



## **Current situation of microfinance implementation at Vietnamese commercial banks**

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### **ABSTRACT**

Microfinance is considered an effective tool in the strategy of hunger eradication, poverty reduction, income generation and improving living standards for the poor in countries. Among the subjects providing microfinance, commercial banks are a special and important subject. In the context of official microfinance institutions in Vietnam developing quite slowly, not attracting much attention from state management agencies, socio-political organizations, donors and related parties; Researching the current status of microfinance implementation at commercial banks in Vietnam is necessary. The goal of the article is to understand the current status of microfinance implementation at commercial banks in Vietnam, thereby providing some suggestions to develop this activity, towards the goal of comprehensive finance.

### **KEYWORDS**

**Current situation, microfinance, commercial banks, Vietnam.**



## 1. Raising the issues

Developing a comprehensive financial system that meets the needs of all individuals in society is the goal of countries around the world. Around the 17th century, microfinance was born to help poor people more easily access financial services. Microfinance is the granting of small loans (called microcredit) to low-income households, with the aim of helping them engage in productive activities or create small business activities. Microfinance often entails a series of other services such as credit, savings, and insurance, because poor and low-income people have great demand for financial products but are difficult to access official financial institutions.

According to GSO, (2022), Vietnam's population in 2022 is 99.46 million people, of which urban population is 37.35 million people, rural population is 62.12 million people - accounting for 62.4% of the total population. Vietnam's rural areas have a large population, with a lower income than urban areas (about 56%) and a high poverty rate, so access to social services to improve the quality of life is difficult. The General Statistics Office's 2022 population living standards survey shows that the national multidimensional poverty rate is 4.3%; but in rural areas it is still 7.1%; much higher than urban GSO (2023). Therefore, the need for microfinance, especially in rural areas in Vietnam, is huge.

In recent years, in addition to the goal of economic development, the goal of ensuring social justice and poverty reduction in Vietnam has been the encouraging contribution of microfinance activities. Microfinance activities have been affirming their important role in supporting poor and low-income people to access financial and banking services in a convenient and appropriate way. Microfinance performs important functions of (i) mobilizing savings; (ii) reallocate savings for investment, and (iii) create favorable conditions for trade in goods and services, becoming an effective tool to reduce poverty and increase income.

However, access to these services is still limited. Among microfinance organizations, commercial banks are a special subject. According to Clause 3, Article 4 of the Law on Credit Institutions 2010, *"Commercial banks are a type of bank that is allowed to carry out all banking activities and other business activities according to regulations with the aim of profit"*(National Assembly, 2010). The bank's operating goal is profit, while micro customers are poor and low-income people; Low capital needs and no collateral security. This contradiction has led to the fact that around the world, the process of commercial banks' participation in the field of microfinance records many opposing directions: some microfinance institutions become commercial banks (such as K-REP in Kenya) and BancoSol in Bolivia); or establish commercial banks that only operate microfinance (such as Centenary Rural Development Bank in Uganda), Bank Rakyat Indonesia (BRI) in Indonesia. These banks often have state capital and operate in their own ways (Ha., P.T., 2017).

With comprehensive financial goals, the participation of the banking system in implementing microfinance is important and necessary. The study will consider:

- Needs and characteristics of Vietnamese commercial banks in providing microfinance
- Advantages and disadvantages of Vietnamese commercial banks in providing microfinance
- Current status of microfinance implementation at Vietnamese commercial banks
- Microfinance development solutions at Vietnamese commercial banks

## 2. Theoretical basis

### 2.1. Some definitions

#### Microfinance

According to the consulting group to support the poor (CGAP- WB, 2003), “*Microfinance is the provision of basic financial services to meet the needs of the poor, including: savings and credit services. , pensions, money transfers, insurance...*”. The poor here are a group excluded from the formal financial system because of low income, low education level, and difficulty accessing the formal financial system.

According to the Asian Development Bank (ADB, 2000): “*Microfinance is the provision of a range of financial services such as accepting deposits, providing loans, payment services, remittances and insurance to poor and low-income households and their small businesses*”.

According to J.Ledgerwood (2013): “*Microfinance is an economic development method to bring benefits to low-income populations in society to provide the need for financial services and other services to serving spending and investment needs...*”.

The above definitions approach microfinance according to three basic criteria: product, target and customer. Microfinance products are a range of financial services such as deposit taking, loan provision, payment services, money transfers and small-scale insurance, tailored and designed to meet the needs of low-income customers. About goals, Microfinance benefits the poor and low-income people; small and micro enterprises through providing financial services to serve their spending and investment needs. Regarding customers, microfinance targets low-income customers.

