutional Credit Rating Report
2003, August, CGAP Appraisal Report
2004, February, AusAID Mid-term Review of the CEP Expansion Project (Donaghue/Cornford Rpt).
2004, April, Financial Audit, KPMG
2004, August, CEP Institutional Appraisal, CGAP, ILP, OikoCredit

2005, April, Financial Audit, KPMG
2006, April, Financial Audit, KPMG
2006, November, MIX Performance Report
2007, April, Financial Audit, KPMG
2007, June-July, M-CRIL Social Rating Report
2007, August, Planet Finance Institutional Credit Rating Report

B.1.4: Project Demonstration Activities:
2003, May, CEP Vietnamese Microfinance Conference
2004, CGAP Financial Transparency Award of Merit
2005, June, CEP Vietnamese Microfinance Conference
2005, CGAP Financial Transparency Award of Merit
2005, CEP Replication, Ba Ria Tau
2006, CEP Replication, Long An
2007, May, CEP Vietnamese Microfinance Conference

Table 1: CEP Project Funds: AusAID Grants for CEP Expansion Project, 2001-2008

Year ending 30 June	***$A***
1. 2001-2	1,278,759
2. 2002-3	1,102,215
3. 2003-4	1,085,388
4. 2004-5	1,032,137
5. 2005-6	1,171,502
6. 2006-7	60,000
7. 2007-8	-
Total CEP Managed	**5,730,000**
Total AusAID Managed	**540,000**
Total Project Budget	**6,270,000**

Table 2: Application of CEP Project Funds from AusAID by Component, 2001-8

1. Institutional Capacity Building	1,120,000
2. On-Lending (Horizontal and vertical expansion)	4,000,000
3. Impact and Demonstration	380,000
4. Monitoring and Evaluation (External audit)	50,000
5. Technical Assistance	180,000
Total Application of Funds	**5,730,000**

Table 3: ***Exchange Rates, 2001-08, 1 July:***
'000 Vietnam Dong ('000 VND) to 1 Australian Dollar ($A)

2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
7.7	8.7	10.2	11.0	12.0	12.1	13.1	15.0

B.2: Form of Aid

B.2.1 Project support was provided to CEP through direct injections of grant based funding for capacity building, on-lending, technical assistance and project demonstration activities, consistent with extant human resources and financial management arrangements in operation at the time the project agreement was signed between CEP and AusAID in 2001.

B.2.2 In place of an AMC, it was determined that a Project Coordinating Committee would be established, to meet at least annually, augmented prior to the AusAID mid-term review, by technical support from an external 'project monitoring' contractor. The role of this contractor was terminated at the end of the first year of operations in favour of an enhance role for the PCC. In the course of the project the PCC met 11 times, with the final PCC meeting held in June 2007. The work of the PCC was complemented by external reviews and program appraisals, including annual independent audits, an AusAID mid-term review and four independent external program appraisals or credit and social development performance ratings initiated by CEP or CEP partners other than AusAID. A selection of ‘assessment’ comments from these CEP external reviews and appraisals follows:

> B.2.2.1 CEP was chosen as a suitable organisation to become a demonstration model for its current achievement of operational and financial sustainability and for its poverty focus, especially in urban and rural areas of Ho Chi Minh City. It has also successfully adapted the Grameen Bank model to Vietnamese conditions, making it a prime candidate for demonstration and replication. *[AusAID, 2001, Capital Aid Fund for Employment of the Poor (CEP), Microfinance Program, Ho Chi Minh City, Viet Nam, 5-year Expansion Project, Project Design Document, January, p. 1]*
>
> B.2.2.2 Overall CEP appears to be a good program, with excellent portfolio quality and efficiency indicators and with solid management. … efficiency, risk and profitability indicators are of a very high standard, and in general AusAID should be satisfied with the establishment of its partnership with CEP. … CEP … has … attained excellent performance, and … well-functioning. … CEP is a solid institution with good management. *[Winship, Guy, 2003, Review of Reporting and Technical Assistance Needs of CEP, Final Report to AusAID, January, Sect. 2, p.ii and Sect. 2, p. 30.]*
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> B.2.2.3 CEP has worked hard to increase its profile within Vietnam and internationally. It is widely recognised by its peers as an industry leader. CEP takes this leading role very seriously, as exemplified by its proposal to establish a training centre for the sector. *[AusAID, 2004, CEP Expansion Project Mid-Term Review, Sect. 1, p. 5]*
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> B.2.2.4 The assessment found that the impact of the CEP microfinance program on the well-being of its clients was very strongly positive with CEP’s clients having improved their well-being the longer that they remained in the program and dropout clients also having benefited from their participation. *[CEP, 2006, Impact Assessment Report, p. 2]*
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> B.2.2.5 CEP has a very good positioning in the lowest segment of the population of the HCMC province as a provider of small loans, with adapted repayment methods and reasonable interest rates. At the industry level, it is recognized as the largest semi-formal MFI of the country. Its valuable work is fully acknowledged by local authorities and its international visibility is increasing. *[Planet Rating, 2007, Credit Rating Report, p. 8]*

B.2.2.6 CEP has a well articulated vision and mission, that seeks to balance social goals with financial sustainability. CEP's social orientation includes: A focus on the poor and poorest; Income generation, including start-up enterprises; Supporting financial responsibility and income generating capacity for women; Sustained outreach, including capacity building to other microfinance institutions, and Provision of complementary non-financial services. … CEP is thus making a positive contribution to the quality of life of the clients who stay longer with the programme. … CEP is fairly well on track in putting its mission into practice. *[M-Cril Social Rating Report, 2007, Setember, p. 4 and 15.]*

Table 4: CEP-AusAID Expansion Project Executive Summary

Project Title: Capital Aid Fund for Employment of the Poor (CEP) Microfinance Expansion	AidWorks ID Number: INE850
Place: Vietnam, Ho Chi Min City	Primary sector focus: Urban microfinance
Date commenced: 1 June 2001	Main Country Strategy Objective Addressed: Pro-poor growth and institutional strengthening
Date completed: 30 June 2008 (Extended in 2005 and 2007)	Form of aid: Grant aid for institution capacity building, technical assistance and microfinance outreach to new and existing poor clients of CEP
Initiative cost to Australia: $A6.27 million	Final initiative quality rating: 5.75
Total initiative cost, if available:	Economic rate of return or similar: 15%+
Delivery organization: CEP	ICR Author: Professor Joe Remenyi, CEO DPI Pty Ltd
Counterpart organization: CEP	Contact AusAID employee(s): Mr Mark Palu <Mark.Palu@dfat.gov.au> Mr Nguyen van Hue <Nguyen-Van.Hue@dfat.gov.au>

B.3: Project Targets:

B.3.1 In July 2001 CEP initiated a $A6.27 million AusAID funded five year microfinance expansion project, hereafter referred to as the 'project', under which CEP would add seven branches to service an additional 15,500 poor clients, lift the average size of loan available to at least 5,000 existing CEP borrowers and establish an outreach presence in all provinces of HCMC. Over the period of the project, CEP in fact added 12 branches, extended program outreach to 50,000 new clients, including 46,000 new borrowers, and exceeded financial performance targets by wide margins. CEP was operating its new branches and overall program at a profit two years ahead of schedule. Targets and actual performance data are summarized in Table 5.

Table 5: CEP-AusAID Project Achievements and Targets, 2002-2006

Item	2002	2003	2004	2005	2006	2007
	----------------------year ending 30 June------------------------					
Institutional Growth Performance Vs Targets						
AusAID Branches Opened	3	3	1	n.a	n.a	n.a
Other Branches Opened	-	-	-	1	1	3
New Staff Engaged	26	16	18	11	42	36
New Clients '000						

Actual	6	9	11.2	7.7	5.6	10.5
Target	2.6	4.3	5.1	2.8	n.a	n.a
New Borrowers '000						
Actual	7.3	7.6	8.8	7.7	5.6	10.1
Target	2	3	4	6	n.a	n.a
% Female	70	74	74	72	73	75
Financial Performance Vs Targets, VND billions						
Loans disbursed						
Actual	29.1	27.62	153.92	205.51	226	251
Target	10.9	3.3	39.6	n.a	n.a	n.a
Loans outstanding						
Actual	12.6	30.6	49.6	66.9	72.4	88.3
Target	5	12	18	47.6	67.4	n.a
Savings mobilized						
Actual	1.92	5.64	11.12	18.3	21.1	31.2
Target	0.28	0.69	1.7	9.7	16.5	n.a
Interest collected						
Actual	1.29	6.27	10.94	15.5	19.0	21.5
Target	0.63	2.19	3.9	n.a	n.a	n.a
Profit / (Loss)						
Actual	0.66	3.05	5.41	7.7	9.84	9.0
Target	-0.54	-0.46	0.08	0.81	1.81	n.a

B.3.2 A key assumption of the project was that poverty persists in urban and rural households in HCMC in part because poor households do not have adequate access to finance products and services. Project amendments were approved by AusAID in 2003, 2006 and 2007. These amendments were in response to the realization of project goals by CEP well ahead of schedule, plus the need to identify strategic uses for windfall gains in local currency denominated project funds, created by a 60% strengthening of the $A against the VND between 2001 and mid 2006. These gains were used to compensate for inflation fueled rising costs in Vietnam, additional technical assistance and support to CEP in its effort to adjust to emerging GoV microfinance compliance requirements. It is estimated that between 2002 and 2006, the strengthening of the $A delivered the equivalent of an additional $A1.6 million to CEP, not accounting for inflation in Vietnam 2002-6 of 33%.

B.4: Project Governance

B.4.1 The project has no AMC. Instead, CEP was contracted directly by AusAID to manage a budget of $A5.7; the balance of $A570,000 was retained by AusAID to cover the cost of independent reports and AusAID managed project monitoring and review activities. Annual PCC meetings have been held with AusAID staff, with independent audit reports provided with annual project activity reports. Annual activity plans have been prepared prior to successive transfers of AusAID funds being made to CEP.

B.5: Project Performance

B.5.1 CEP achieved project goals well before the end of the fifth year, as is evident from the statistics presented in Table 5, above. Seven new branches were in place and operating successfully by the end of 2004, with the increase in client numbers above target levels before the end of 2003. CEP had expanded into all provinces in HCMC by the end of 2005, and has since begun servicing clients in three neighbouring poor regions (see Map A.3.1 for details). By the end of 2008 CEP expects to have in excess of 80,000 loan clients, compared to less than one-third that number at the start of the project in 2001. AusAID funding has played a pivotal role in ensuring that CEP has had the wherewithal to create the capacity to implement growth, without prejudicing institutional sustainability, financial viability or CEP's commitment to outreach that is poverty targeted. CEP outreach indicators are summarized in Table 6.

Table 6: CEP Outreach and Performance Indicators, 2001, 2006 and 2008

	2001	2006	2008	Change
Outreach Indicators:	-------------30 June ------------			2001-8 (%)
Number of borrowers, '000	23.5	62.8	80.0	+240
Loans outstanding, VND billions	41	159	210	+412
CEP Staff	80	190	230	+188
CEP Credit Officers	30	108	140	+367
Borrowers per Loan Officer	767	595	560	-207
Branches operating	8	17	20	+150
Loan repayment rate, %	99.1	99.4	99	n.a
Operating Self Sufficiency, %	166	172	136	n.a
Financial Self Sufficiency, %	140	110	98	n.a
Savings Ratio, % of loan portfolio	21	35	34	n.a

B.5.2 CEP's financial self sufficiency has declined from 140% in 2001 to only 98% in 2007. This fall has arisen because of increasing inflation in HCMC, rising interest rates, improved client servicing rates, and higher transactions costs associated with outreach to poor households in areas that are more remote and less well served by transport networks. The question arises, therefore: is the decline in financial self-sufficiency indicative of failure by CEP to achieve 'self-perpetuating growth'? The reality is that the concept of self-perpetuating growth is as elusive and irrelevant in pro-poor microfinance as is the concept of self-perpetuating motion in the realm of physics. In a world of business cycles, the idea that any financial institution should be held accountable to targets based on self-perpetuating growth is a nonsense. It was never a goal of the project that CEP should achieve 'self-perpetuating growth'.

B.5.3 The AusAID expansion project was predicated on the belief that helping CEP to expand would enable CEP to grow in ways that would strengthen its financial robustness and enhance CEP's capacity to sustain program outreach beyond the additional seven new branches and 15,500 additional clients posited in the project design. CEP has grown well beyond these target expansion numbers. CEP's growth has now progressed to the point where new obstacles are increasing in importance; obstacles that the CEP-AusAID project did not target; especially those coming from macroeconomic sources over which CEP has no control.

B.5.4 In common with all microfinance providers world wide, CEP has no control over the environment in which it pursues its mission as a pro-poor provider of financial intermediation and client social development. Had macroeconomic conditions governing interest rates and inflation remained unchanged between 2001 and 2008, CEP would have improved its FSS ratio, trends in program outreach and geographic expansion notwithstanding. CEP program transactions costs have been subject to upward pressures as CEP commitments to human resources development has increased and extension of services to client communities in remoter and more difficult to service regions of HCMC and surrounding provinces have been brought into CEP's branch network. To some extent these upward cost pressures have been contained by the benefits of economies of scale and productivity flows that come with increasing experience. For example, CEP has one of the highest client:loan officer ratios in the industry, compared to other MFIs in Vietnam or globally. Typically, CEP loan officers are responsible for some 600 clients. One can argue that this figure is dangerously high. Nonetheless, the limited role that CEP gives to its clients and programs volunteers in program management suggests that there is likely to be significant savings in cash-intensive transactions costs if CEP can implement management reforms that will allow the CEP loan programs to more effectively and intensively utilize borrower inputs and CEP volunteers into administrative procedures. So doing, will, however, shift transactions costs from the CEP budget and onto CEP clients, so increasing the cost of borrowing from CEP and reducing the benefit that will flow to poor clients.

B.6: Institutional Commitments

B.6.1 Growth in outreach by CEP has strengthened its commitment to its vision, mission and objectives as an agency dedicated to improve the welfare of the poor and the poorest in HCMC through the provision of financial services for income generation and employment creation. CEP seeks to be an example of a successful Vietnamese microfinance institution that pursues the goals of financial sustainability, poverty targeting, while ensuring a positive impact on the lives of the poor. The CEP model integrates its role as a microfinance provider with client desire for social development by involving the poor in building solidarity, teamwork, shared responsibilities, and a sense of community in maintaining a clean environment and healthy social conditions. In 2004 CEP has added health insurance and housing loan products to its menu of activities offered to clients, funded by funds coming from World Bank loans to the Government of Vietnam.

B.7: Performance Ratings

B.7.1 The highest risks facing CEP are in areas directly relevant to institutional capacity building and outreach to target clients. The GIRAFE performance rating scores (%) for CEP for 2007 are indicative: Governance 60; Information 70; Risk 75; Activities 85; Funding 72; and Efficiency 95. Governance is lowest because of the lack of depth in CEP senior management levels, leaving CEP highly vulnerable were existing senior staff to be lost to CEP.

B.8: Future Challenges

B.8.1 Mid way through 2008 CEP delivers its program through 17 Branches in HCMC and 3 branches in neighbouring provinces. Capacity building is promoted through CEP’s training centre and lessons learned from professional intern visits by CEP staff to microfinance institutions outside Vietnam. Growth beyond current outreach of 80,000 plus clients is constrained by capacity bottlenecks that cannot be overcome without significant investment in human resource development, access to affordable sources of funds for on-lending, and specialist attention to product and services development, tuned to the particular needs of target clients. Without on-going donor contributions to overcome these constraints, the cost of growth will be a rising burden on the poor as profits are sought to fund expansion, undermining CEP's capacity to deliver significant benefits to its target populations.