Thus, microfinance is fundamentally determined by customer characteristics. Meanwhile, common types of financial services are determined by the nature of the financial product. In Vietnam, according to Decision No. 20/2017/QĐ-TTg, and Circular No. 03/2018/TT-NHNN, microfinance loans are defined according to certain design characteristics: loans are guaranteed by compulsory savings and/or guaranteed by a group of microfinance customers and cannot exceed VND 50 million.

#### Microfinance institution

Clause 5, Article 4 of the 2010 Law on Credit Institutions stipulates: “*Microfinance institutions are a type of credit institution that mainly performs a number of banking activities to meet the needs of individuals and households. low-income families and micro-enterprises*”. This approach of Vietnam is generally consistent with the definitions of CGAP, ADB, WB - the world's leading organizations in promoting microfinance and comprehensive finance.

Microfinance activities are provided by many different units. Based on the legal framework regulating the operations of the financial sector, it is possible to arrange units participating in providing microfinance services into three areas: Formal sector, semi-formal sector and non - formal sector. Official microfinance institutions include Licensed microfinance institutions; Commercial banks provide microfinance. Semi-formal microfinance institutions include Unlicensed microfinance institutions, programs and projects of non-governmental organizations (NGOs)... Microfinance institutions an informal organization is an organization organized by a group of people who contribute capital and lend alternately to solve difficulties in life with the goal of mutual support. Based on the type of financial services provided to customers, microfinance includes 5 services: microcredit, capital mobilization for organizations providing microfinance services; payments and money

transfers; micro-insurance and non-financial products (Anh N.K, et al (2018)). In terms of function, commercial banks can directly provide three micro-finance services: micro-credit, for organizations microfinance institutions borrow and make payments and transfer money.

## 2.2. The importance of microfinance deployment at commercial banks.

*(i) According to the traditional approach:* The above traditional approaches do not identify a commercial bank as a typical microfinance institution; At the same time, commercial banks do not consider microfinance as a priority option. According to Mayada M. Baydas, et al (1997) this stems from concerns including:

- Microfinance has many potential risks: microfinance customers are micro-enterprises with unstable business operations and personal loans to the poor and low-income people have little or no guarantee. Collateral requirements, leading to potential bad credit risks. Microfinance customers themselves also have difficulty proving cash flow and completing loan procedures.
- High management costs: micro loans are small in size and short term, so management costs per unit of loan capital are high.
- The standards and legal requirements that commercial banks must comply with in terms of interest rates, loan terms, loan limits, business efficiency factors... are not suitable for microfinance activities (Robin Bell., et al, 2002)
- Conflicting goals: Commercial banks' profit goals and shareholder pressure conflict with microfinance's goal of supporting low-income people.

*(ii) Following a modern approach.*

Although the operational objectives of commercial banks and microfinance have so far remained unchanged, however, thanks to the application of technology and changes in the business environment; Modern commercial banks have many advantages that can deploy microfinance.

- *Advantages in management, having a wide network of branches and transaction offices.* Most commercial banks are present nationwide and provide a variety of financial products and services to meet the needs of all customers, thereby expanding and reaching a large number of microfinance customers. (Mayada M. Baydas, et al, 1997). Today's internal control and administrative and accounting systems are well established to track large numbers of transactions at low cost.
- *Technology advantage:* customers who need to borrow capital, use loan capital combined with their need to use payment services are effectively served by banks. Today, technology allows depositors to deposit small amounts over the internet and lend micro-loans at very low (almost zero) transaction costs.
- *Capital advantage:* commercial banks have their own capital sources (deposits and equity), so they have no or little dependence on the scarce and unstable funding sources of microfinance institutions (APEC, 2011)
- *Brand advantage:* Banks that have been operating for a long time in the market are known to the public and have recognized brands. In many cases, brands provide a high level of trust (Mayada M. Baydas, et al, 1997)

On the other hand, fierce competition among commercial banks is the next factor pushing commercial banks to diversify into new markets, including microfinance customers with small loan needs (USAID, 1997). Participating in a new field allows banks to diversify their loan portfolio, improving the bank's image in society (Nsabimana, 2004). Even Isern J. and Porteous D., (2005) demonstrated that some banks specializing in microfinance have higher profits than the average of the banking industry.