B.8.2 The effectiveness of CEP as a pro-poor microfinance program is undermined to the extent that CEP growth is limited to investments that are sourced from the profits that can be made from lending to the poor. CEP has demonstrated that it can and has operated profitably as a banker to the poor. But, the greater are profits earned per poor client, the lower are the benefits that poor clients draw from their involvement with CEP. Donors have a unique and important role to play in helping CEP to escape from this dilemma. In particular, donors can play a pivotal role in ensuring that the pro-poor benefits

are not eroded by contributing to the costs of those elements of program outreach and impact on poverty reduction that should not be a burden on target beneficiaries: ie., poor households. In the case of CEP there are four major areas where donor support needs to be concentrated:
(i) CEP Training Centre operations and expansion, including CEP capacity building among Board members, CEP volunteers, and CEP clients;
(ii) CEP Research, especially (a) research that will enable CEP to make more effective use of its Poverty Targeting data base in the design of microfinance products and services that are directly relevant to the reasons why poor households find it so difficult to escape from their poverty; (b) research that will enable CEP to seamlessly make the transition from its current role as an urban based MFI to one that can also service the financial intermediation needs of rural households; (c) research into the appropriateness of its pricing policies and effectiveness of its risk management processes; and research into resource mobilization strategies, particularly savings from client households and commercial loans for on-lending;
(iii) CEP Demonstration Activities, especially where these are not intended to directly benefit CEP's existing client base but to create opportunities for other MFIs to engage in information sessions, policy dialogue meetings, cross institutional mentoring and educational field visits; and
(iv) CEP Access to Technical Assistance has been important in enabling CEP to make effective use of AusAID and donor support generally. Future growth of CEP will continue to benefit if CEP has access to donor support for specialist technical assistance, especially in the areas of product and service design, transactions cost management, resource mobilization, and development of leadership and senior management.

C). Method

C.1 The ICR is a product of four activities: First, a desk study of project documents, including the draft ACR prepared by CEP, and related literature on microfinance in Vietnam; Second, a brief field visit, 7-17 April 2008, with AusAID and CEP in HCMC, plus a limited number of consultations with other microfinance providers/donors, CEP staff in four branches and several dozen clients attached to these branches; Third, data analysis and report preparation; and Fourth, consultation with CEP and AusAID representatives to enable key persons to comment on early drafts of the ICR and ensure that data used/reported is accurate.

C.2 An important input into the ICR has been the CEP draft ACR and lengthy discussions with CEP staff and clients. An Aide Memoir was prepared on the basis of the April 2008 field visit, including a general Note of Findings and an Appraisal of the Draft CEP ACR. A copy of the Aid Memoir, a co-author of which was Madam Loan from the AusAID Hanoi Office, is presented in Appendix B to this report.

C.3 Professor Remenyi[1] is the sole author of the ICR, though, with only minor exceptions, data used or reported in the ICR have been taken from sources in the public domain or supplied by CEP or AusAID. Given the limited time available to prepare the ICR, it was not possible to undertake a formal survey of a representative sample of CEP clients or to do more than record anecdotal feedback from respondents visited during field visits and stakeholder consultations. Nonetheless, the proliferation of CEP external reviews, ratings reports and donor appraisal documents available provide a solid base for believing that the results and data reported in this ICR are reliable and present a fair and true account of CEP and CEP performance, including the manner in which CEP has utilised AusAID support to fund its outreach, capacity building, technical assistance and demonstration activities since June 2001.

[1] CEO and Economist, Development Professionals International Pty Ltd, ABN: 43089960654, <joe@remenyi.com.au>

C.4 Key issues considered in the ICR address:
(i) the relevance of the application of AusAID funding to the goals of the project;
(ii) progress and performance of CEP in its pursuit of institutional growth;
(iii) the appropriateness of the aid given to CEP;
(iv) the manner in which delivery of funds and project activities was managed;
(v) efficiency of the CEP program;
(vi) the effectiveness of the CEP approach to its mission;
(vii) impact of the project on CEP client poverty; plus
(viii) sustainability and
(ix) gender, as core parameters of ‘good aid’.

D). Relevance

D.1 CEP describes its mission in the following terms: *to see significant improvements in the living conditions of the poor and the poorest in Vietnam through the efficient, effective and sustainable provision of microfinance services and complementary non-financial services in an honest, efficient and sustainable manner, operating within a sound legal framework.* In order to implement its pro-poor approach, CEP has developed a set of poverty targeting tools based on four poverty indicators – household dependency; household per capita income; household assets; and quality of the home in which the household is resident. These four criteria enable CEP staff to sort potential client households into levels of poverty from ‘poorest’ to ‘poor’ to ‘moderately poor’. The ways in which these classifications are arrived at can be seen from Table 7.

Table 7 CEP Poverty Targeting Criteria

Level of Poverty	Household Dependency Ratio	Household Income/Person $USA, Urban	Household Assets	Housing Quality
Poorest	>3	<0.85	None-Few Low Quality	Temporary No access water/power
Poor	2-3	0.85-1.04	Old Low Quality	Semi-permanent With water/power
Moderately Poor	0-2	>1.04	Low – Medium Quality	Permanent Owned With water/power

D.2 The dependency ratio is an excellent indicator of the availability of labour power within the household. The higher the dependency ratio, the greater is household vulnerability and, prima facie, the lower the household’s capacity to earn income. However, the dependency ratio also serves to distinguish those households with unemployed or under-utilised labour as opposed to those with limited access to surplus supplies of 'able-bodied' labour power. Households without adequate labour power are candidates for ‘welfare’ assistance, not potential CEP loan clients. Income per person is important and set at the local poverty line level or below. The higher is the income per person, the greater is the capacity of that household to service a loan and engage in compulsory and voluntary savings. Assets provide CEP staff with a means by which to assess household skills base, vulnerability to misadventures such as theft or loss of ‘tools of one’s trade’, and potential sources of past accumulation that might be liquidated should the need arise. Assets add robustness to household economics as well as providing CEP with a non-income indicator of household socio-economic progress. Housing quality is a powerful indicator of migrant status, with recent migrants into HCMC from near and distant rural areas typically housed in temporary squatter housing not connected to local potable water or power services, often also subject to annual flooding for three or four months. The poorest households are highly vulnerable to health issues, requiring resettlement into more permanent circumstances before they are free to consider borrowing to establish an owner-operated microenterprise.

D.3 Use of the poverty targeting framework described in Table 7 has allowed CEP to ensure that at least 25% of its client base is in the poorest category. This is commendable, but also implies the need for caveats. For example, no evidence was found, either written or from conversations with CEP staff, that the poverty targeting exercise is also used to help design appropriate financial intermediation services or products that address why individual households are among the poorest, the poor or moderately poor categories. Nor did there appear to be awareness evident among branch and centre level staff that the poverty targeting exercise can be a valuable source of information on the sort of microfinance products and services that households in each poverty level may need to help them escape their poverty and climb above the poverty line. Capacity building in these areas is unfinished business for CEP and potentially path-breaking approach to ways in which CEP can significantly lift the impact that its microfinance activities on the incidence of poverty. CEP could consider highlighting this area as particularly suitable for donor support in on-going donor investment in CEP in future years.

D.4 The political environment in which CEP operates is replete with irony. On the one hand CEP is an important initiative of the Labor Council of HCMC, representing a response to the Labor Council's concern for the plight of poor employed and unemployed workers. For similar reasons, CEP has the on-going support of all the major arms of local government, especially those with a brief to address hunger, homelessness and unemployment in HCMC. Yet, regulation by government of where people can and should not live in Vietnam allows official documents to deny the existence of migration driven poverty in the slums and canal communities of major cities in Vietnam. It also allows official government agencies such as the Social Policy Bank, to avoid confronting the need for MFIs to embark on serious outreach to these 'hidden' poor. CEP has found itself to be one of the few, if not the only MFI embracing the hidden power in HCMC's enclaves of migrant households. There is a long history of unofficial in-migration from rural areas into HCMC and growth in unregulated residences along the canals and waterways that dominate the geography of HCMC. As a result, there is a rapidly growing population of poor in and around HCMC, official statistics notwithstanding. Few of the residents of these hot-spots of increasing poverty have access to financial services, loans from high-priced local money lenders excepted.

D.5 AusAID support for CEP has played a strategic role in enabling CEP to accelerate its outreach to all classes of poor households in HCMC. The project sought to expand outreach both vertically, (ie, 15,500 new clients), and horizontally (ie., larger loans to existing clients. CEP achieved both goals within three years of the launch of the project. This is indicative of an institution and a program that was well placed to make optimal use of the resources that AusAID injected. Growth of CEP in terms of clients, branches, loan portfolio and savings mobilisation since 2001 is summarised in Table 8.

Table 8: CEP Growth, 2001-07, Year Ending 31 December.

Item	2001	2002	2003	2004	2005	2006	2007
Branches	11	13	14	15	16	17	19
Centers	1,188	1,414	1,745	1,978	2,118	2,349	2,983
Groups	6,691	7,657	10,005	11,291	12,458	14,532	16, 627
Staff	80	109	130	146	148	190	226
Loan Officers	32	51	67	75	75	108	133
Borrowers:							
-Daily	4,291	5,298	6,875	7,250	7,305	6,391	5,733
-Weekly	10,358	14,302	21,565	27,796	37,068	42,843	53,095
-Monthly	9,900	12,691	13,692	14,284	15,495	14,999	15,532
Total Borrowers	24,549	32,291	42,132	49,330	59,868	64,233	74,360
Total Clients	33,167	38,646	50,027	55,884	68,253	72,663	83,132
% Female	71%	70%	72%	73%	73%	74%	75%
Loans Outstanding VND, billions	123.580	177.284	246.746	328.049	425.590	474.513	569.473
Savings Mobilised VND, billions	8.506	10.854	17.884	27.376	39.238	54.090	68.650

D.6 CEP has adapted the traditional Grameen group-based approach to microfinance, in part, by defining its loan products on the basis of the frequency of the loan repayment schedule[2]. The poorest of the poor clients are concentrated in the Weekly Repayment group, which is CEP's largest loan client group. Petty traders and market stall operators dominate the Daily Repayment group, whose primary need is for daily working capital. The Monthly Repayment group is structured to suit low income workers, most of whom are identified as moderately poor and employed, but on a wage that is too low to support their household at consumption levels above the poverty line. While further adaptations of the CEP model can be made to address more closely the sources of the poverty traps that keep poor people poor in HCMC and surrounding provinces, the design of the CEP loan program around repayment schedules has served CEP well in its determination to be both profitable yet relevant to the needs of its target clients. More deliberate linkage of the design of loan products to the results of CEP's poverty targeting procedures should enable CEP to continue to adapt its model and identify additional loan products and microfinance services without compromising its profitability or relevance to the needs of its clients.

D.7 A bold initiative associated with AusAID's support for CEP was the decision not to appoint an AMC but to contract CEP directly. In place of the AMC, AusAID and CEP established a PCC, to meet biannually, and contracted an external TAG to provide independent monitoring and technical assistance. Throughout the eight years to 30 June 2008 that the project has run, the PCC has met on schedule and provided AusAID with a valuable forum in which to take up issues and ensure that project management has complied with the MOU under which AusAID support for CEP has been implemented. PCC minutes are detailed and give the impression that CEP has been a model example of an efficient and effective direct contracted project. Annual external audits, together with annual program plans and project reports have ensured that AusAID has had the information it needs to fulfil its due diligence.

D.8 For the first 18 months of the CEP expansion project AusAID had contracted an External Monitor to undertake quarterly monitoring of the project and provide CEP with technical assistance. However, at the second PCC it was observed that the External Monitor appointed had been actively engaged in the design of the project, which compromised independence and the ability to be critical. A new EM was to be appointed in the second half of 2002, but events overtook the identification of a suitable appointment. AusAID commissioned a review of CEP reporting requirements, which was undertaken early in 2003. One of the recommendations of this report was that no EM should be appointed as existing reporting, the effectiveness with which the PCC was functioning and the reliability of external audit procedures obviated the need for an additional layer of external monitoring. Moreover, the savings realised by not having an External Monitor could be used to strengthen CEP's demonstration activities and access to technical assistance.

D.9 The performance of CEP as a project manager and direct project contractor appears to justify the judgement by AusAID that the maturity of CEP as an on-going entity did not require that an AMC be attached to the project. CEP has acted commendably in exercising full responsibility for project activities, reporting and annual activity planning. The PCC has overseen project implementation and provided a highly satisfactory conduit for communications between CEP and AusAID. Moreover, because PCC membership included not only AusAID and CEP representatives, but also representatives from the General Labor Confederation of Vietnam, HCMC People's Committee and HCMC Labor Confederation, the PCC gave to CEP powerful elements of both external and peer reviews. The PCC made CEP accountable to AusAID and local CEP stakeholders, but it also gave to project stakeholders

[2] CEP has three basic loan products: Daily Basic (Gop Ngay), Weekly Basic (Gop Tuan) and Monthly Basic (Gop Thang)

the authority to approve any changes to the project design and budget allocations, approve reports and acquittals, and approve the annual plan. CEP's Director and Deputy Director had ultimate responsibility for the management of the Expansion Project, the proper utilisation of AusAID funds and project reporting to AusAID, particularly via the PCC and project annual plans. CEP's performance in these respects confirms AusAID's judgment that CEP is a sufficiently mature institution to successfully implement and be accountable for the project. It is highly probable, that this trust and CEP's serious approach to its responsibilities as project leader and activities manager have added to CEP as a well managed and efficient entity. Such an outcome is consistent with the capacity building objectives of the project. It has not, however, lessened the vulnerability of CEP to risks because the depth of management capacity within CEP remains limited. The Director and the Deputy Director, in particular, have played pivotal roles in CEP expansion. Loss of one or both of these individuals would be a serious blow to CEP, removing a key source of leadership and capacity to manage growth in an orderly fashion. It is the case, nonetheless, that the direct contract management model has proven to be well suited to the Project. A copy of the project MOU between CEP and AusAID is given in Appendix C.

E). Effectiveness

E.1 There are five prime components to the CEP Expansion Project, as shown in Table 9. Component 5 was added during the second year of the project in place of the External Monitoring provision that was judged a less than optimal approach to technical assistance by an external reviewer. The funds released by discontinuing the role of the External Review Agency, sometimes referred to in project documents as the project TAG, have enabled CEP to engage a technical adviser through AVI, and to secure the services of expert advice on mobilisation of voluntary savings. Both additions have been important to CEP's adoption of program reforms that have provided CEP senior management with on-going guidance on CEP product development and program cost controls.

Table 9: CEP Expansion Project Objectives and Outcomes by Component

Component 1: Capacity Building, $A1.12 million *Objective:* To expand and improve CEP's institutional capacity to meet the Project goal of extending sustainable financial services to an additional 15,500 poor households. *Outcome:* All capacity building goals of the project have been achieved. However, on-going capacity building in step with CEP growth beyond the 7 additional branches and further 15,500 clients funded by AusAID has fallen behind standards achieved when AusAID funding was available. This reflects the difficulty that all MFIs, throughout Vietnam and globally, have sustaining rates of capacity building when the primary source of funding for capacity building is profits from lending to poor clients. In common with almost all MFIs globally, donor funds continue to be important to CEP for on-going capacity building inboard development, program management, staff development, client training, adjustments to administration and product/service design.
Component 2: On-Lending Funds, $A4 million *Objective:* To extend CEP's outreach to an additional 15,500 poor households in 7 additional rural and urban districts of HCMC and to meet the demand for increased loan size of 5,000 existing clients in a way that is efficient and that ensures CEP's financial self-sufficiency (FSS) ratio is greater than 100% at the end of the Project. *Outcome:* CEP loan program outreach had exceeded the target of 15,500 before the end of the second

year of the project. By the end of 2006, the initial end-date for the project, outreach had increased by almost 40,000 clients. The FSS ratio improved throughout this period, from 106% in 2002 to 110% in 2006. The decline in the FSS to 98 in 2008 cannot be attributed to the AusAID project, but to significantly changed macroeconomic conditions in Vietnam, plus an acceleration of CEP commitments to working with poor communities not being reached by other MFIs operating in and around HCMC.
Component 3: Impact and Demonstration $A0.38 million *Objective:* To set up an internal impact assessment system that allows CEP to better understand the needs of its clients, and to position CEP as a successful demonstration model for microfinance in Vietnam. *Outcome:* CEP has increased its role as an exemplar MFI, adapted to the unique socio-cultural conditions in Vietnam, by successfully establishing an (i) internal program monitoring and assessment unit; (ii) a CEP training centre open to all MFIs; (iii) a CEP replication mentoring group that has assisted in the establishment of two CEP replication programs in provinces that neighbour HCMC; and (iv) a MFI 'policy dialogue' and 'information dissemination' program, based on annual MFI seminars, hosted by CEP, to which all MFIs in Vietnam and many from overseas are invited.
Component 4: Monitoring and Evaluation, $A0.05 million *Objective:* Through CEP's internal monitoring, AusAID's external monitoring and evaluation, and annual external financial audits, ensure that the Expansion Project is on track and timely corrective actions are taken if needed. *Outcome:* In addition to annual independent audits, CEP has established an internal M&E unit and collaborated in no less than 12 external institutional and program reviews, appraisals or ratings. Without exception, these assessment reports and ratings have been highly positive, identifying CEP as an exceptional program with positive impacts on poverty and strong industry leadership credentials.
Component 5: Technical Assistance, $A0.18 million *Objective:* To enhance CEP's capacity to make effective use of technical assistance funds provided under the Project and to assist CEP to balance the demands of its own growth with the need to contribute to the development of microfinance more broadly in Vietnam. *Outcome:* CEP has used the access it has to Technical assistance to (i) strengthen its communications with donors and other MFIs; (ii) increase its involvement in policy dialogue; (iii) devote more attention to strategic management issues directly relevant to CEP than would have been the case otherwise; (iv) have an internal capacity to collaborate more effectively with external reviewers and rating agencies; and (v) engage external specialist assistance in areas such as savings mobilization.

E.2 Since 2001, CEP has significantly exceeded the objectives set out under Components 1,2 and 4. Component 3 has also been given significant attention, but the appropriateness of this objective in the original project design can be questioned. CEP has established for itself a leadership role in microfinance in HCMC and Vietnam generally, but the expectation that the CEP model was fully developed and ready for replication elsewhere in Vietnam is a brave assumption. In fact, CEP has continued to evolve its model, especially with the addition of voluntary savings from 2002 and the addition of health insurance and housing loan products in 2007 and 2008 respectively. The manner in which CEP is using its poverty targeting procedures is also evolving, as are its policies on loan and savings product pricing, the role that groups and branch centres play in service delivery and loan program management. CEP is currently wrestling with the optimal balance between its daily, weekly and monthly loan groups. Consequently, to expect that CEP was in a position in 2001 or soon thereafter to demonstrate ways in which the CEP model might be replicated needs to be assessed with great care. Replication of some of the better developed and stable aspects of the CEP approach to microfinance is clearly possible. It does not, for example, take much effort to copy CEP's three-part repayment based group approach, but to expect CEP to do more than assist and mentor partner programs or communities on replication of components of its program[3] is not reasonable. Replications of CEP must be regard as 'experiments', not copies of a final well defined model.

E.3 All MFIs are always in a state of evolution as they respond to changing circumstances and altered client needs. Even the Grameen Bank, which is the original source of the group-based approach adapted by CEP to Vietnam, has been in the throes of major changes to its approach to microfinance; changes that have moved the Grameen away from its 'base model' of group based lending. CEP, on the other hand, is still adapting its model, drawing lessons from its own experiences. CEP must be commended for taking steps to share with others the lessons it has learned[4].

E.4 Component 5 of the project has been used by CEP in strategic ways to bring into CEP expertise and specialist skills that have significantly improved staff professionalism and awareness of key management issues critical to loan portfolio quality and financial sustainability. The establishment of a Microfinance Training Centre within CEP is a bonus for on-going CEP capacity building and demonstration effects that the original project design did not anticipate.

E.5 The five core objectives of the CEP Expansion Project remain as relevant to CEP today as they were in 2001. Going forward, CEP retains a focus on the challenge of outreach and sustainable growth. Loanable funds supply constraints will continue to dog CEP, as it does most microfinance providers world wide. Continued growth will track the extent to which new sources of loanable funds can be tapped. If donor funds are not available, CEP may need to consider commercial sources of funds for on-lending, though CEP still has significant potential for growth through more effective savings mobilization. In the next five years, CEP’s board and senior staff will have to find the optimal balance between the on-lending demands of outreach with the more general qualitative objectives of the demonstration and capacity building for further program growth.

E.6 Risk management has many faces in the life of a donor supported pro-poor microfinance program. CEP adherence to basic PCC and audit procedures have ensured that funds sourced from AusAID have been applied as intended. No evidence of leakage or inappropriate application of funds has been identified at any time by external reviews or audits of CEP[5]. Procurement has been monitored by the

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[3] CEP has sought to replicate the CEP model in the HCMC neighbouring provinces of Ba Ria Vung Tau and Long An, both of which have been recipients of AusAID grant funding. It has not been possible, however, to examine the success or extent to which these are true replications or adaptations of the CEP approach to urban microfinance in HCMC to the rural circumstances in Vung Tau and Long An.

[4] Between 2003 and 2007 CEP has recorded 167 visitors from 26 different organization who have come to CEP to look and listen as part of CEP’s ‘demonstration’ activities. A list of visitors and their affiliations is available from CEP.

[5] CEP is listed on CGAP’s Microfinance Information Exchange and was acknowledged in 2004 and 2005 with a CGAP Financial Transparency Award of Merit.

PCC, with approval sought from AusAID where required. Office facilities, communications equipment, and transport vehicles purchased using AusAID funds are clearly marked with signs that acknowledge AusAID as the donor. In addition, the PCC has played an important part in helping CEP identify sources of management information technical assistance and expert inputs into specialist product design, activity monitoring and resource mobilisation. At no time, however, has the involvement of AusAID or external review and appraisal agencies threatened the ownership that CEP holds over its program. CEP has kept faith with the responsibilities that it accepted in signing the project MOU with AusAID, unequivocally justifying the trust that AusAID expressed in CEP in choosing to use forms of aid that are not predicated in the presence of a project AMC.

F). Efficiency

F.1 AusAID invested more than $A6 million in the CEP expansion program, $A4 million of which went directly into CEP on-lending. While there has been no cost-benefit done with respect to this investment, it is possible to derive an insight into the returns generated for CEP and CEP clients by examining CEP income trends and client interest payments on loans disbursed. For example, across the whole of CEP's loan portfolio, the repayment rate has always been above 98% for all categories of borrowers. In the case of daily repayment borrowers, this repayment record implies that CEP clients have successfully used the funds they borrow to repay capital plus average annual interest rates in excess of 55%. Similarly, weekly borrowers have used their loans to service repayments including interest rates approaching 25% per annum, while for monthly borrowers the equivalent figure is 15%. It is not possible to aggregate back from these numbers to estimate rates of return to funds borrowed by CEP clients, but they are indicative of annual rates of return well in excess of 15%. This observation is consistent with the income that CEP has earned on funds loaned.

F.2 If income earned by CEP is considered as a fraction of on-lending funds received from AusAID, the rate of return to CEP rises from 15% in 2002 to almost 40% in 2007. However, these figures overstate the return to the equity investment made using AusAID funds in so far as CEP interest earnings on its loan portfolio includes loans financed from savings mobilised. When these two sources of on-lending funds are separated and interest earned allocated pro-rata, the annual return on project on-lending funds sourced from AusAID ranges between 13% and 19%. The true benefit of the project is additional to these returns, especially after the value of capacity building, education and social development gains realised are taken into account. Nonetheless, given that CEP 'profit' as a proportion of the AusAID investment is typically less than 13% per annum, it is not unreasonable to believe that the project internal rate of return falls between 10 and 20 percent, probably closer to the upper end of this range.

F.3 CEP has been most frugal in the manner in which AusAID funds have been used. Capacity building investments in CEP staff has enabled 59 persons to participate in exposure and formal training programs outside Vietnam, 237 CEP staff to complete skills training programs in Vietnam (including 158 staff who completed CEP In-service Training), 29 workshops to be held, three significant microfinance 'conferences' to be organised and delivered, and six 'policy and practice dialogue' meetings held with microfinance providers in Vietnam. The cost of these capacity building activities was approximately $A275,000 over the seven years to 2008, or around $A300 per participant[6]. By any measure, this is a very modest sum for the increase in capacity that CEP has realised. Because AusAID

[6] This assumes that an average of 10 persons participated in each workshop and that there were only 100 participants in the three microfinance conferences held by CEP in HCMC.

funds have been available for these human resource development purposes, the cost of this capacity building has not had to be met from profits earned on loans made to CEP's poor clients.

F.4 Table 10 presents data on the allocation of AusAID funds to CEP expansion by purpose. It is clear from here that two-thirds of AusAID funds went to vertical and horizontal growth in the CEP loan portfolio. Capacity building was directed primarily at ensuring that CEP would be able to staff an expanded outreach program. Overall, 82% of AusAID funding was allocated to outreach and capacity building for efficient, effective, well targeted and sustainable outreach.

Table 10: Allocation of AusAID Funds by Purpose, 2002-08, $A millions

Item	2002	2003	2004	2005	2006	2007	2008*
1. On-lending	853.3	733	698.1	728.7	986.9	-	-
2. Capacity Building	187.4	240.4	287.1	133.4	137	107.4	20
2.1 Training	71.1	60.1	42.6	45.9	54.9	-	-
2.2 MIS & IT	3.7	12.6	10.9	16.7	8.9	-	-
2.3 Plant & Equip.	93.8	119.9	57.4	51.7	36.6	-	-
2.4 Technical Assistance	18.7	47.9	24.4	19.1	36.6	107.4	64
3. Demonstrations	44.8	73.3	35.1	64.3	75.4	34.3	20.1
4. Audit & M+E	100	17.5	10	10	10	-	-
Total $A millions	1.186	1.064	1.021	0.958	1.209	0.142	0.104
Total VND billions	8.242	9.221	10.478	10,653	14.612	2.234	1.437
Exchange Rate, 30 June							
VND/$A	7,695	8,726	10,174	11,028	12,005	12,121	15,000
CEP Total Savings, VND billions	1.92	5.64	11.12	18.29	21.1	31.2	38

F.5 One can argue that AusAID's support for CEP expansion had a significant 'multiplier-effect' in that the CEP loan portfolio increased by substantially more than the AusAID grant of $A4 million for on-lending. In 2002 CEP savings mobilised were only 23% of AusAID funding for the whole of the project, but by 2006, the year when the project was meant to have come to the end of its initial five year term, savings mobilised exceeded AusAID funding by almost 45%. In effect, this on-lending component of the project was a revolving fund that gathered momentum as it rolled over. CEP has husbanded these on-lending funds so that the whole of the corpus has been retained for on-going on-lending. CEP staff have 'worked' to roll-over that part given to daily loans every day, every week for the weekly loans and every month for the monthly loans. Profits made from on-lending are now a core part of CEP's profitability, which has enabled CEP to develop MED and housing loans, typically of 40 weeks duration, as well as explore the practicality of health and education loans tailored to the needs of individual households.

F.6 Value for money can be measured in many ways. In the instance of the CEP expansion project, however, the project design document specified key performance targets that can be measured against actuals, as shown in Table 11. There are no targets beyond 2006, but actual achievements are shown including the latest figures available for 2008.

Table 11: CEP-AusAID Expansion Project Targets and Actual Performance Indicators

Item	2002	2003	2004	2005	2006	2007	2008*
Institutional Growth							

New Clients '000							
Actual	6	9	11.2	7.7	5.6	2.7	n.a
Target	2.6	4.3	5.1	2.8	0.7	0	n.a
New Borrowers '000	7.3	7.5	8.8	7.7	5.6	2.7	n.a
% Female	70	74	74	72	73	75	n.a
Financial Performance Vs Targets, VND billions							
Loans disbursed							
Actual	29.1	27.6	153.9	205.5	226	251	270
Target	10.9	3.3	39.6	n.a	n.a	n.a	n.a
Loans outstanding							
Actual	12.6	30.58	49.6	66.9	72.4	88.3	92
Target	5	12	18	47.6	67.4	n.a	n.a
Financial Self Sufficiency	106	107	107	108	110	102	98
Savings mobilized							
Actual	1.9	5.6	11.1	18.3	21.1	31.2	38
Target	0.28	0.69	1.7	9.7	16.5	na	n.a
Interest collected							
Actual	1.29	6.27	10.94	15.53	18.97	21.5	24.5
Target	0.63	2.19	3.9	n.a	n.a	n.a	n.a
Profit / (Loss)							
Actual	0.66	3.05	5.41	7.7	9.84	8.99	9.2
Target	-0.54	-0.46	0.08	0.81	1.81	n.a	n.a

F.7 Client growth during 2001-08 reflects outreach to both borrowers and savers. This is to be commended, though CEP had put the emphasis on lending because that was the focus of the project. Future growth will need to redress the balance between savers and borrowers, especially if savings mobilization is to contribute as much to fulfilling the demand for loans as will be essential if CEP is to meet client demand for loans.

F.8 A word should be added here to explain how and why CEP has maintained a gender balance around 75% of clients. Formally CEP targets poor households, not poor women. However, in keeping with good management and commercial practice CEP has concentrated on those clients that it considers are also its best clients. It turns out that most of these are women. The CEP beneficiary list, in contrast, is entirely gender neutral reflecting the gender balance of the households from which clients are drawn. By concentrating on its best clients in poor areas, CEP combines good risk management with sustained focus on poor households.

F.9 CEP has exceeded the financial targets set for the expansion project in the design document. Loan disbursals have been up to six times the target rate, though savings mobilized have not performed as spectacularly. Interest collected, on the other hand, has grown at rates that have supported a strong profit performance. CEP was trading profitably from year 1 of the project, with profits growing each year through to the end of 2006. Thereafter, cost pressures and inflation have created a more difficult macroeconomic environment, reflected in a deterioration in operational and financial self sufficiency in 2007-08. Consider the data in Table 12.

Table 12: CEP Microfinance Performance Indicators, 2001-08, Year ending 30 June

Item	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
PAR	1.44%	2.05%	1.39%	1.23%	2.07%	1.41%	0.99%	0.93
OSS	166	161	166	166	166	172	155	136

FSS	140	106	107	107	108	110	102	98
CTR	23.78	28.91	21.03	23.62	22.88	31.54	21.87	n.a
OER	15.56	17.8	13	13	10	12.8	14.9	15.5
ROA	9.2	8.9	9.01	9.1	8.7	9.2	8.8	7.54
LOE	767	633	629	658	798	595	559	584
SR	21	20	24	27	28	35	34	33
PAR: Portfolio at risk (non-performing loans >28 days); OSS: Operational self-sufficiency (operational costs as % income); FSS: Financial self-sufficiency (operational plus all financial costs as % of income); CTR: Client turnover rate (dropouts as % of client base); OER: Operating expense/efficiency ratio (operational costs as % of outstanding loan portfolio); ROA: Return on assets; LOE: Loan officer efficiency (clients per loan officer); SR: Savings ratio (savings as % of loan portfolio).								

F.10 A great strength of CEP is its consistently low loan portfolio at risk ratio. Expansion has not put this aspect of the CEP program under stress, probably reflecting the robustness that CEP's poverty targeting procedures bring to its loan activities. The client turnover or dropout rate, on the other hand, has not improved over the course of the expansion project. The conventional wisdom among microfinance agencies is that it is far easier to service an existing client than to recruit a new client. CEP, in contrast, has what most microfinance providers would consider an inordinately high client dropout rate. CEP claims that this is not a weakness, but a reflection of the progression of clients out of CEP when CEP is no longer appropriate to their circumstances. In particular, CEP clients who want or need larger loans than CEP can provide, are prepared to 'drop-out' when they find ways to migrate to another provider willing to extend a larger loan. In the course of the research done for this report it was not possible to test this claim, though it has a ring of authenticity about it[7].

F.11 Conventional wisdom in microfinance says that sustainability and lower program costs are aided if the client drop-out rate can be reduced. However, progress in this respect may not be possible if CEP cannot find a new source of loanable funds, similar to that which the AusAID expansion project made available. CEP has long experience excess demand for its loans, despite high interest rates. It is likely that among the drop-outs are some CEP's best clients; clients who are able to service larger loans and so contribute to CEP's profitability, but only if CEP has the funds to service their need for larger loans. Overall, the indicators shown in Table 12 identify CEP as an efficient and productive provider of microfinance services and products, room for improvement notwithstanding.

G). Impact and Sustainability

G.1 Poverty reduction was a core goal of the CEP expansion project. Emphasis in the project design was given to the 'expansion' strategy through horizontal and vertical outreach because CEP's track record in poverty targeting and service delivery, since its founding in 1992, seemed to confirm: (i) the commonly held view that access to microfinance products and services does help poor people improve the quality of their lives; and (ii) that CEP can deliver on the poverty reduction goals of the project.

[7] Time did not permit closer investigation of CEP's client 'drop-out-rate'. It is possible that the high rate reported by CEP is a strength and not a weakness, especially if it can be shown that CEP clients do migrate from CEP into the mainstreams of financial intermediation serviced by the SBP, other MFIs or commercial banks. Data on this aspect of CEP's approach to microfinance has not been available for analysis. However, in 2006 CEP staff surveyed a sample of 195 ex-clients, 97% of whom indicated that they had benefited from their involvement in the CEP program. On average, two thirds of respondents reported that their income had increased, while almost half of daily and weekly loan ex-group members indicated that they had received support with enterprise development. Only 10% of the sample reported an increase in household assets or improvements in their housing situation. None indicated to what extent their involvement in CEP enabled them to create linkages into other sources of microfinance or mainstream banking services.