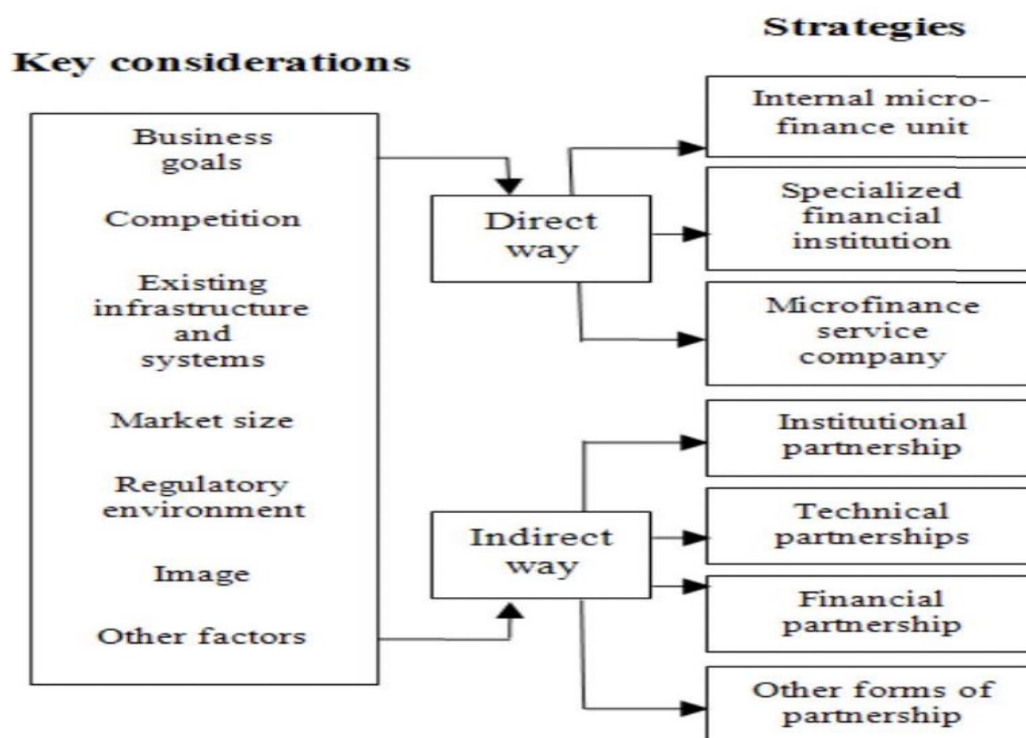
### 2.3. Content of microfinance implementation at commercial banks

The unique characteristics of a bank's scale, capital source, business characteristics and level of specialization all greatly affect the approach to the microfinance market and its ability to address inherent this market's limitations. However, there is currently little evidence of differences in the performance of microfinance institutions and commercial banks (Afsheen Abrar., et al, 2023). Commercial banks deploy microfinance with two basic roles:

#### (i) Indirect participation

One way for banks to engage in microfinance without direct risk is to develop partnerships with established microfinance institutions. From the perspective of microfinance institutions, cooperation with banks is essential to obtain long-term resources for development. From the perspective of commercial banks, microfinance institutions help banks exploit new markets, diversify investment portfolios, expand reach, increase revenue and fulfill social responsibilities. (Littlefield and Rosenberg, 2004). Thus, this indirect method is complementary to both banks and microfinance institutions because each organization has a comparative advantage.

**Figure 1: Forms of participation in microfinance by commercial banks**



Source: Rim Bounouala and Chérif Rihane (2014)

According to Rim Bounouala and Chérif Rihane (2014), this indirect and cooperative relationship is expressed in three forms:

- Institutional partnerships (commercial banks are sponsors): The simplest form that brings the least commitment to banks is sponsorship (Moulin, Hugh and Teuwa, 2011). During the project phase, the bank can play a decisive role in establishing a microfinance institution, a microfinance support unit with support content that may include establishing target groups targets, recommended products, interest rates, etc.
- Technical partnerships (commercial banks are technical service providers). Technical partnerships are often based on the provision of services by the bank for the benefit of the microfinance institution. It can take the form of training, remittances, audits and operational controls. This cooperation can also be the credit and savings role of banks and the intermediary role of microfinance institutions including: forming groups, approaching customers, analyzing credit applications , confirm and monitor loans
- Financial partnership (Commercial Bank is a financial service provider). The scope of the financial partnership will depend on the level of trust between the two organizations, the financial performance achieved and the resources available to both parties. This type of financial partnership requires the least commitment. At this time, the microfinance institution acts as a customer of the bank: deposits money at the bank, uses the bank's payment services... The bank acts as a wholesale lending institution for the organization. Microfinance. However, it is possible for the two parties to agree on specific conditions regarding interest rates and credit repayment schedules in a more flexible manner.
- Other forms of cooperation. Other forms of cooperation can be presented as hybrid models in that they can contain all three aspects: financial, technical and institutional.