G.2 Based on the impact assessment and performance monitoring that CEP has undertaken as part of its internal program management, augmented by data from external reviews of CEP by CGAP, microfinance credit and social ratings agencies and other donors, it does appear that CEP has contributed in important ways to poverty reduction in HCMC. Moreover, local actors in Vietnam engaged in pro-poor activities, including microfinance, anticipate that the future impact of CEP on poverty will also be substantial, but only if CEP can further extend its outreach and nurture the use of the CEP approach to pro-poor microfinance in other areas of Vietnam.

G.3 There is a great deal of anecdotal evidence and comment available to support the view that CEP is having an important impact on poverty in HCMC. CEP's approach to its work supports this belief, because it is an easy step from the claim that 'because CEP prioritises the poorest in each targeted community', delivering financial products tailored to the needs of the poor and their capacity to more fully utilise their own labour, to the assertion that 'improved well-being of client households must follow'. It has not been possible to test this scenario in the course of the preparation of this ICR. However, there is reason to be confident that a rigorous program of field research would confirm its veracity. In the absence of such a study, we rely on other sources to assess the impact of CEP expansion on poverty.

Table 13 CEP Poverty Profiles for Three Branches, 2002 and 2007

Branch Name	**Hoc Mon**		**District 2**		**Can Gio**		**Change**
Year	**2002**	**2007**	**2002**	**2007**	**2002**	**2007**	**2002-07**
Active loan clients	2,142	4,698	1,599	3,421	1,786	2,696	+5,288
-Female	1,528	3,512	1,147	2,815	1,480	2,067	+4,239
-Male	614	1,186	452	606	306	629	+1,049
Household Type	%	%	%	%	%	%	
Poorest	*32*	*18*	*12*	*21*	*52*	*32*	*-8*
Poor	*65*	*70*	*82*	*71*	*45*	*52*	*-0.7*
Moderately poor	*3*	*12*	*6*	*8*	*3*	*16*	*+8*
Dependency ratio (dependents/able bodied in household)	2.45	1.71	2.62	1.67	3.04	1.75	-0.99
Poorest	*32*	*11*	*53*	*14*	*48*	*26*	*-27*
Poor	*41*	*37*	*29*	*31*	*45*	*13*	*-11*
Moderately poor	*27*	*52*	*18*	*54*	*7*	*61*	*+38*
Income per person							
Poorest	*8*	*19*	*6*	*17*	*17*	*29*	*+11*
Poor	*30*	*13*	*12*	*9*	*31*	*6*	*-18*
Moderately poor	*62*	*68*	*82*	*74*	*52*	*65*	*+3*
Household assets							
Poorest	*86*	*48*	*94*	*60*	*90*	*38*	*-31*

Poor	*14*	*50*	*6*	*37*	*10*	*58*	*+38*
Moderately poor	*0*	*2*	*0*	*3*	*0*	*4*	*+3*
Housing							
Poorest	*38*	*0*	*0*	*3*	*41*	*3*	*-24*
Poor	*58*	*82*	*82*	*88*	*55*	*79*	*+22*
Moderately poor	*4*	*18*	*18*	*9*	*4*	*18*	*+6*

G.4 Table 13 presents data supplied by CEP on the poverty profiles of three branches established using AusAID support. The data are for 2002 and 2007. These data are indicative of a program in which clients are migrating upward, into the higher rungs of the poverty pyramid. The data in Table 13 shows that between 2002 and 2007 there were drop-outs from each branch, but overall the increase in active loan clients has been associated with significant declines in household dependency rates, growth in average income, accumulation of household assets and improvements in household services and quality of housing. We can be confident that these trends reflect gains made by existing and new CEP clients, because the type of household serviced in each of the three branches has not changed significantly between 2002 and 2007, while the gains in poverty characteristics of CEP clients- ie: dependency ratio, income assets, access to potable water and availability of electricity- have been very positive. These conclusions are consistent with the findings of CEP, in its internal progress monitoring and external reviews by credit ratings agencies, that point to migration of CEP clients out of the 'poorest' category of client into the higher 'poor' and 'moderately poor' categories. How many of the drop outs have exited because they are now better off than the moderately poor is impossible to tell on the basis of the data to hand, though anecdotal information from field visits with CEP clients suggests that this is not an uncommon tale among former CEP clients, some of whom reported that they have left to access higher loans from other providers. In this sense, what CEP reports as a 'drop-out' rate could justifiably be regarded as a positive client turnover rate, indicative of out-migration by clients who have progressed beyond the pro-poor focus of CEP.

G.5 CEP undertook two formal impact assessment exercises, in May 2003 and December 2005. Over the 43 months between these surveys, 293 clients were tracked to see how their situation had changed. The results show that at all levels of poverty there was a significant improvement in poverty status. Among daily loan recipients, the percent of households falling into the poorest category declined from 27.5% in 2002 to only 2% in 2005, while the percent of clients in the moderately poor category had improved from 19.6% in 2002 to 45.1% in 2005. Similar 'progressive' upward shifts to higher rungs in the poverty pyramid were discovered among the weekly and the monthly loan clients, as can be seen from Table 14.

Table 14: Migration Between Levels of Poverty Among 293 CEP Clients, Surveyed May 2002 and December 2005

	May 2002		December 2005
Daily Repayment Clients		Daily Repayment Clients	
% poorest	27.5	% poorest	2.0
% moderately poor	19.6	% moderately poor	45.1
Weekly Repayment Clients		Weekly Repayment Clients	
% poorest	37.1	% poorest	8.5
% moderately poor	7.5	% moderately poor	36.6

Monthly Repayment Clients		Monthly Repayment Clients	
% poorest	27.6	% poorest	0.0
% moderately poor	31.0	% moderately poor	69.0

G.6 Discovery that there is migration up through the poverty pyramid among CEP clients is an important finding. It parallels the improvement reported for per capita income, that rose, on average across all 293 clients surveyed, from $USA0.70 in 2002 to $USA153 in 2005. The percent gain in income per person exceeded this average for daily loan clients only, indicative of the volatile nature of their market driven cash-flow based earnings. Whether these income trends were linked to the benefits garnered from client involvement in CEP and not the result of general macroeconomic trends or serendipity is not a question that cannot be answered on the basis of the data available. Nonetheless, CEP staff responsible for the survey results are confident that the link is direct, important and appreciated by the clients of CEP[8].

G.7 Microfinance programs across the world have found that poverty is not gender neutral. CEP has found similarly in Vietnam, but CEP has also found that access to microfinance can improve the status of women and the opportunities they have to benefit from development. Typically three-quarters of CEP’s loan client base is female. It is not uncommon to hear from CEP field staff that the provision of credit to female clients is empowering because it creates sources of income that remain under the control of the borrower. The ability to budget and have control over how this income will be spent results in greater equality at home and in other social spheres. The group based lending methodology followed by CEP also facilitates the formation of close relationships for more effective social networking and group-member mutual support. Women have proven to be especially effective in utilizing the networks and mutual support that CEP's approach promotes. In 2005 a CEP impact assessment survey of 243 female clients found that since joining the CEP program, they had participated to a greater extent in the decisions made within the household and community. The women reported that their involvement in CEP had given them increased confidence and a more significant role in the decision making processe.

G.8 Even a brief visit with microfinance providers in Vietnam and HCMC makes it very obvious that CEP has had a significant impact on the microfinance industry in HCMC and Vietnam generally. CEP senior staff and Board of Representatives members, especially the Chairperson, meet regularly with local government representatives and their counterparts in mass-membership organisations such as the Women’s Union and the Labour Union. CEP hosted significant microfinance conferences in 2003, 2005 and 2007, attended by industry and key government stakeholders. Outcomes of these conferences include greater awareness of regulatory issues in Vietnam and reconsideration by policy makers of industry views and preferences. CEP has been impressive in its commitment to public education about microfinance. CEP has produced a range of magazines and short video films to help it inform others of what CEP is doing. A important step forward in CEP demonstration activities was CEP’s involvement in the partial replication of key aspects of the CEP model in the provinces of Ba Ria Vung Tau and Long An.

G.9 Measuring sustainability is often like trying to measure a column of smoke. Where does one start?

[8] The same 293 clients were also asked to indicate how their food security situation had changed since joining CEP in 2002. Their responses indicated that among the daily clients the duration of weeks of food insecurity had halved to only 2 weeks, while monthly clients, typically moderately poor, reported that their food insecurity has declined from four weeks in 2002 to nothing in 2005. Weekly clients, who dominate CEP’s client base, also reported improvements in food security, but their gain was only 24%.

Institutional sustainability is a function of many factors, but in this instance it may suffice to consider only financial sustainability and depth of human resources available to CEP. The main financial sustainability indicators are show in Table 12 above, re-presented here as Table 15 with the addition of data on trends in CEP's subsidy dependence.

Table 15: CEP Trends in Performance and Subsidy Dependence, 2001-08, Year ending 30 June

Item	2001	2002	2003	2004	2005	2006	2007	2008
PAR	1.44%	2.05%	1.39%	1.23%	2.07%	1.41%	0.99%	0.93
OSS	166	161	166	166	166	172	155	136
FSS	140	106	107	107	108	110	102	98
CTR	23.78	28.91	21.03	23.62	22.88	31.54	21.87	n.a
OER	15.56	17.8	13	13	10	12.8	14.9	15.5
ROA	9.2	8.9	9.01	9.1	8.7	9.2	8.8	7.54
LOE	767	633	629	658	798	595	559	584
SR	21	20	24	27	28	35	34	33
SDI/T	114	78	64	54	66	8	2	1
SDI/O	40	29	23	16	16	1	2	1

PAR: Portfolio at risk (non-performing loans >28 days); OSS: Operational self-sufficiency (operational costs as % income); FSS: Financial self-sufficiency (operational plus all financial costs as % of income); CTR: Client turnover rate (dropouts as % of client base); OER: Operating expense/efficiency ratio (operational costs as % of outstanding loan portfolio); ROA: Return on assets; LOE: Loan officer efficiency (clients per loan officer); SR: Savings ratio (savings as % of loan portfolio); SDI/T (Subsidy Dependence Index/Total: Total Annual Subsidy from all Sources/Active Loans(Loan Portfolio Yield); SDI/O (Subsidy Dependence Index/Operations: Total Annual Subsidy from all Sources-Grants for Loan Outreach/Active Loans(Loan Portfolio Yield).

G.10 The indicators in Table 15 reveal some strengths and some areas of vulnerability. The strengths are in the quality of the loan portfolio that underpins the sustained downward trend in subsidy dependence. Non-performing loans are not CEP’s problem. There are significant differences in portfolio at risk between daily, weekly and monthly repayment groups, but the meaning of these differences is unclear and may be relatively unimportant. At no time have non-performing loans exceeded 3% in any of the three loan types. The weaknesses are in the area of financial viability, despite improving financial independence from donor grants and soft loans. Operationally, CEP has and has always been sufficiently profitable to more than cover the operational costs of CEP activities. Similarly, for most of the past decade CEP has also achieved financial self-sufficiency. However, the margins are narrowing. In the five years from 1995 to 2000 CEP’s operating self sufficiency averaged approximately 170%. Since 2000 this figure has been in continuous decline, averaging around 165 in the five years to 2007, and falling to 155 in 2007 and 136 in the first half of 2008. Financial self-sufficiency has followed a similar downward trend, from 120 in the five years to 2000, 110 in the period 2002-2006, 102 in 2007 and 98 in 2008.

G.11 It cannot be said that the recent decline in CEP’s operational and financial self-sufficiency ratios are the result of the AusAID expansion project. In fact. without the expansion and resulting economies of scale that the AusAID project has facilitated, CEP's vulnerability to the erosive consequences of rising interest rates and inflation on financial self-sufficiency would have been more severe than has been the case. More than anything else, it is macroeconomic trends in inflation and interest rates that undermine the ability of MFIs in Vietnam to avoid declining trends in financial self-sufficiency. This said, it must also be noted that the decline in operating margins that is shaving points from the return on assets is indicative of the movement by CEP into remoter parts of HCMC and surrounding provinces, where communications and transport costs are higher because of the poverty of infrastructure. Nonetheless, it is also probable that the decline in operating margins points to the need for CEP to take a close look at how it can rein in transactions costs, which may require reconsideration of the role that client groups and CEP Centre volunteers play in the delivery of CEP’s program. Even so, the numbers in Tables 12 and 15 describe an institution that is profitable and more than holding its own.

G.12 CEP is an example of an institution that has benefited greatly from donor support but without falling into the trap of donor dependence. The subsidy dependence index is a measure of how dependent an institution has become on the subsidies that flow when donor grants and subsidized on-lending funds are foundations of growth and program outreach. Trends in the subsidy index for CEP are instructive in this regard. The index has declined impressively since 2001, both in terms of CEPs operational costs and its total program, including grant based on-lending resources. In no way, therefore, has AusAID's support resulted in the emergence of institutional or program dependence; the opposite is the case, which is just as AusAID and CEP intended.

G.13 There is a great deal of debate over the extent to which successful microfinance institutions are the product of charismatic and able leadership, such as that given by Professor Yunus to the Grameen Bank, or a combination of other factors, charismatic and able leadership notwithstanding. CEP's experiences do not resolve this debate, but they do highlight the critical role that quality senior management plays in institutional success. CEP has an excellent, deeply committed, highly moral and reliable CEO and Board Chairperson. The depth of leadership capacity in CEP below the CEO is, however, a point of vulnerability. In many respects, when people outside spoke of CEP, it was the CEO and the Chairman of the Board that they were equating with CEP. Loss of one or both would not be fatal to CEP, but it would create a serious gap not easily filled. Continued investment by CEP in management skills and leadership development among its senior staff will gradually address this source of vulnerability, as it has at the Grameen Bank and other high profile microfinance institutions. CEP can and will grow beyond the benefit it now derives from its charismatic and high profile leaders, but this does not mean that CEP should ignore the benefits it can harvest because of its present good fortune.

H). Overall quality ratings

H.1 Table 16 summarises the ratings assessments given for the project. The overall result is 5.75 out of a possible 6 (ie., 96%).

Table 16: CEP Expansion Project Ratings by Topic

Topic rated	Rating
1. Contribution of objectives achieved to higher level objectives	5.75
2. Robustness of CEP	6
3. Management efficiency and effectiveness	6
4. Sustainability of outcomes	5.25
5. Technical proficiency and quality of analysis and learning	4.8
6. Overall project quality/performance relative to goals	5.75

H.2 The lowest rating was given to Technical proficiency and quality of analysis and learning. This should not be interpreted as saying that CEP was not technically proficient or failing to learn. The rating of 4.75 out of a possible 6 is a score of 80%, which is a very high score. The rating was not higher because there is so much potential yet to be realised by CEP in the area of technical proficiency, poverty analysis and things to be learned from the existing CEP data base on client poverty. If CEP can make better use of this potential, it will move from being a great exemplar program in Vietnam to a first rank exemplar pro-poor microfinance program in the world.

H.3 The outcomes delivered by the CEP expansion project have impacts that go well beyond CEP and

HCMC. The benefits, however, are especially important for the many thousands of poor households that the expansion project has supported because CEP has been able to assist and embrace many more clients as program participants than would otherwise have been the case. In every area of the project, CEP delivered more than was expected. Moreover, the professional respect that has been nurtured between CEP and AusAID augers well should further collaboration be forthcoming.

I). Lessons learned

I.1: CEP is a Successful Project Contractor

I.1.1 AusAID direct contract with CEP has assisted CEP to become a successful and sustainable microfinance provider. CEP has proven itself to be a reliable and effective contractor, with excellent compliance with AusAID documentation. The role of the PCC has been pivotal to this outcome.

I.2: CEP Poverty Targeting Important but Underutilised Strength

I.2.1 CEP has adopted a poverty targeting procedure that has enabled CEP to reach out to even the poorest of the poor in HCMC slum and canal communities. However, the opportunity to use this poverty targeting system to (a) inform CEP poverty analysis; (b) refine CEP product and services design; (c) strengthen the impact that CEP activities have on poverty reduction, (d) better understand the role that clients and program volunteers can play in reducing CEP transactions costs; and (e) ways in which CEP can improve its risk management arrangements, remain to be exploited to the extent that they ought to be contributing to the CEP program.

I.3: Macroeconomic Trends are a Source of Vulnerability

I.3.1 CEP Financial Self Sufficiency is highly vulnerable to current trends in the macroeconomic inflation and interest rate environment in Vietnam. Ways need to be found to reduce this vulnerability so that future outreach will enable CEP to retain its financial self-sufficiency status. Donor support for research into the strategies that CEP can follow will relieve CEP clients of the burden that they now will need shoulder if CEP is to undertake this task independently.

I.4: Establishment of Internal Monitoring/Audit Capacity is Important

I.4.1 Annual audit reports by independent auditors such as KPMG have been important in ensuring that CEP has been compliant with AusAID documentation and transparency requirements. The establishment within CEP of an impact monitoring unit has contributed not only to program management, but effective program reporting and demonstration objectives. Regular meetings of the PCC have contributed in important ways to keeping the project focused and relevant. The direct contracting process has worked well with CEP because it has had the added support of its internal monitoring and audit unit, as well as positive and constructive relations with AusAID .

I.5: Effective PCC and Appointment of Effective Professional Volunteer Has Substituted for AMC

I.5.1 The decision by AusAID to implement its support for CEP without the appointment of an Australian Management Contractor/Counterpart (AMC) appears, in hindsight, to be justified. CEP has had no problems with the leakage of funds or losses to moral hazard. Further, the responsibility that CEP took for the management, monitoring and reporting on project progress has contributed to the maturation of the institution. CEP leadership has sought external specialist services and advice where this has proven necessary. CEP has performed creditably and is a stronger organization for the trust and faithfulness given to it by AusAID. The absence of an AMC has been dealt with by CEP-AusAID by ensuring that PCC meetings are well prepared and well attended, with supplementary technical assistance provided via the mid-term review and consequent dialogues over the forthcoming annual work program. This procedure has worked well for CEP and AusAID. The availability to CEP of technical assistance following the appointment of a professional volunteer to the program has been important (via AVI, but this is not as material as the fact that the right person was identified and appointed), especially as the person appointed has contributed continuity, excellent working relations with the senior staff, good communication and writing skills, and familiarity with AusAID and donor procedures. In many respects, the presence of the professional volunteer, whose experience in development is extensive and relevant to the skill set that CEP required, made the absence of an AMC less of an issue than it might otherwise have been.

I.6: Demonstration Components of Project Important to CEP Profile and Achievements

I.6.1 The demonstration aspects of the CEP expansion project have been important to why CEP has become a highly regarded exemplar program in the microfinance sector in Vietnam. By demonstrating that a microfinance provider can expanded into the poorest areas of HCMC and neighbouring provinces, where there are no competing microfinance providers, CEP earned a leadership role, which has enhanced the influence that CEP has on the decisions taken by HCMC poverty reduction agencies.

I.7: CEP Model Unique, Adaptive and Still Evolving

I.7.1 The CEP model has evolved as lessons from experience have been learned and adjustment made to accommodate local circumstances. This flexibility is important to CEP program robustness and relevance to the causes of poverty in different communities. Increased attention to voluntary savings mobilisation is to be welcomed, though more progress will be needed if financial self sufficiency is to be retained as outreach into more distant and geographically remote parts of HCMC is pursued. On the credit side there is scope for further product development within and beyond the structure of the daily, weekly and monthly loan-repayment schedule.

I.8: More Poverty Analysis Needed to Exploit Poverty Targeting Data for Impact Enhancement

I.8.1 A unique and highly successful feature of the CEP model is the way in which CEP field staff identify and target poor clients. Training of CEP loan officers and collaborating centre managers in the poverty targeting procedure appears to be well established and successful, as far as it goes. Lifting the impact of CEP microfinance activity on poverty reduction to another and much higher level, may await more deliberate and effective use of what the poverty targeting data collected by CEP has to reveal about the sorts of microfinance products and services needed to help CEP clients escape the poverty traps in which they are mired.

I.9: Add School Attendance and Health Status to Poverty Targeting and Poverty Analysis

I.9.1 Serious consideration should be given by CEP to adding to the list of poverty targeting criteria used to allocate clients to daily, weekly or monthly repayment groups. In particular, information on the extent to which household members of school age attend school regularly and the incidence of health problems, especially among women in the household, should be gathered so as to enhance the poverty analysis that can then be done in partnership with potential borrowers and savers. This will allow CEP to monitor, for example, what proportion of households without primary school scholarships are able to improve school attendance while they are CEP clients. The health data is especially relevant to understanding the availability of surplus labour within households and to assessing the utility of investments in environmental improvements that lead to better health outcomes and circumstances. The addition of these two key poverty indicators will enable CEP to examine the viability of education and health improvement 'products' and 'services' to its menu of ways in which microfinance can be designed to directly address causes of 'chronic' poverty.

I.10: Pricing Policy

I.10.1 A review of CEP pricing policies may well be in order if CEP is to strengthen its grip on financial self sufficiency without compromising the benefits flowing to poor clients. The effective interest rate on daily repayment loans is estimated by CEP to be 4.95% per month. At this cost of capital there is little in the way of impact on poverty reduction that can be achieved beyond short term cash-flow management. Increased impact of CEP loans on the poverty of daily repayment clients may well await a reduction in the effective interest rate levied. The interest rate on weekly and monthly loans, however, is modest by global microfinance standards, leaving potential for increased interest income without seriously compromising potential impact on poverty of weekly and monthly loans. However, it is also probable that the success with which changes to pricing policies can be implemented cannot be divorced from a review of how CEP manages its transactions costs. If the transactions costs associated with daily repayment loans can be reduced or externalized onto clients or program volunteers, cuts to borrowing costs are made easier to implement.

I.11: CEP Registration as an MFI

I.11.1 A crucial issue facing CEP is the manner in which it will respond to the Government of Vietnam’s Decree 165 on Microfinance, issued in November 2007. The subject was raised during discussions, especially as AusAID support for CEP was extended in 2005 and amended in 2007 to facilitate CEP compliance with evolving legal changes in government regulation of microfinance in Vietnam. How CEP will or should respond to the latest changes following promulgation of Decree 165 is beyond the brief for or capacity of the ICR to address. Nonetheless, it is clear that CEP’s senior management and its Board of Representatives are keenly aware of the importance of its response for CEP and its continued capacity to respond to the needs of the poor. So long as the position adopted by the Government of Vietnam continues to evolve, it is probably in CEP’s interests to stay its hand and delay final decisions on how to respond to emerging registration and regulation regimes of the GoV. CEP could, however, make the question of MFI registration the subject of a future Policy Dialogue conference or workshop, thus enabling CEP to benefit from the views of other MFIs and public sector policy makers.

I.12: Building a Savings Culture Among CEP Clients

I.12.1 Compulsory savings have dominated CEP’s approach to savings mobilization. As a result, there has evolved a culture among CEP clients that marks savings as a ‘penalty’ associated with what one has to do if one is to borrow from CEP. This culture needs to change to a more positive and constructive view of savings. In particular, ways need to be found to encourage CEP clients to see savings as an activity that is rewarded, possibly by justifying access to additional loans consistent with higher capacity to service debt. Furthermore, CEP has to acknowledge that its failure to be more successful in mobilizing savings is closely linked to the 'penalty' mentality that past practice has entrenched in popular characterizations of CEP by its clients. Savings mobilization will be crucial to future CEP growth, which implies a need to give added attention to the design of new savings products and services, and re-assessment of the links that CEP nurtures between savings activity and client access to its loan products. These are complex matters that CEP management could consider in isolation, but would be well advised to examine in close participation with its client base[9].

I.13: *CEP is Not a Welfare Program*

I.13.1 CEP has used its poverty targeting methods extremely effectively in ensuring that poor households are the focus of its activities, but it is important for CEP not to confuse poverty targeting and welfare. Included among the poorest households serviced by CEP are some households that are properly welfare households with limited ability to implement the demands associated with a new IGA or a business expansion. CEP has embraced these households in the spirit of its commitment to social development, but the reality is that CEP is not a welfare program. Other MFIs have faced this problem before and responded by splitting there 'business' of microfinance from their 'welfare' roles. CEP may have to do similarly, which it may need to do with the assistance of a donor or a government agency. On-going sustainability of CEP is dependent on delivery of financial products and services to clients able to successfully implement investment plans finance by loans from CEP. Welfare households do not fit into this category of target client. Best practice risk management demands that potential clients from welfare households with a high probability of being unable to service loans should not be drawn into the network of CEP loan clients. CEP procedures may need to be tightened to ensure that this is the case. If CEP policy is to assistance 'welfare' clients, CEP will have to recognise that forms of intervention other than loans are apposite for welfare households. It is not clear that CEP has a comparative advantage in the demands on staff of welfare assistance.

I.14: Separate Welfare and Business

I.14.1 The time and energy that CEP loan officers put into dealing with ‘welfare-clients’ is unknown, but could be significant. It may be time for CEP to examine whether it is time to find ways to fund specialist Welfare Liaison Officers (WLOs), complementary to its microfinance program, in a way that is analogous to the role of Grameen Welfare in the Grameen Bank 'family' of institutions that operate parallel with the Grameen Bank in Bangladesh. The task of WLOs would be to remove the demands that welfare clients make on loan officers and the microfinance program generally, diverting attention from the financial intermediation role that is core to the position of ‘loan officer’.

I.15: Monthly Repayment Better Suited to Clients with Entrepreneurial Skills

I.15.1 The current balance between daily, weekly and monthly repayment borrowers shows that almost three-quarters of CEP clients are in the weekly repayment group. It is not clear whether the existing balance is the result of client demand or process by which clients are allocated by CEP staff. There is some logic in allowing clients to self-select, but CEP staff are well advised to ensure that clients with least capacity for entrepreneurial activity are directed into weekly or daily repayment groups.

[9] In 2007 CEP sought and received technical assistance from MicroSave to improve its savings mobilization record. The results were not reviewed as part of the research done for the ICR, but anecdotal comments suggest that substantially more work needs to be done to unravel the Gordian knot that that is the savings challenge in Vietnam. High interest rates offer to depositors by SPB and other financial institutions is only part of the puzzle. Another part is the role of cash 'liquidity' in the poverty economy in which CEP clients operate

I.16: Microfinance and Pro-poor Social Policy are Compatible

I.16.1 There is a debate in microfinance about the extent to which sustainable microfinance delivery can be achieved while retaining a commitment to social development. CEP appears to have combined the two in a remarkably successful manner. In its future demonstration activities CEP should highlight the ways in which it has addressed the ‘development’ issues that arise because of its struggle to be both a provider of microfinance services and a catalyst for pro-poor social development. CEP has integrated a social agenda into its program by encouraging school attendance, for example. For the poorest households school fee scholarships are disbursed to remove the obstacle that school fees can become for households at the lowest rungs of the poverty pyramid. CEP has demonstrated that this initiative is relatively low cost but critical to the future of scholarship beneficiaries. Similar 'synergies' between microfinance and social development may exist in adult education, especially where the obstacle that illiterate clients need to overcome to successfully engage in a microenterprise is, for example, some basic progress in literacy and numeracy skills.

I.17: Continued Growth in Outreach to the Poor

I.17.1 The AusAID expansion project provided CEP with a platform from which to grow its client numbers into an increasing number of poor communities in HCMC. Future CEP growth into the slums and canal communities of HCMC and surrounding provinces is again confronting the constraint created by a dearth of donor based on-lending funds. CEP has sought to mobilize savings as a substitute source of funds to finance its lending program, but thus far these efforts have proven to be less productive than CEP management had hoped. Future CEP program restructuring or new product development may meet with greater success, but the macroeconomic signals are not encouraging. Competition from deposit taking institutions is increasing in Vietnam as the finance sector is opened to new entrants, seriously eroding the capacity of NGOs such as CEP to borrow from their membership at rates that are competitive yet leave an adequate margin for profits to be made from on-lending. The Managing Director of the HCMC Branch of the Vietnam Social Policy Bank, for example, proudly pointed to the wall of advertised savings and loan rates on offer at the bank in April 2008, one of which showed that the VSPB is already offering savers term deposits returning up to 0.93% per month.

I.17.2 In an atmosphere of increasing inflation, currently running at above 12% per annum nationally and probably even faster in urban areas such as HCMC, rational financial management leads one to expect that poor households will choose to hold savings in forms that are also a solid store of value (eg: pig, chicken, building materials, fuel for the fishing boat, sack of rice for home consumption, barrel of cooking oil, etc), instead of a financial deposit returning less than the inflation rate. CEP identifies access to subsidized on-lending funds as the key to CEP’s future prospects for growth[10].

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[10] The CEO of CEP, Madam Van, had the following to say about access to additional 'on-lending' funds as the major obstacle facing CEP in its effort to grow and accelerate outreach to poor households: " … in order to extend the outreach of financial services to the poor CEP requires additional funding to increase the size of our loan portfolio, and in this regard CEP has been very actively seeking both grants and loans … from international donors and domestic sources over the past 2 years. CEP is unable to source borrowings to fund its loan portfolio firstly because there is no regulation for microfinance in Vietnam, secondly because of the highly subsidised operating environment for microfinance in Vietnam, and thirdly because of the increasing rates of domestic inflation and their impact on interest rates. The implications of this situation are that CEP cannot access funds in foreign currency, and very few organisations wish to lend to Vietnamese microfinance institutions in local currency. … CEP requires further funding and it is very difficult for us to secure this funding. This is our main issue going forward. The 7-year AusAID - CEP Microfinance Expansion Project has built the capacity of CEP and positioned us to be able to expand, but now in this current environment we are finding it is very difficult to source the funds to expand." (Email, Madam Van to Remenyi, 15 April 2008).

I.18: Donors Have a Pro-Poor Comparative Advantage in MFI Training

I.18.1 Growth of a microfinance program is a function of many factors, not least of which is the ability to recruit, train and retain good staff. There is an important role here for donors. Donor support for staff training relieves the MFI from having to use profits made from lending to the poor to train and up-skill staff, each of whom is subsequently free to relocate to the employer offering the highest remuneration package. Training is not, therefore, a private good the benefits of which can be restricted to benefit those who have paid for staff training. In developed economies this discontinuity is less of a problem because there are swings-and-round-abouts. Financial institution A employs someone trained by financial institution B, who is replaced by a person trained by financial institution C, and so the process goes. In emerging economies like Vietnam, on the other hand, the issue is not so simple. If financial institution B competes away a person trained by financial institution A, it may be forced to train another person to replace its lost staff because of the lack of depth in the labour market for staff with experience or specialist expertise in finance. It is not appropriate that poor households should indirectly pay for this training from the profits that an MFI makes from lending to the poor (in order to cover all training costs, CEP has to charge higher lending rates). Donors can relieve the poor of this burden by underwriting the training program of agencies such as CEP in Vietnam.

I.19: CEP Has to Investigate Ways in Which to Contain/Reduce/Outsource Transactions Costs

I.19.1 An important constraint on MFI outreach to the poor is created by the increase in transactions costs that can be associated with outreach. CEP has targeted poor households and successfully concentrated its microfinance activities to households that are in the bottom rungs of the poverty pyramid. Most MFIs concentrate on households in the upper or middle rungs of the poverty pyramid, with MED programs such as that of Opportunity International, focused on the 'near' poor households at the interface between households just above and just below the poverty line. It will be especially important, therefore, for CEP to pay special attention to ways in which it can reduce/contain the financial cost of transactions costs. It is beyond the scope of the data gathering, statistical analysis or field visits undertaken to produce the ICR to comment meaningfully on how CEP program transactions costs might be reduced or shouldered by one or more stakeholders in CEP, including clients, group leaders, center coordinators or branch staff. What is clear is that management of transactions cost will be an issue for CEP in its desire to continue growth in outreach to the poor. Technical assistance may represent a strategic investment for CEP if it is to come to grips with the full range of options available.

I.20: CEP Expansion into MED Loans is an Opportunity that Needs to be Well Planned and Researched

I.20.1 CEP's current loan portfolio is concentrated in the area of weekly repayment loans, which covers, in the main, loans that are repaid from existing savings capacity, the impact of loans taken up on household income notwithstanding. In a significant number of weekly repayment households CEP loans will enhance household income generation, but for many this is not an outcome that motivated the decision to borrow. Consequently, CEP may not be tapping into that segment of the market for microfinance services that weekly repayment borrowers could entertain. Weekly repayment regimes are common for many 'enterprise-development' oriented MFIs. Expansion into the MED market by weekly loan repayers is a strategy that can be commended to the CEP Board of Representatives, but with a word of caution. MED loans are already being made by CEP to monthly loan repayment borrowers, but the track record of this group is indicative of the need for care. Monthly repayment borrowers have given CEP more problems in terms of repayment than the other two groups, which highlights the reality that MED loans are different from cash-flow management loans. In particular, MED loans require specialist loan officers with skills in business analysis and the ability to provide potential clients with a range of business related guidance. Loan officers suited to MED need to be persons who understand what it means to be entrepreneurial, yet conservative enough not to push clients beyond manageable risk boundaries. How many of CEP's existing staff have this understanding or share in the entrepreneurial spirit themselves is unclear, but if existing loan officers are expected to be responsible for business expansion loans as well as mainstream weekly repayment borrowings, CEP will need to give added attention to training. Donor support for this training should be sought, though it would make some sense for CEP's major stakeholder and mentor, the Vietnam Confederation of Labor, to see value in extending special project financial support for CEP to expand into enterprise development and enterprise expansion loans, especially as MED loans service the Confederation's commitment to assisting its low income constituency to earn additional income. Consideration should be given by CEP to examining the potential market it has for MED loans to identify those that are best placed on a weekly repayment schedule, retined on a monthly schedule, or offered on another basis[11].