## **(ii) Direct participation**

Research by Rim Bounouala and Chérif Rihane (2014), commercial banks can act as direct providers of microfinance to low-income customers. Organizationally, this direct participation of commercial banks can be implemented by banks through three forms:

- Establishing an internal microfinance unit, meaning creating within your current structure an internal unit providing microfinance services, this unit belongs to the bank to take advantage of the team The bank's existing staff and systems are adjusted to suit the specialized requirements of microfinance. According to Nsabimana, (2009), commercial banks can consider microcredit simply as a new product, with a separate marketing and exploitation campaign.
- Establishing a specialized financial institution: Instead of establishing an internal unit, the Bank can establish a specialized financial institution to support microfinance activities. This organization is licensed and has organizational contact with commercial banks according to the parent company-subsiary model. The model helps overcome the limitations of an in-house unit setup by sharing risk with other shareholders, especially if those shareholders have experience and know-how in microfinance (which the unit Internal microfinance belongs to banks that cannot do it).
- Establishing a microfinance services company: A microfinance services company is a non-financial company that provides portfolio management and microloan origination services to banks (Nsabimana, 2009). In this way, the bank needs to apply for a license to establish its own



microfinance institution, which is not separately supervised by the banking authority and does not require a large equity base.

### 3. Research methodology

#### *Data collection methods:*

The authors used the document research method to systematize the theoretical basis of microfinance and microfinance implementation by commercial banks. The article reviews theories selected from databases such as Scopus, online libraries of ministries, departments, legal regulations on microfinance, and specialized journals. The main observations are analyzed by topic and analyzed through synthesis, description, and narrative methods to analyze, contrast, and compare legal regulations, programs, and projects; The results achieved are the remaining limitations of the research topic.

To study the current status of microfinance implementation by commercial banks in Vietnam, the research team focused on reviewing the current status of the microfinance market and the entities participating in the microfinance market; Analyze the achieved results and remaining limitations in the implementation of microfinance by commercial banks based on the factors of scale, structure, and position of microfinance in the overall strategy of commercial banks. The data presented in this article are collected from domestic and foreign books and scientific journals, and from data compiled by the General Statistics Office, state banks, commercial banks, and financial institutions. micro. From the collected data, synthesizing and selecting information relevant to the research content, the authors use a combination of descriptive statistical methods to clarify the current situation.

#### *Data processing methods:*

Collected data is synthesized, calculated, and reflected in tables. To evaluate and analyze data, the article also uses the method of comparing the results of microfinance implementation of commercial banks in Vietnam in the period 2018-2022; Compare that result with the micro-credit needs of the poor and low-income people.

### 4. Current situation

#### 4.1. The results

In Vietnam, the provision of microfinance services involves the participation of many units, divided into three areas: formal, semi-formal and informal. Vietnam uses a definition of microfinance based on client characteristics and has a complex microfinance system, with different types of institutions (ADB, 2021). Results achieved in microfinance implementation by Vietnamese commercial banks include:

(i) Vietnam's commercial banking system *has continuously developed in scale, quality and operational efficiency; serving all segments of society and increasingly increasing the formal reach of micro customers.*

After more than 30 years of establishment and development, Vietnam's commercial banking system has continuously developed in scale, quality and operational efficiency. By 2023, Vietnam's entire commercial banking system will have 49 banks, including 46 commercial banks (including 4 state-owned commercial banks, 31 joint stock commercial banks, 9 banks with 100% foreign capital). and 2 joint venture banks); 2 policy banks and 1 cooperative bank (State Bank of Vietnam, 2023). Up to

now, the Vietnamese banking system has grown in both quantity and quality, meeting the development requirements of the economy and increasingly asserting its role in economic development ( Nam, N., H., 2022). Among 46 commercial banks, Vietnam Bank for Agriculture and Rural Development (Agribank) is a prominent bank in providing microfinance in poverty reduction and improving living standards of farmers and poor people, micro-enterprises

*(ii) Vietnamese commercial banks actively apply technology to reach diverse customers*

With the rapid development of technology, especially financial technology, the finance and banking sector has penetrated easily and at low cost for customers with micro capital needs. Thanks to technology, commercial banks are applying increasingly more modern models while standing in the changing context of the financial and economic market following the trend of mainstream commercial banks reducing their scale; Special banks are branching out into Small and Medium Enterprise, SME, housing and other segments and the growth of mobile banking (National institute for finance, 2020). Commercial banks continue to pay attention and focus on investing, updating and developing internal payment systems and core banking systems with quite advanced techniques and technology and centralized management, allowing the provision of modern, diverse and convenient services and payment means, expanding the scope of supply nationwide, thereby reducing time and transaction costs for people,

*(iii) The provision of micro credit products by commercial banks has been initially implemented*

Loans have helped poor and low-income people conduct production and business, diversifying their income outside of agricultural production. In theory, three forms of commercial banks indirectly participating in the microfinance system are financial, technical and institutional cooperation. In terms of institutions, the opportunity for banks to expand microfinance is determined to lie in new models and application of financial technology in operations. Technically, digital financial services help reduce the costs of traditional face-to-face interactions, reduce risks through data and algorithms, and increase access to customers (National institute for finance, 2020), In finance, commercial banks are one of the entities that play a role in wholesale lending to microfinance institutions. Commercial banks have provided indirect financing through official microfinance institutions in Vietnam (CEP and TYM); Specifically: Viettinbank has loaned a total of 230 billion VND to CEP and TYM; Saigon Bank lent to CEP and Military Bank lent to TYM (ADB, 2021).

*(iv) Commercial banks have initially participated directly in providing microfinance products to customers*

A typical example in the commercial banking system providing microfinance products to customers is Agribank. This is a state-owned commercial bank targeting agricultural and rural areas as its main customers and expanding to other economic sectors.

**Box 1: Deploying microfinance at Agribank**

Agribank has a nationwide service delivery network of 164 branches, more than 2,000 transaction offices, more than 3,000 ATMs - the largest ATM network in the country, the number of ATM cards of Agribank is more than 12 million (ADB, 2021 ).

Agribank, this bank also lends to poor and low-income customers. To date, more than half of Agribank's customer base is low-income; 22% of Agribank's investment portfolio is solidarity loans - this is a popular method of providing microfinance. Agribank forecasts that its solidarity loan portfolio will increase by 8% per year in 2022, 2023, and 2023, but this increase is due to increased loan size, not the expansion of new customers. The number of solidarity loan borrowers



has tended to decrease continuously over the past few years and Agribank predicts this trend will continue. The bank said it is gradually losing customers to other banks and financial companies (typically Fintech financial technology companies), while Agribank staff's ability to attract new customers is still limited, especially in remote areas.

Pursuant to Decree 55/2015/ND-CP on credit policy for agricultural and rural development and amended by Decree 116/2018/ND-CP, all credit institutions, including Agribank, is allowed to lend without collateral up to 100 million VND for individuals and households outside rural areas to participate in agricultural production and business activities and up to 200 million VND for those in rural areas.

Although these decrees specifically regulate loans without collateral, borrowers must submit a certificate of land use rights or a certificate from the commune-level people. Written confirmation from the committee that they have not been issued a land use right certificate and that the land is not in dispute.

Agribank serves other types of customers and regions beyond the scope of these decrees. For example, providing consumer credit to fight against black credit and usury, but this program is currently only aimed at people in rural, remote, and economically disadvantaged areas. The proportion of credit investment for agriculture and rural areas at Agribank always accounts for 65-70% of total outstanding loans to the economy. The Bank proactively participates in key government programs on credit policies to serve agricultural and rural development with 07 policy credit programs and 02 National Target Programs including Policy Loans credit for agricultural and rural development; Lending to households and individuals through loan groups/affiliated groups; Loans under support policies to reduce losses in agriculture; Lending livestock and poultry; Loans for coffee replanting; Loans for fisheries development policies; Preferential credit for "Clean Agriculture"; building new rural areas, reducing poverty sustainably.

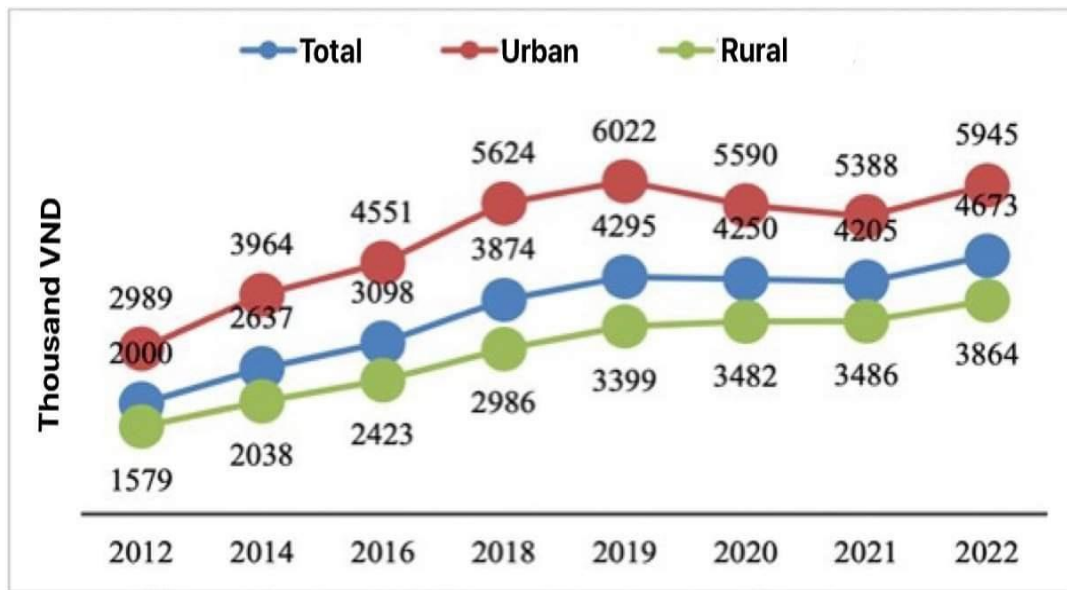
*Source: Agribank, (2022). Annual report 2022*