I.21: CEP in Vietnam

I.21.1 Microfinance has had an uneven history in Vietnam. The Government of Vietnam is committed to microfinance as an important means of assisting the poor, but it struggles with the best way to provide leadership and regulation. Vietnam's largest microfinance provider is the GoV, with the Social Policy Bank, the Vietnam Bank for Agriculture and Rural Development, and to a lesser extent other government programs and funds, said to account for around 90% of the microfinance sector in Vietnam. Yet, none of these government funded agencies has been able to reach out to the poor clients that CEP has made its core business. Why this is so is beyond the brief of this ICR. But, because of its success as a pro-poor MFI, CEP has garnered for itself a reputation as the premier pro-poor microfinance provider in the wider HCMC area and in Vietnam generally. As such, CEP has an influence that exceeds its share of the microfinance market. Nonetheless, CEP cannot be expected to do for microfinance policy development in Vietnam what it has done as a successful regional actor in the poverty sector of HCMC, unaided and unassisted. If CEP is to have the policy influence it can have as an exemplar program of microfinance based pro-poor development, it will need additional resources beyond those it might generate from profits earned by lending to the poor.

I 22: Implications for Future Donor Support for Microfinance in Vietnam

I.22.1 It is not possible on the basis of a brief ICR mission to be definitive about what individual donors might or might not do in relation to future support for microfinance in Vietnam or for CEP in particular. The following comments are made on the basis that the author has had some experience in microfinance in Vietnam and is familiar with recent trends in GoV policy directions concerning microfinance in Vietnam.

1.22.2 CEP is an exemplar program, with a unique urban poverty focus, in contrast to most microfinance programs where rural households are the primary focus. The urban focus of CEP distinguishes CEP from rural programs such as the Grameen Bank in Bangladesh. In many other respects, too, CEP is not a replication of the Grameen model, though it has demonstrated that Grameen style microfinance can be successfully modified and implemented to socio-cultural circumstances that are quite different from those in which the Grameen Bank has operated in Bangladesh. Consequently,

[11] CEP has been exceptionally conservative in its approach to product design. As a result, CEP does not have a credit card type 'line of credit' product, nor does it have a product that allows clients to consider offering their clients fixed or variabe term loans that are 'interest only' based for the whole or part of the repayment period.

CEP's success in HCMC forms a strong basis for believing that adapted replications of CEP in other cities and provinces of Vietnam will have a high probability of success, even though the CEP model that has emerged in HCMC is still 'unfinished-business'. The share of poor households in HCMC and surrounding provinces/districts who still do not have access to financial intermediations services and products still exceeds the share with access, the active presence of the Social Policy Bank, the Agriculture and Rural Development Bank, the Women's Union Microfinance Program, the Norwegian Mission Alliance Microfinance program, and a rapidly growing local banking system notwithstanding. The opportunities for donors, including AusAID, to nurture CEP and similar pro-poor microfinance programs have been significantly enhanced as a result of the work that CEP has and is doing.

J). Overall conclusions

J.1 CEP is an exceptional institution, recognised as such by CGAP, internationally reputed ratings organizations and members of the microfinance community in Vietnam. CEP has used the support it has received from AusAID to expand and deliver financial services and products to its clients in an efficient, transparent and accountable manner. CEP beneficiaries, the great majority of whom come from the lower rungs of the poverty pyramid, enjoy improved standards of living and greater control over the factors that determine their access to income, adequate nutrition, the benefits of readily available potable water, the ability of children to attend school on a regular basis, and the circumstances in which they live. The overall results of the CEP-AusAID expansion project far exceed what was envisaged at the outset of the project.

J.2 While one must commend CEP leadership for what has been done under the project, it is also the case that AusAID staff, through their active involvement in the PCC and willingness to work with CEP to ensure that issues arising were dealt with promptly and effectively, also contributed to the success that CEP and AusAID can rightly celebrate and herald. The CEP-AusAID partnership has been an example of constructive engagement toward mutually agreed goals, in the best traditions of good aid.

J.3 Not only has CEP established a track record that warrants on-going donor support, but the potential for donors such as AusAID to further their own goals for cost-effective pro-poor aid to Vietnam through on-going support to CEP, must been counted significant and with a high probability of success.

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Appendix A: Terms of Reference, Independent Completion Report, CEP Microfinance Expansion Project, April 2008

1. BACKGROUND

Capital Aid Fund for Employment of the Poor (CEP) is a microfinance institution based in Ho Chi Minh City, Vietnam that provides micro-credit and other financial services to the poor. It was established in November 1991 by the HCMC Labour Confederation and is legislated as a not-for-profit social organisation with a mission of poverty reduction. It has subsequently established a national and international reputation as a leader in microfinance in Viet Nam.

In June 2001 AusAID and CEP commenced a 5-year Microfinance Expansion Project with the goal of assisting the Government of Vietnam to reduce poverty through the expansion of the CEP program, in the process demonstrating a model for a financially-sustainable and poverty-focused microfinance organisation suited to Vietnamese conditions.

The primary objective of the Microfinance Expansion Project is to assist CEP to increase its financial services outreach from 23,500 existing clients to 39,000 clients. The project is also designed to assist CEP to increase the loan size of 5,000 of its existing clients. To facilitate the expansion the Project assists CEP to strengthen its institutional capacity. CEP is also receiving assistance through the Project to achieve its goal of becoming a demonstration model for microfinance in Viet Nam.

The Project aimed to achieve its objectives through implementing the following components:

(i) Component 1: Institutional capacity building – Expand the management capacity of the head office.
(ii) Component 2: On-lending expansion, including Horizontal expansion and Vertical expansion.
(iii) Component 3: Impact and Demonstration – With the aim to demonstrate a successful Vietnamese microfinance model.
(iv) Component 4: Monitoring and Evaluation – To ensure project effectiveness and efficiency.

The project commenced in June 2001 and was originally scheduled to finish in June 2006. By March 2006, the project had mostly achieved, and in some areas exceeded, its main objective. However, due to the introduction of the new Microfinance Decree in March 2005 and the pending issuance of the new implementation circulars under the Decree, the project was extended by 12 months to June 2007 to allow CEP to use parts of the technical assistance budget for helping the organization comply with the new regulatory framework. The project was extended by another 12 months to June 2008 when it became clear that a new Microfinance Decree to replace that of March 2005 was going to be issued in the latter half of 2007. However, the new Microfinance Decree has not been issued to date.

The total value of Australian funding for the CEP Microfinance Expansion Project is A$6.2 million, of which A$5.7 is under the contract with CEP.

The Microfinance Expansion Project is an example of a non-AMC approach in which CEP is both counterpart and implementing agency. In order to assess the monitoring arrangements used in the first year of the Project and to assess CEP's technical assistance needs, AusAID undertook a review of these issues in late 2002. An external review of CEP's approach to upgrading its MIS was undertaken at around the same time. In the course of 2003 further assessments were undertaken by other interested agencies, including a comprehensive rating prepared by the Paris-based Planet Rating at the request of CGAP. A mid-term review was undertaken in 2004 to assess progress, determine its continued relevance, and assess whether the Project's approach of direct funding of CEP rather than engaging an Australian Managing Contractor has been successful. In late 2005 a CEP- driven Impact Assessment was conducted to quantify the impact of CEP on reducing the poverty level of its clients. A substantial body of detailed information is therefore available on CEP.

2. OBJECTIVE

The objective of the CEP Project Independent Completion Report (ICR) is:

a. To report on the relevance, effectiveness, efficiency, impact and sustainability of the CEP Microfinance Expansion Project, with particular reference to lessons learnt from this intervention.

3. SCOPE OF SERVICES

The ICR team will be provided with the relevant project documents prior to the commencement of the in-country mission and receive an in-country briefing on arrival in Ho Chi Minh City from the AusAID Activity Manager. The Team will:

- Review and assess selected project reports and other necessary records/ information available to validate the performance data presented in the Activity Completion Report (ACR), eventually producing an Appraisal Note on the ACR setting out clearly any revisions or additional work to be undertaken by CEP.
- Prior to the in-country mission, produce a Focus Paper for the mission covering the approach to undertake the ICR, an outline of program for site visit, a summary of issues and major points for consideration.
- Meet with the Director of CEP in-country. The Director will provide a detailed briefing on project implementation including achievements and lessons learnt. The discussion should focus on the issues outlined in the Focus Paper and agreed with AusAID.
- Conduct field visits and meet with appropriate counterpart officials, field staff and project stakeholders. It is strongly recommended that the Team conduct a stakeholder workshop to discuss project implementation issues, benefits, strengths and weaknesses.
- Present at a mission debrief with AusAID and the Project team in Ho Chi Minh City, including preparation of a Note of Findings.
- Produce an ICR in accordance with the Guidelines.

The “Preparing Completion Reports for AusAID – Interim Guidelines” document attached to this TOR provides specific requirements and guidance on the actual content, methodology and format of the ICR for the Team.

4. DURATION AND PHASING

The CEP Microfinance Expansion Project ICR mission will take place in-country from 14th to 18th April 2008. A detailed schedule of meetings will be prepared by the AusAID Activity Manager and the CEP Director in consultation with the ICR Team and made available to the team before the mission commences. Proposed approximate timing for the mission is:

- 2 days travel time;
- 3 days of desk literature review prior to mission;

- 3 days for the Team Leader and 2 days for the second team member to prepare the Focus Paper and the Appraisal Note on the CR;
- 5 days of in-country activities, and
- 5 days for Team Leader and 3 days for the other team member for production of the ICR

5. KEY DOCUMENTS AND DATES

Task/Output	**Time allocated**	**Date**
Desk review of documents	3 days	
Collated comments on the draft Activity Completion Report	1 day	By 25 March 2008
A Focus Paper for the mission covering the approach to undertake the ICR, an outline of program for site visit, a summary of issues and major points for consideration.	2 days	By 30 March 2008
Travel to Ho Chi Minh City	1 day	6 April 2008
Briefing AusAID Post, begin work with CEP	0.5 day	7 April 2008
Field Mission	4.5 days	7-15 April 2008
Debriefing with AusAID Post – Presenting the Aide Memoir		14 April 2008
Travel out of Ho Chi Minh City	1 day	
An Appraisal Note on the ACR of no more than 10 pages (excluding annexes), setting out clearly any revisions or additional work to be undertaken by CEP.		By 20 April 2008
Preparation of Draft ICR	4 days	
A draft ICR in line with the requirements of current AusAID guidance.		By 30 April 2008
AusAID's feedback to the draft ICR		By 12 May 2008
Revision of ICR	1 day	
A final ICR, incorporating comments from AusAID on the draft ICR.		Within 5 working days of receiving comments on the draft ICR from AusAID.
Total Days (approximate)	**18 days**	

6. TEAM SPECIFICATION

The CEP ICR Team will be comprised of one external consultant and one AusAID staff.

a. The Team Leader: responsible for directing, coordinating and managing the assignment, including the submission of the ICR to AusAID. The Team Leader will have: (i) demonstrated in-depth knowledge of microfinance as a tool for poverty reduction in the developing country context; (ii) knowledge of the current state of legal framework for microfinance in Vietnam; and (iii) demonstrated experience in the monitoring, evaluation and assessment of development assistance activities.

b. The second team member:

The AusAID Activity Manager will accompany the ICR team, as necessary, to facilitate the working through any issues that arise.

The CEP ICR team members will be responsible for:

- Finalizing all international travel;
- Liaison with AusAID Ho Chi Minh City Post for preparation/ finalization of the work program and meetings schedule prior to the mission;
- Initial planning and review of relevant documentation as listed at 7 below;
- Coordination among team member on specific tasks during the mission, managed by the team leader; and
- Cooperating with AusAID to present and discuss the mission's Aide Memoir.

7. REPORTING REQUIREMENTS

The ICR team will produce the following reports according to the timeframe specified in the table of Section 5:

a. **Collated comments** on the draft Activity Completion Report;

b. **A Focus Paper** for the mission covering the approach to undertake the ICR, an outline of program for site visit, a summary of issues and major points for consideration;

c. **An Aide Memoir** at the completion of the mission prior to departure from Ho Chi Minh City;

d. **An Appraisal Note** on the ACR; and

e. **An ICR** in the format outlined in Attachment **A.**

The ICR should be based on 'Preparing completion reports for AusAID – Guidelines' (Attachment A). It should be no more than 25 pages long plus annexes. The ICR should be a stand-alone document that can be read by an outsider without ready access to the Project Completion Report. The ICR's target audience is the community of professionals implementing Australian aid, all of whom need credible, independent advice on the results of past efforts. This community includes such stakeholders as AusAID staff and management, counterpart governments, contractors, multilateral organisations, other donors, NGOs and universities. Accordingly, ICRs are published electronically.

The submission of draft ICR should be within three weeks of the Team's debriefing. The final ICR report should be submitted within 5 working days upon receiving feedback from AusAID

The TL will have the principal responsibility of preparing and submitting the reports as required with consultation and contribution of other team member.

These documents should be sent electronically. The draft reports will be marked as draft and will have the revision date on the cover. Hardcopy report will be made available to AusAID upon request. AusAID will have ownership of all reports.

8. DOCUMENTS PROVIDED

Documents to be provided to the ICR team include:

- CEP Microfinance Project Design Document
- Activity Completion Report December 2007 (prepared by CEP)
- Review of Reporting and Technical Needs Report January 2003
- Mid-term Review Report June 2004
- CEP Impact Assessment Report June 2006
- MIX Report November 2006
- Planet Rating's Credit and Social Rating 2007
- Six Annual Plans

Other documentation can be made available upon request.

Appendix B:

Aide Memoir, 1 May 2008, by JV Remenyi and Madam Loan, Note of Findings and Appraisal Note on Revision of January 2008 CEP Draft Activity Completion Report

Prof. Joe Remenyi, PhD
CEO & Economist

development international professionals Pty Ltd

People Oriented Programs for Sustainable Development
Pro-Poor Project Design, Participation, Impact Assessment
Microfinance, Micro-Enterprise Development & M&E Systems
Training for Improved Practitioner and Client Quality of Life

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Aide Memoir 1 May 2008
To: Madam Van, Managing Director, CEP
cc: Mr Mark Palu, Counsellor, AusAID
Mr Hue, Senior Program Manager, AusAID
From: Joe Remenyi, DPI
Madam Dr Duong Hong Loan, AusAID
Re: Note of Findings and
Appraisal Note on Revision of January 2008 CEP
Draft Activity Completion Report

Introduction:
This Aide Memoir serves two purposes. First, it summarises the key findings of discussions held with CEP staff, directors, selected stakeholders and clients, reviews of CEP and AusAID documents, data analysis and field visits with CEP branch staff, loan officers and clients in a brief Note of Findings. The Note of Findings is indicative only and is not meant to be as detailed as is required of the final Independent Completion Report (ICR). It is our aim to have the final ICR submitted to AusAID no later than the middle of May 2008. Second, the Aide Memoir presents an Appraisal of the Draft CEP Activity Completion Report (ACR), dated January 2008. The ACR is an important input into the ICR, though it will not form a part of the ICR. Both the ACR and the ICR are meant to be stand-alone documents. The latter will be published by AusAID while the ACR represents an opportunity to showcase the CEP model, progress in institutional capacity as a microfinance implementing agency and impacts on target clients.
Revision of the CEP Completion Report earlier rather than later will facilitate realization of the intended target date for submission of the draft and final ICR. Especially important in this respect are:

- revisions of the data set summarizing CEP milestones and achievements;
- revisions of those sections of the CEP Completion Report that present CEP data on the impact of the program on client poverty;
- CEP views on lessons learned; and
- CEP comments on issues to be addressed in going forward, presented in priority order.

Acknowledgements
CEP staff have been especially helpful in fulfilling the data gathering and field visits undertaken in Vietnam. Requests for data have been responded to promptly and without reservation. Similarly, discussions held have been open and forthright. Special thanks is expressed for the energy and time given to arranging meetings and field visits by both CEP and AusAID staff in Vietnam.
The views expressed in this Aide Memoir have been informed by discussions held, documents examined and data gathered, but the views expressed are those of the authors.

Note of Findings

Close analysis of the data gathered on CEP will be a time consuming exercise. Nonetheless, some preliminary findings are possible, subject to the caveat that further examinations of the data may lead to revisions of some findings. It is with reasonable confidence, however, that the following observations are proffered:

Project Objectives Realised

1. CEP is a project that has more than fulfilled almost all the key objectives identified at the launch of the AusAID CEP Expansion Project in July 2001.

2. AusAID support has not only made it possible for CEP to become a successful and sustainable microfinance provider, but the resources provided have benefited poor people in the areas into which CEP has expanded.
3. CEP has adopted a poverty targeting procedure that has enabled CEP to reach out to even the poorest of the poor in HCMC slum and canal communities.
4. CEP realized Financial Self Sufficiency at least three ahead of that expected, though current trends in the macroeconomic environment in Vietnam and the directions in which future outreach will take CEP will make retention of this status difficult without further donor support.
5. Annual audit reports by independent auditors such as KPMG confirm that CEP has employed funds made available by AusAID in an appropriate and an effective manner, consistent with the intent expressed in project planning documents. Variations in the allocation of funds from that budgeted have been made mindful of the goals of the project. Planned variations have been reported to AusAID in a timely manner.
6. The decision by AusAID to implement its support for CEP without the appointment of an Australian Management Contractor/Counterpart (AMC) appears, in hindsight, to be justified. CEP has had no problems with the leakage of funds or losses to moral hazard. Further, the responsibility that CEP took for the management, monitoring and reporting on project progress has contributed to the maturation of the institution. CEP leadership has sought external specialist services and advice where this has proven necessary. One can speculate whether the appointment of an AMC may have prompted AusAID to supplement the financial commitment to the project, but speculation of this sort is not constructive. The fact is that CEP has performed creditably and is a stronger organization for the trust and faithfulness given to it by AusAID, that its performance has justified.
7. If there is a negative arising from the absence of an AMC it is in the apparent dearth of written exchanges between CEP and AusAID. Whether the thin record of communications is the result of incomplete examinations of AusAID files in HCMC, the use of email communications or real, the absence of an AMC may be indicative of less awareness within AusAID of what CEP was achieving than would have been the case had an AMC been associated with the project. Whether greater or more timely awareness would have made any difference to how AusAID has related to CEP over the course of the project is another question altogether.
8. CEP is very highly regarded by the leadership of agencies operating in the same sector, such as the Social Policy Bank and the Women's Union. In the field CEP has expanded into the poorest areas of HCMC and neighbouring provinces, where there are no competing microfinance providers. Consequently, CEP has assumed a leadership role, which has enhanced the influence that CEP has on the decisions taken by HCMC poverty reduction agencies.

CEP Model Unique But Adaptive

9. The CEP model has evolved as lessons from experience have been learned. Increased attention to voluntary savings mobilisation is to be welcomed, though more progress will be needed if financial self sufficiency is to be retained as outreach into more distant and geographically remote parts of HCMC is pursued. On the credit side there is scope for further product development within and beyond the structure of the daily, weekly and monthly loan-repayment schedule.
10. A unique and highly successful feature of the CEP model is the way in which CEP field staff identify and target poor clients. Training of CEP loan officers and collaborating centre managers in the poverty targeting procedure appears to be well

established and successful, as far as it goes. Lifting the impact of CEP microfinance activity on poverty reduction to another and much higher level, may await more deliberate and effective use of what the poverty targeting data collected by CEP has to reveal about the sorts of microfinance products and services needed to help CEP clients escape the poverty traps in which they are mired.

11. Serious consideration should be given by CEP to adding to the list of poverty targeting criteria information on the extent to which household members of school age attend school regularly. This will allow CEP to monitor what proportion of households without scholarships are able to improve school attendance by children while they are CEP clients.

Pricing Policy

12. A review of CEP pricing policies may well be in order if CEP is to strengthen its grip on financial self sufficiency without compromising the benefits flowing to poor clients. The effective interest rate on daily repayment loans is estimated by CEP to be 4.95% per month. At this cost of capital there is little in the way of impact on poverty reduction that can be achieved beyond short term cash-flow management. Increased impact of CEP loans on the poverty of daily repayment clients may well await a reduction in the effective interest rate levied. The interest rate on weekly and monthly loans, however, is modest by global microfinance standards, leaving potential for increased interest income without seriously compromising potential impact on poverty of weekly and monthly loans. However, it is also probable that the success with which changes to pricing policies can be implemented cannot be divorced from a review of how CEP manages its transactions costs. If the transactions costs associated with daily repayment loans can be reduced or externalized onto clients or program volunteers, cuts to borrowing costs are made easier to implement.

CEP Reduces Client Poverty

13. Impact of CEP on poverty is difficult to measure on the basis of data available. On the one hand CEP clients continue to participate in CEP loans and deposit mobilizations. There is no lack of demand to be a participant, but the number of 40 week loan cycles required for the benefit to accumulate to the point where the client has climbed out of poverty appears to exceed 5 and may well exceed 10. Nonetheless, clients visited were unequivocally favourable about the positive benefits they receive from their involvement with CEP. Further, the surveys done, as anecdotal as these may be, all point to increases in household income and increased capacity to save. Prima facie these findings suggest that CEP reduces client poverty.

CEP Registration as an MFI

14. A crucial issue facing CEP is the manner in which it will respond to the Government of Vietnam's Decree 165 on Microfinance. The subject was raised during discussions, especially as AusAID support for CEP was extended in 2005 and amended in 2007 to facilitate CEP compliance with evolving legal changes in government regulation of microfinance in Vietnam. How CEP will or should respond to the latest changes following promulgation of Decree 165 is beyond the brief for or capacity of the ICD to address. Nonetheless, it is clear that CEP's senior management and its Board of Representatives are keenly aware of the importance for CEP and its continued capacity to respond to the needs of the poor of its response. So long as the position adopted by the Government of Vietnam continues to evolve, it is probably in CEP's interests to stay its hand and delay final decisions of registration.

Building a Savings Culture

15. Compulsory savings have dominated CEP's approach to savings mobilization. As a result, there has evolved an culture among CEP clients that marks savings as a

‘penalty’ of the need to borrow. This culture needs to change to a more positive and constructive view of savings. In particular, ways need to be found to encourage CEP clients to see savings as an activity that is rewarded, possibly by justifying access to additional loans consistent with higher capacity to service debt.

CEP’s Best Clients Determines Gender and Beneficiary Outcomes

16. Gender is important to CEP, but the driving force behind its loans policy is to lend to its best and most reliable clients first, thus consolidating a solid program foundation in good risk management practice. The fact that CEP’s best and most reliable loan clients are female is a happy outcome, though openness to the fact that males can be good clients too is also a positive. Overall, the dominance of females in the client profile of CEP means that the diversity and number of beneficiaries is maximized, including all members of borrower households. CEP has not used gender as an evaluation indicator, though gender has become an important part of CEP’s approach to risk management.

CEP is Not a Welfare Program

17. CEP has used its poverty targeting methods extremely effectively, but it is important for CEP not to confuse poverty targeting and welfare. Included among the poorest households identified are households that are properly welfare households with limited ability to implement the demands associated with a new IGA or a business expansion. CEP is not a welfare program. On-going sustainability of CEP is in part dependent on delivery of financial products and services to clients able to successfully implement investment plans finance by loans from CEP. Best practice risk management demands that potential clients from welfare households with a high probability of being unable to service loans not be given loans. CEP procedures may need to be tightened to ensure that this is the case. Assistance other than loans are apposite for welfare households.

18. The current balance between daily, weekly and monthly repayment borrowers shows that almost three-quarters of CEP clients are in the weekly repayment group. It is not clear whether the existing balance is the result of client demand or process by which clients are allocated by CEP staff. There is some logic in allowing clients to self-select, but CEP staff are well advised to ensure that clients with least capacity for entrepreneurial activity are directed into weekly or daily repayment groups.

19. The time and energy that CEP loan officers put into dealing with ‘welfare-clients’ is unknown, but could be significant. It may be time for CEP to examine whether it is time to find ways to fund specialist Welfare Liaison Officers (WLOs), complementary to its microfinance program in a way that is analogous to the role of Grameen Welfare to the Grameen Bank in Bangladesh. It would be the task of WLOs to remove the demands that welfare clients make on loan officers and the microfinance program generally, diverting attention from financial intermediation role that is core to the position of ‘loan officer’.

Microfinance and Pro-poor Social Policy are not incompatible

20. CEP has integrated a social agenda into its program by encouraging school attendance. For the poorest households school fee scholarships are disbursed to remove the obstacle that school fees can become for households at the lowest rungs of the poverty pyramid. CEP is commended for this initiative, which is relatively low cost but critical to the future of scholarship beneficiaries.

Continued Growth in Outreach to the Poor

21. The AusAID expansion project provided CEP with a platform from which to grow its client numbers into an increasing number of poor communities in HCMC. Future CEP growth into the slums and canal communities of HCMC and surrounding

provinces is again confronting the constraint created by a dearth of donor based on-lending funds. CEP has sought to mobilize savings as a substitute source of funds to finance its lending program, but thus far these efforts have proven to be barren ground. Future CEP program restructuring or new product development may meet with greater success, but the macroeconomic signals are not encouraging. Competition from deposit taking institutions is increasing in Vietnam as the finance sector is opened to new entrants, seriously eroding the capacity of NGOs such as CEP to borrow from their membership at rates that are competitive yet leave an adequate margin for profits to be made from on-lending. The Managing Director of the HCMC Branch of the Vietnam Social Policy Bank, for example, proudly pointed to the wall of advertised savings and loan rates on offer at the bank in April 2008, one of which showed that the VSPB is already offering savers term deposits returning up to 0.93% per month. Further, in an atmosphere of increasing inflation, currently running at above 12% nationally and probably even faster in urban areas such as HCMC, rational financial management leads one to expect that poor households will choose to hold savings in relatively liquid forms that are also a solid store of value (eg: pig, chicken, building materials, fuelf for the fishing boat, sack of rice for home consumption, barrel of cooking oil, etc), instead of a financial deposit returning less than the inflation rate. It is little wonder that Madam Van, Managing Director of CEP, identifies access to subsidized on-lending funds as the key to CEP's future prospects for growth.

22. Growth of a microfinance program is a function of many factors, not least of which is the ability to recruit, train and retain good staff. There is an important role here for donors. Donor support for staff training relieves the MFI from having to use profits made from lending to the poor to train and up-skill staff, each of whom is subsequently free to relocate to the employer offering the highest remuneration package. Training is not, therefore, a private good the benefits of which can be restricted to benefit those who have paid for staff training. In developed economies this discontinuity is less of a problem because there are swings-and-round-abouts. Financial institution A employs someone trained by financial institution B, who is replaced by a person trained by financial institution C, and so the process goes. In emerging economies like Vietnam, on the other hand, the issue is not so simple. If financial institution B competes away a person trained by financial institution A, it may be forced to train another person to replace its lost staff because of the lack of depth in the labour market for staff with experience or specialist expertise in finance. It is not appropriate that poor households should indirectly pay for this training from the profits that an MFI makes from lending to the poor (in order to cover all training costs, CEP has to charge higher lending rates). Donors can relieve the poor of this burden by underwriting the training program of agencies such as CEP in Vietnam.

23. Another important constraint on MFI outreach to the poor is created by the increase in transactions costs that can be associated with outreach. CEP has targeted poor households and successfully concentrated its microfinance activities to households that are in the bottom rungs of the poverty pyramid. Most MFIs concentrate on households in the upper or middle rungs of the poverty pyramid, with MED programs such as that of Opportunity International, focused on the 'near' poor households at the interface between households just above and just below the poverty line. It will be especially important, therefore, for CEP to pay special attention to ways in which it can reduce/contain the financial cost of transactions costs. It is beyond the scope of the data gathering, statistical analysis or field visits undertaken to produce the ICR to comment meaningfully on how CEP program transactions costs

might be reduced or shouldered by one or more stakeholders in CEP, including clients, group leaders, center coordinators or branch staff. What is clear is that management of transactions cost will be an issue for CEP in its desire to continue growth in outreach to the poor. Technical assistance may represent a strategic investment for CEP if it is to come to grips with the full range of options available.

24. CEP's current loan portfolio is concentrated in the area of weekly repayment loans, which covers, in the main, loans that are repaid from existing savings capacity, the impact of loans taken up on household income notwithstanding. In a significant number of weekly repayment households CEP loans will enhance household income generation, but for many this is not an outcome that motivated the decision to borrow. Consequently, CEP may not be tapping into that segment of the market for microfinance services that is for 'enterprise-development'. Expansion into this market is a strategy that can be commended to the CEP Board of Representatives, but with a word of caution. MED loans requires specialist loan officers; persons who understand what it means to be entrepreneurial yet conservative. How many of CEP's existing staff have this understanding or share in the entrepreneurial spirit themselves is unclear, but if existing loan officers are expected to be responsible for business expansion loans as well as mainstream weekly repayment borrowings, CEP will need to give added attention to training. Donor support for this training should be sought, though it would make some sense for CEP's major stakeholder and mentor, the Vietnam Confederation of Labor, to see special project financial support for CEP to expand into enterprise development and enterprise expansion loans as serving the Confederation's commitment to assisting its low income constituency to earn additional income.

CEP in Vietnam

25. Microfinance has had a chequered history in Vietnam. The Government of Vietnam is committed to microfinance as an important means of assisting the poor, but struggles with the best way to provide leadership and regulation. Vietnam's largest microfinance provider, the Social Policy Bank, is said to account for around 90% of the microfinance sector in HCMC and surrounding provinces, yet it is unable to reach out to the poor clients that CEP has made its core business. Without contradiction, CEP has garnered for itself, as a result of the work it has and is doing, a reputation as the premier pro-poor microfinance provider in HCMC. As such it has an influence that exceeds its share of the microfinance market. Nonetheless, CEP cannot be expected to do for microfinance policy development in Vietnam what it has done as a successful regional actor in the poverty sector of HCMC unaided and unassisted. If CEP is to have the policy influence it can have as an exemplar program of microfinance based pro-poor development, it will need additional resources beyond those it might generate from profits earned by lending to the poor.

Implications for Future AusAID Support for Microfinance in Vietnam

26. It is not possible on the basis of a brief ICR mission to be definitive about what AusAID might or might not do in relation to future support for microfinance in Vietnam. Nonetheless, our combined knowledge and experience in microfinance in Vietnam is sufficiently current and extensive to be able to comment on CEP in the broader context of microfinance in Vietnam. It is our view that CEP is an exemplar program, with a unique urban poverty focus, in contrast to most microfinance programs where rural households are the primary focus. The urban focus of CEP distinguishes CEP from rural programs such as the Grameen Bank in Bangladesh. In many other respects, too, CEP is not a replication of the Grameen model, though it has demonstrated that Grameen style microfinance can be successfully modified and

implemented in socio-cultural circumstances that are quite different from those in which the Grameen Bank operates in Bangladesh. Consequently, CEP's success in HCMC forms a strong basis for believing that replications of CEP in other cities and provinces of Vietnam will have a high probability of success. However, before replications are considered, it is important to acknowledge that the work CEP has pursued in HCMC is still 'unfinished-business'. The share of poor households in HCMC and surrounding provinces/districts who still do not have access to financial intermediations services and products still exceeds the share with access, the active presence of the Social Policy Bank, the Women's Union Microfinance Program and the Norwegian Mission Alliance Microfinance program and a rapidly growing local banking system notwithstanding. The opportunities for donors, including AusAID, to nurture CEP and similar pro-poor microfinance programs have been significantly enhanced as a result of the work that CEP has and is doing.

Appraisal of the Draft CEP Activity Completion Report (ACR), January 2008

1. Introduction:

The ACR is an important document. Data gathered and analysed for use in the ACR presents senior management with the opportunity to (i) showcase the CEP model; (ii) present information on progress that CEP has made in its capacity to deliver microfinance services and products to its clients efficiently and sustainably; (iii) lay out the statistics that illustrate the impact that CEP activities are having on poverty; and (iv) highlight issues that CEP knows it will have to deal with going forward.