## 4.2. Limitations

*(i) The provision of microfinance has not met the microfinance needs of customers*

In Vietnam, according to GSO, (2023), the average income per person per month in 2022 at current prices will reach 4.67 million VND, an increase of 11.1 percentage points compared to 2021. 2022 is the year marking the economic recovery and population living situation. After 2 years of 2019 and 2020, the average income per capita decreased continuously due to the negative impact of the Covid19 pandemic, the average income per person per month in 2022 returned to the increasing trend as in the years from 2019 and before.

**Figure 2. Average income per person per month in Vietnam divided by urban and rural areas**



Source: GSO, 2023

2022 is the first year that Vietnam applies the multidimensional poverty line for the period 2022 - 2025 with income poverty line and 6 dimensions of basic social services corresponding to 12 indicators measuring the level of lack of basic social services. According to the new poverty standard, nationwide there are 4.3% of multidimensionally poor households (GSO, 2023). According to geographical area, the Northern midlands and mountainous areas are the regions with the highest rate of poor households in the country (12.1%). The Southeast and the Red River Delta are the two regions with the lowest poverty rates in the country (0.7% and 0.9%, respectively).

Although Vietnam has seen a relatively rapid decline in the proportion of its population living below the poverty line in recent years, the number of potential microfinance customers has not decreased. On the other hand, microfinance customers also include near-poor households, households with average living standards, and low-income individuals or micro-enterprises that do not have access to financial products. normal commercial bank. However, according to the State Bank (2023), about 74.63% of adults in Vietnam have bank accounts with more than 53 million accounts, 3.71 million Mobile-Money accounts have been opened, with 8,880 business locations and over 15,300 payment acceptance locations. Of which, more than 70% are opened in rural, remote and remote areas... This is an opportunity for commercial banks to reach micro customers with reduced transaction costs per unit of loan capital.*(ii) The participation of commercial banks in microfinance implementation is limited*

Up to now, Vietnam has mainly relied on state-owned banks, policy banks, and government-supported cooperative banks to provide microfinance services and promote financial inclusion. The main financial service provider for poor households is the Policy Bank, which mainly serves households identified by the local People's Committee as poor or in difficult circumstances (Ministry of Labor, War Invalids and society, 2021). Outstanding programs are programs to support near-poor households, students in difficult circumstances, ethnic minority workers in difficult areas, and targeted businesses in remote areas. In addition, the cooperative bank aims to provide a financial intermediary function for the people's credit fund, showing that it is capable of providing wholesale loans to grassroots financial institutions. Furthermore, in the meetings conducted for this task, the Model

shows that if there is support from the Government, the provision of such loans to microfinance institutions and financial institutions micro of commercial banking is feasible.

In fact, the participation of the remaining 46 commercial banks in Vietnam's microfinance sector is still low; depends on the development strategy of each bank. Commercial banks' lending to two official microfinance institutions, CEP and TYM, only stopped at special loans. No bank currently plans to develop specialization in providing wholesale loans to microfinance institutions (ADB, 2021). The main reason is because, microfinance institutions are currently unable to meet the requirements of guaranteed legal status, audited financial statements and collateral. Therefore, commercial banks do not provide institutional loans to microfinance institutions. Licensed microfinance institutions applying for loans from banks must have sufficient charter capital and collateral with a minimum value of 100% of the loan size.

### **Box 2: Deploying microfinance at LienVietPostBank**

Lien VietPostBank (LVPB) is a joint stock commercial bank with 18% state shares. LienVietPostBank determines a comprehensive digital finance strategy (including a non-cash payment ecosystem), supporting microfinance development; (iii) Unify customer experience across both online and offline channels; (iv) Focus on developing more transaction features to increase the competitiveness of Lienviet24h application in the market. Thus, supporting microfinance development is identified as one of the strategic tasks of this bank. Digitalization results allow LienVietPostBank to reduce the number of branches and transaction offices; improve business efficiency. In 2022, LienVietPostBank will have 80 branches (327 branches in 2018); 481 transaction offices and 568 postal transaction offices (in 2018, there were 975 postal transaction offices).

At the end of 2019, LVPB had a total microfinance portfolio worth VND2.9 trillion (\$124 million) to 116,000 borrowers, with an average loan size of VND25 million (\$1,066). However, LVPB cannot be considered a professional microfinance institution: its microloan portfolio accounts for only 2% of the bank's total loan balance, and microfinance deposits account for less than 1% of total deposits (LVPB- annual report). In 2022, LienVietPostBank will build and realize the "Blue Ocean" strategy for rural areas:

- Through direct provision of the Bank's financial service products to people such as rural domestic credit cards to provide opportunities for people to easily access capital for consumer loans. For retail use, civilized and modern payment services contribute to the health of the microfinance market, limiting and repelling black credit in agricultural and rural areas.

- Rural agricultural credit is a strategic direction of the Bank, currently accounting for over 30% and maintaining growth. In particular, the Bank has also focused on deploying high-tech agricultural loans such as loans for growing macadamia trees. Rural agricultural loan products often have more preferential interest rates (reduced by about 1%-2%/year) to serve low-income subjects.

- People can withdraw money through the POS system at Post Office Transaction Offices in villages and communes and make payments at low interest rates.

- Implement mobilization programs through rural mobilization and loan groups by providing cash flow management, mobilization, and credit services on the Lienviet24h application for Group Leaders who act as supply points. providing financial services to rural people down to the villages.

- The Bank always focuses on developing and providing microfinance products that are flexible, have a simple structure, are easy to understand, and suit the needs of the majority of people, especially people in rural areas. , remote areas, areas with difficult socio-economic conditions.

- Bank products such as agricultural and rural loans, pension loans, loans in affiliated groups...

have contributed significantly to helping people stabilize their lives and get rich on their land.  
 - The Bank is also coordinating with the project to promote gender equality in Son La - GREAT, providing capital to green hemp farming households, clean coffee growing households in the chain, and the ADB project on strengthening the role of "Women's Supporters". female boss"...  
*Source: LienVietPostBank, (2022). Annual report 2022*

*(iii) Commercial banks have not adjusted their own microfinance products*

With the characteristics of microfinance being simple loan conditions, no need for collateral, granting and receiving capital right where people live, microfinance is considered a useful "leverage" tool that helps the poor and people in remote areas escape difficulties and do business. However, the customer segment is the poor and low-income people who have difficulty accessing commercial bank products and services. The reason is that commercial banks often have to comply with regulations on interest rates and general loan appraisal processes. This is a big barrier, because in fact the lending interest rates of some microfinance institutions can even be higher than the interest rates of commercial banks. However, customers of microfinance institutions can still accept these interest rates, because for them the opportunity to access loans is more important than the interest rate difference (Anh., N. K., et al, 2017 ).

*(iv) Barriers from customers*

Microfinance customers are small-scale customers and provide small loans along with a number of other unfavorable factors such as scattered, difficult operating areas, customers who are poor people. Poor and low-income, the cost of providing credit services is often high compared to other customer groups, therefore, with the goal of profit, microfinance is often not a priority choice in development strategy of commercial banks.

*(v) Lack of connection with microfinance institutions, thereby indirectly accessing microcustomers*

Microfinance institutions choose banks as a funding option, although a lack of collateral limits the amount they can borrow. Decision No. 20/2017/QĐ-TTg on Operational Regulations of microfinance programs and projects of political organizations, socio-political organizations and non-governmental organizations, allowing them to borrowing from "credit institutions, financial institutions, domestic and foreign organizations according to the provisions of law", in reality they mobilize very little capital this way. In addition to the lack of capital and audited financial statements; Banks are often cautious when lending to MFIs because they are not licensed institutions. Even microfinance institutions like CEP were refused loans by banks, although the Ho Chi Minh City Labor Confederation tried to use land it owned as collateral for loans to CEP.

Meanwhile, official microfinance institutions continue to operate inefficiently and have slow growth rates (ADB, 2021). ADB also points to this ineffectiveness as being due to limited access to capital and a general lack of commercial thinking among microfinance service providers. This issue is again related to the participation of commercial banks in microfinance implementation. In terms of organization, according to current legal regulations, commercial banks only contribute capital and have not established an independent microfinance institution.

## **5. Some proposals**

*(i) The Government supports and encourages commercial banks to strongly deploy microfinance*

With the promulgation of the National Comprehensive Financial Strategy, the Government of Vietnam recognizes the important role of microfinance in comprehensive finance (Decision 149/QĐ-TTg on Approving the Comprehensive Financial Strategy national plan until 2025 and vision to 2030). From this strategy, organizationally, the Government encourages commercial banks to expand microfinance implementation by allowing commercial banks to establish independent microfinance institutions, not just partners. participate in capital contribution. This organizational model is more convenient for commercial banks in separating regular financial activities and microfinance. In addition, government support and incentives need to prioritize tax incentives. Commercial banks operate for profit, however, to meet the goal of microfinance, which is to target the poor and low-income segment, tax incentive policies are necessary.