While it is an AusAID requirement that the ACR should follow a specified format, a copy of which is appended to this Appraisal, the ACR should be easy to read and avoid redundancies. It will assist the process by which successive drafts are brought to fruition in the final ACR if paragraphs are numbered within sections and tables numbered consecutively. Paragraph numbering can be removed from the final ACR if this is a preferred.

2. Completion Report Target Audience:

The target audience for the CEP Completion Report includes:

-AusAID
-Government of Vietnam
-CEP Board of Representatives and Senior Managers
-CEP partner agencies, including special project donors
-Microfinance providers wanting to learn from CEP's experience

3. Completion Report Objectives:

The Completion Report will:

-document key features of the CEP model
-record milestones and achievements relative to project goals
-identify important lessons learned
-comment on requirements for sustainability, including on-going needs and future challenges
-summarise project statistics on resources, project performance, impact on target beneficiaries and influences that the project is believed to have had on key project stakeholders, best practices in microfinance and poverty reduction

4. Comments on Draft CEP Completion Report, January 2008

4.1. General Observation

The CEP program that we have come to know is an exciting initiative, exhibiting brave innovations and bold leadership in bringing the benefits of microfinance to poor households in HCMC and neighbouring provinces. Established in 1992, CEP is a local institution that has retained its independence and defining characteristics, substantial assistance from AusAID from July 2001 for institutional strengthening and outreach notwithstanding. CEP is also unique in that AusAID support has been implemented without the normal association of an Australian Managing Counterpart (AMC). This fact reveals a degree of confidence in CEP on the part of AusAID that progress made since July 2001 appears to justify.

The point of these observations is that they represent a firm foundation for CEP to present a ACR that reflects the excitement and pride in what CEP has done. The dry and highly conservative style used in the draft ACR may reflect a spirit of humility and a concern not to overstate CEP's progress and achievements, but in so doing it fails to convey to the reader the spirit of innovation, risk-taking, genuine progress, leadership in pro-poor microfinance and pride in what has been achieved. In revising the draft ACR a more appropriate balance of justified excitement and conservative confidence in CEP needs to be struck. This can be done by allowing the unique qualities of the CEP model and CEP's progress in outreach to the poor to speak for CEP.

4.2. Context and Geography

The ACR will be enhanced if some maps and diagrams can be added to allow readers to see clearly where CEP sits in the institutional structure of agencies responsible for poverty reduction programs in HCMC. In particular, a map of HCMC showing the distribution of CEP clients in 2001 compared to 2006 (the initial project completion date), and 2008 (the final completion date), would be most helpful. An organogram showing CEP links to its major stakeholders (Confederation of Labour, HCMC government poverty assistance agencies, clients) would also be useful.

4.3. Data

There is a need to reconcile data presented in the draft ACR with that given in project narrative and annual reports. For example, exchange rate trends as at 1 July, between the VND and the $A, are shown in the ACR as follows:

Year	2001	2002	2003	2004	2005	2006	2007	2008
ACR:	7,695	8,726	10,174	11,028	12,005	12,121	13,140	
File Reports:	7,695	7,753	8,726	10,174	11,145	12,005	13,048	15,000

Similarly, it is important that data used to trace trends in CEP activity is accurate. In reviewing the AusAID files of annual reports, narrative reports, independent audit reports and ratings reports, it has been necessary to contend with numbers that vary between reports for the same series or activity. The January 2008 narrative report, for example, appears to transpose 2005 and 2006 data, probably the result of an error in cutting and pasting. However, it leaves one with uncertainty as to which numbers are the correct numbers to use for which year. In an effort to overcome problems of this sort, an agreed CEP data set of tables is needed.

Data for the ICR has been extracted from the files on the following:

Table 1: CEP Institutional Progress, 2001-2008, year ending 30 June
Table 2: CEP Loan Portfolio Trends, 2001-2008, year ending 30 June
Table 3: CEP Savings Mobilisation Trends, 2001-2008
Table 4: CEP Interest Rate Trends, 2001-2008, year ending 30 June
Table 5: CEP Income Trends, 2001-2008, year ending 30 June
Table 6: CEP Expense Trends, 2001-2008, year ending 30 June
Table 7: CEP AusAID Fund Utilisation, 2001-2008, year ending 30 June, $A '000
Table 8: CEP AusAID Funded Expansion Performance Indicators, 2001-2008, year ending 30 June

Table 9: CEP Microfinance Performance Indicators, 2001-2008, year ending 30 June
CEP has been asked to examine the data extracted for each of the nine tables listed above and to up-date, revise or complete the tables where gaps/inaccuracies exist. Once these tables are completed they will constitute the agreed CEP data set on the basis of which the draft ACR and the ICR can be finalized.

There is nothing sacred about the table numbers shown above. The table numbers shown are presented for convenience and may change as the data is examined, re-organised, analysed or re-presented.

The fact that data on CEP program impact is not included in the nine tables listed above is not because data on impact is unimportant, but because program impact on client poverty needs to be dealt with separately from data that summarises CEP activities since 2001.

Table 9 does not include the Subsidy Dependence Index (SDI), but it would be useful to include this statistic. The SDI is calculated as follows:

SDI = Annual Subsidy/(Active Loan Portfolio)i

where:

SDI = Index of subsidy dependence of MFI;

S = Annual subsidy received by the MFI;

LP = Average annual outstanding loan portfolio of the MFI;

i = Weighted average interest yield earned on the MFI's loan portfolio.

SDIs should be calculated for at least 2001 (before AusAID support), 2002 (at the end of the first year of AusAID support), 2005 (at the end of the fifth year of AusAID support) , 2006, 2007 and 2008 (final year of AusAID support, on the basis of a June/July financial year. It is probable that the SDI will clearly show that CEP has gradually but surely become less and less subsidy dependent.

The draft ACR refers to a 22% increase in household income, 2002-2005, experienced by a sample of 293 clients who have been CEP beneficiaries since 2002. It is unclear if this result is adjusted for inflation? National statistics show that 2001-2005 inflation increased prices by 22% in Vietnam. It is probable that inflation in HCMC during 2001-2005 exceeded that for the nation as a whole, but contrasts with series that map trends in key items relating to poverty would be useful. For example, over this timeframe, how have school fees, health costs, ferry and bus fares, the price of electricity, the price of water and the price of rice changed? It is not necessary to gather data on each of these series, but it would be helpful if trends in at least some of them could be contrasted with household income trends.

The table of key dates presented in the Draft ACR is useful. However, if the table could be converted to a table of Key Milestones, including the point at which target progress indicators were fulfilled, it would be more meaningful for the reader.

5. Objective/Targets/Milestones Vs Achievements and Impact

Comment has already been made on the matter of project management and contracting arrangements. In the revised ACR it is important to acknowledge the importance that CEP places on the absence of a AMC and the consequences that CEP sees as flowing from this, especially in terms of ownership and the maturity of the relationship that CEP has developed with AusAID and other agencies with which CEP has had to deal because there was no AMC. Mention should also be made of CEP's assessment of the adequacy and quality of the communications with AusAID.

The ACR should focus on the extent to which key project objectives have been realized. Where possible objective and/or qualitative data should be presented to support claims made of progress and objectives achieved. Where possible the consequences of achievements and the ways in which these have impacted on the incidence of poverty in client households should be presented.

There is a debate in microfinance about the extent to which sustainable microfinance delivery can be achieved while retaining a commitment to social development. CEP appears to have combined the two in a remarkably successful manner. The ACR should address the ‘development’ issues that arise because of its struggle to be both a provider of microfinance services and a catalyst for pro-poor social development. The ACR should present data showing CEP progress in both pro-poor development and institutional sustainability.

Cost-benefit is a difficult subject, but CEP has the opportunity to bring qualitative as well as quantitative analysis to its presentation on the benefits and costs of the project.

Risk management is core to successful microfinance and to effective use of development assistance. The ACR should explain its approach to risk management in both the delivery of microfinance and its management of project resources. In particular, the report should make it clear that external audit procedures have been followed in accordance with AuAID requirements, and that documentation has been at or above the legal standards with which CEP must comply.

On another level, the ACR should identify the risks that it has to manage associated with its credit activities, social risks in dealing with very poor communities, the risks that CEP staff face in handling significant amounts of cash, and the moral hazards that confront CEP staff and volunteers. There are risks, too, arising from the absence of a project AMC. The risk of poor communication cannot be ignored. Has this led to less of a ‘voice’ within the AusAID system?

Completion Report Format:
AusAID Guidelines indicate that the Completion Report should be 20 pages or less, plus attachments. Further the AusAID Guidelines state that the Completion Report should follow a standard format:

a) Title page
b) Table of contents
c) General information
d) Basic activity data
e) Executive summary (should be able to stand alone and should accurately reflect the contents of the report) - one page
f) Background
g) Effectiveness
h) Efficiency
i) Impact and sustainability
j) Relevance
k) Lessons learned
l) Overall conclusion
m) Attachments

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Dat, Mr Nguyen Tan
Ms Chang, Finance
Mr Thanh, Human Resources
Ms Phuang Anh, Audit
Ms Tuyet, Audit
Ms Loan, Training
Mr Nguyen, IT
Jaffray, Mr Blayne
Other
Alexander, Nick, Heifer International, Hanoi (phone interview)
Dan, Mr Le Huy, Vietnam Bank for Social Policies, HCMC Branch
DOLISA Representative
Hanh, Madam Nguyen Ngoc, Vietnam Women's Union of HCMC
Lan, Mr Duong Phuoc Hoang. Norwegian Mission Alliance
Smith, William, Ford Foundation, Hanoi (phone interview)
Strabun, Mr Oyvind, Norwegian Mission Alliance
Truong Anh, State Bank of Vietnam, (phone interview)

Agenda for Independent Completion Report Mission – 7-15 April

Timing	Duration	Interviewee	Purpose
Day 1: Monday the 7th – AusAID Office and CEP Head Office – District 1, Ho Chi Minh City			
9:00 a.m.	3 hours	AusAID staff in HCMC	AusAID Briefing (Australian Consulate)
1:00 p.m.	30 minutes	All Head Office senior staff	Overview of the ICR Mission and introduction to CEP staff (CEP HO)
1:30 p.m.	3 hours	Managing Director – Nguyen Thi Hoang Van	Discussion of: CEP mission; history; governance; performance of CEP under the AusAID Project; and the Project's impact.
Day 2: Tuesday the 8th – CEP Head Office Department Interviews – District 1, Ho Chi Minh City			
9:00 a.m.	2 hour	Credit Management Department – Nguyen Tan Dat, Hoang Ba Hoai Phong (Mr. Joe Remenyi)	Discussion of: field operations; credit and savings products; credit policies; and expansion under the Microfinance Expansion Project.
11:00 a.m.	1 hour	Finance Department – Le Thi Thu Trang, Le Anh Khuong (Mr. Joe Remenyi)	Discussion of: accounting; financial policies and management; and financial performance.
13:00 a.m.	1 hour 4 hours	HR and Administration Department – Hoang Van Thanh, Vo Phuong Thy, Le Minh Tri - (Mr Joe Remenyi) CEP Field visits Branch Manager Dist. Hoc Mon - Ngo Ngoc Tan ; Branch Manager Dist. 12- Nguyen Duc Tuan (Ms. Duong Hong Loan)	Discussion of human resource policies and issues. Overview of branch operations; CEP Clients – Field Visit – Hoc Mon Branch; Dist.12 Branch
14:00 p.m	30 minutes	Internal Audit Department – Thieu Thi Anh Tuyet, Cao Nguyen Phuong Anh (Mr. Joe Remenyi)	Discussion of audit function, methods and tools.
14:30 p.m.	30 minutes	IT/MIS – Luong Hoang Nguyen (Mr. Joe Remenyi)	Discussion of IT/MIS.
15:00 p.m.	1 hour	Training and Non-Credit Program Department – Ta Duong Thuong, Nguyen Thi Kim Loan, Truong Thi Phi Oanh (Mr. Joe Remenyi)	Discussion of training and non-credit programs.
Day 3: Wednesday the 9th – CEP Branch Visits – District 8 and Can Gio (Depart CEP Head Office at 9 a.m.)			
8:00 a.m.	30 minutes	-	Travel from CEP Head Office to District 8 (accompanied by CEP staff)
8:30 a.m.	30 minutes	Branch Manager Dist.8 - Phan Thi Kim Lan (Ms. Hong Loan)	Overview of branch operations, CEP processes – District 8 Branch
9:00 a.m.	2.5 hours	CEP Clients - Field Visit (Ms. Duong Hong Loan)	Understand CEP's operating context in an urban district
7:30 a.m.	2 hours	- (Mr. Joe Remenyi)	Travel to Can Gio district
9:30 p.m.	2 hour	Branch Manager Can Gio Dist. - Le Tien Dat and branch staffs (Mr. Joe Remenyi)	Overview of branch operations - Can Gio Branch
11:30 p.m.	30 minutes	Lunch break	Lunch in Can Gio (Binh Khanh / An Thoi Dong)
13:30 p.m.	2.5 hours	CEP Clients - Field Visit (Mr. Joe Remenyi)	Understand CEP's operating context in a rural district
16:00 p.m.	1.5 hours	-	Return to District 1
Day 4: Thursday the 10th – Meetings with Microfinance Providers and Regulators			
9:00 a.m.	30 minutes	Department of Labour, Invalids and Social Affairs – Nguyen Van Xe (D. Director & CEP Board Member) – (Mr. Joe Remenyi)	Discussion of role of CEP in relation to government programs in HCMC (Meeting held at DOLISA offices: 54B Ba Huyen Thanh Quan, District 3, HCMC, Tel: 9320272, Mob: 0903950033)
10:00 a.m.	30 minutes	Women's Union of HCMC - Nguyen Ngoc Hanh (Director), Tran Thi Bich Thuy (Dep. Director) – (Mr. Joe Remenyi)	Overview of Women's Union of HCMC microfinance operations (Meeting held at WU office: 32 Tran Quoc Thao, District 3 HCMC) - 10 minutes from CEP's Head Office. (Tel: 9303501)

11:00 a.m.	30 minutes	Norwegian Mission Alliance – Duong Phuoc Hoang Lan (Microfinance Officer) – (Mr. Joe Remenyi)	Overview of Norwegian Mission Alliance microfinance programs (Meeting held at NMA office: 26 Ngo Van Nam, District 1, HCMC) – 5 minutes from CEP's Head Office (Tel: 8292364)
2:00 p.m.	2 hours	Vietnam Bank for Social Policies HCMC - Le Huy Dan (Director) – (Mr. Joe Remenyi)	Overview of VBSP activities in HCMC (Meeting held at VBSP office: 271 Nguyen Tri Phuong, Ward 5, District 10, HCMC) – 15 minutes from CEP's Head Office (Tel: 9572193)
4:00 p.m.	30 minutes	State Bank of Vietnam - Truong Ngoc Anh (Deputy Director of Non-Bank Credit Institution Department) – (Mr. Joe Remenyi)	Overview of regulatory framework envisaged for microfinance in Vietnam (Telephone meeting with SBV (Hanoi) (Tel: (4) 934 3325 Mob: 0913 304335)
Day 5: Friday the 11th – Meetings with Partners and Stakeholders			
9:00 a.m.	1 hour	Ford Foundation – William Smith (Program Officer) – (Mr. Joe Remenyi)	Discuss historical relationship and other issues (Telephone meeting with Ford Foundation (Hanoi) Tel: (04) 9349766)
10:30 a.m.	1.5 hours	Labour Confederation of HCMC – Nguyen Huy Can (Chairman & Chairman of CEP); Ms. Nguyen Thi Hoang Van – (Mr. Joe Remenyi)	Discussion of CEP strategy, governance and performance (Meeting held at CEP Head Office)
13:30 p.m.	3.5 hours	CEP Clients - Field Visit (Mr. Joe Remenyi)	Understand CEP's operating context in a rural district – Dist 2 Branch (Nhon Trach – Dong Nai)
14:30 p.m.	30 minutes	HFHI – Nick Alexander (Country Manager) – (Mr. Joe Remenyi)	Discuss historical relationship and other issues (Telephone meeting with HFHI- HCMC. Tel: 2910828) .
Day 6: Monday the 14th – CEP- AusAID Debriefing			
14:00 p.m.	3 hours	CEP Management team (Mr. Joe Remenyi)	Debriefing: presentation of the preliminary conclusions of the Mission .

Day 7: Wednesday the 16th – CEP- AusAID Debriefing			
9:00 a.m.	2 hours	AusAID – HCMC (Mr. Joe Remenyi)	Debriefing: presentation of the preliminary conclusions of the Mission .

Appendix C:

List of Contacts

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