**Table 1: Tax status and tax rates of commercial banks and organizations with microfinance activities**

Organization classification	Operational goals	Taxable status	Tax
Commercial Bank	For profit purposes	Taxable	25%
Policy Bank	Not for profit purposes	Tax exemption	0%
Microfinance institutions	Combining social goals with profit goals (ensuring financial sustainability)	Taxable	20%
Microfinance programs and projects of political and social organizations; Non-governmental organizations; Social funds with microfinance activities	Not for profit purposes	Tax exemption	0%
People's credit funds	The profit goal is secondary next to the goal of mutual support between members	Tax incentives	20%

*Source: The author group compiled legal documents on tax application in Vietnam*

*(ii) Commercial banks assess microfinance needs through surveys and data connection*

Commercial banks first conduct statistics on existing customers at their bank as a basis for building appropriate strategies. Thereby, the bank can make calculations about unmet microcredit needs and take advantage of the bank's existing customers. Available evidence indicates that demand for microcredit from small businesses and smallholder farmers are significantly higher than the funding currently available to them.

Commercial banks take advantage of residential data connections in banking activities according to Project 06 of the Prime Minister (Decision 06/QĐ-TTg dated January 6, 2022 of the Prime Minister approving the Project to develop Developing application of population data, identification and electronic authentication to serve national digital transformation in the period 2022-2025, vision to 2030) and according to Coordination Plan 01/KHPH-BCA-NHNN between the Ministry Police and state banks. Connect and exploit the National Population Database to clean customer data and serve

the banking industry's professional activities including: credit scoring, online customer authentication, authentication Multi-dimensional information, authenticating owners, applying biometrics...

*(iii) Strengthen connections between commercial banks and microfinance institutions*

With the role of providing wholesale capital, banks need to develop separate credit policies for microfinance institutions in lending activities, including preferential policies on interest rates, loan terms, etc.

For microfinance products and services provided by commercial banks, it will depend on the bank's operating strategy through the stages, credit products and services will be expanded or narrowed depending on business orientation of that commercial bank. This will affect the increase or decrease in the focus of resources on the low-income customer market segment in the bank's entire customer portfolio.

*(iv) Adjust and design financial products suitable for micro customers*

To improve the accessibility of micro customers, commercial banks need to adjust loan conditions and procedures; Design appropriate financial products, for example on a small scale. Loans to the poor and low-income people are unsecured, mainly based on a credit scoring system. This system will be increasingly useful due to its connection to population databases. In addition, the guarantee group mechanism (01 group has about 5 to 7 member customers living in the same area). This proposal comes from the experience of microfinance institutions. With the size of small loans and lending methods through group guarantees, most microfinance programs and projects have a high rate of Recovery is high, overdue debt rate remains low. Banks can develop a plan for a micro customer outreach program, focusing on micro lending for the poor and low-income customer segments in each period.

*(v) Applying technology in deploying microfinance for customers*

Technology application is the key to minimizing management costs for banks, overcoming the biggest problem of microfinance which is the very low loan size per customer. Without applying technology, it is difficult to implement this model because the bank's goal is profit. The emergence of shopping portals, social channels and integrated mobile applications has opened up opportunities for banks to reach out to their customers. The bank optimizes business processes through automating previously manual processes. Processes are established strictly, flexibly, closely following the standards of each department to help ensure continuity when working and improve efficiency. To promote technology application, the Bank strengthens cooperation with fintech companies to diversify financial service products and cooperates with microfinance institutions to take advantage of their existing customer sources. this organization.

## **6. Conclusion**

To achieve the goal of promoting financial inclusion by 2025, Vietnam needs the participation of the commercial banking system in providing microfinance as well as other stakeholders in the financial sector. This article emphasizes the need for commercial banks' participation in the theoretical implementation of direct and indirect microfinance. This is also consistent with the trend of commercializing the microfinance sector in Vietnam. Commercial banks have initially deployed the provision of microfinance services, but they have done so on a proportionate scale and have not yet formalized the organizational model; Currently,only Agribank and Lienvietpostbank consider



microfinance as part of the development strategy; Therefore, it has not met the needs of low-income people, the poor and near-poor, with small loans but making an important contribution to improving life. Subsequent research can focus more on a specific microfinance content (direct or indirect) or a case study at a specific bank to be able to dissect the level of microfinance implementation. Specific models, strategies and solutions according to the characteristics of each commercial bank. From there, there is a more detailed analysis and corresponding solutions to help develop microfinance at commercial banks, meet the capital needs of low-income people, and contribute to hunger eradication and sustainable poverty reduction. in Vietnam in the near future.

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