

**TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT
ON THE
DEVELOPMENT OF SMALL-SCALE RURAL CREDIT PROJECT
(TA No. 1961-VIE)
IN THE
SOCIALIST REPUBLIC OF VIETNAM**

September 1996

CURRENCY EQUIVALENTS

(as of May 1996)

Currency Unit	-	Dong (D)
D1.00	=	\$0.0001
\$1.00	=	D10,900

For the purpose of calculations in this Report, a rate of \$1.00 = D10,900 has been used.

ABBREVIATIONS

TA	-	Technical Assistance
VBA	-	Viet Nam Bank of Agriculture
VBP	-	Viet Nam Bank of the Poor

Notes

- (i) The fiscal year of the Government and VBA ends in 31 December.
- (ii) In this Report, "\$" refers to US dollars.

1. BACKGROUND

A. Introduction

1. The Viet Nam Bank for Agriculture (VBA), the Executing Agency of the technical assistance (TA), was created from a former department of the State Bank of Viet Nam as part of the ongoing economic reform program aimed at establishing a more market-oriented economy. VBA was expected to operate as a commercial bank in which it would bear the risk of providing credit assistance to commercial activities in the rural areas, particularly for small borrowers like private farm households, and would respond to their needs in the new economic environment. These changes necessitated major adjustments in VBA's operations, specifically a reorientation and upgrading of skills within VBA and the development of new lending modalities.

B. Rationale, Objectives, and Scope

2. As the Bank's first activity in Viet Nam after the resumption of operations in 1993, the TA was intended as a limited step in helping the country build up its rural financing capability. The objectives of the TA were to (i) establish a system for small-scale rural credit appraisal, processing, and supervision within VBA; (ii) provide the necessary training to selected VBA staff to implement the system in the extension of short- and medium- to long-term loans to small- and medium- to large-scale enterprises in a market-driven economic environment; and (iii) help VBA assess the credit and microcredit requirements of small-scale farmers and rural entrepreneurs, and assist in the formulation of an action program for increasing the proportion of loans of this type in VBA's portfolio.

3. To achieve its objectives, the TA provided for (i) development of a basic credit manual to be used as a guide and reference in extending credit under the new market environment; (ii) provision of training to a core group of about 100 VBA staff to implement the recommended credit appraisal and supervision system; (iii) sponsorship of a workshop on small-scale credit and microcredit for about 60 VBA staff, and overseas on-the-job training for key personnel and officials of VBA; and (iv) vehicles, computers, and other equipment to be used in the preparation of the credit manual and the training component.

II. ASSESSMENT OF IMPLEMENTATION PERFORMANCE

A. Design of the TA

1. Appropriateness of Concepts and Approaches

4. The thrust of the TA was to establish a system for market-oriented rural credit appraisal, processing, and supervision within VBA and to upgrade the skills of the necessary staff to implement it. The latter was viewed as critical, because the system can be sustained only with the necessary skilled personnel. The approach of the TA was to target its training at separate core groups for medium to large-scale lending and for small-scale and microcredit lending to provide

the basis for subsequent upgrading of skills by VBA with the help of the basic credit manual and an action plan for improving VBA's loan portfolio developed under the TA. Necessary support for effective training was given by way of computers and training materials. The TA as conceived and the approach adopted were appropriate given the transitional stage of the country and VBA's national staff strength of about 21,000.

2. Degree of Recipient Agency Involvement

5. The TA was designed in consultation with VBA, which had three training centers (at Hanoi, Binh Dinh, and Ho Chi Minh City). Hanoi and Ho Chi Minh City were designated as training venues. During implementation, one of the two venues was changed to Binh Dinh (instead of Ho Chi Minh City) as a result of VBA's management decision to ensure that the trainees derived maximum benefits from their training instead of being distracted.

3. Quality and Adequacy of Physical Input Provided

6. Coursework training was greatly facilitated by the 13 computers (486DX models) with the necessary software installed and the one photocopier purchased under the TA. Considering that they were intended to illustrate their use in business applications and for training purposes only, the number of computers provided was adequate. The two vehicles provided under the TA (Toyota Landcruisers) were more than adequate, although there was a long delay in the procurement of the first vehicle.

4. Terms of Reference of Consultants

7. The terms of reference of the consultants were clear, comprehensive, and appropriate for attaining the objectives of the TA.

B. Engagement of Consultants

8. The consultants¹ were engaged in accordance with the Bank's *Guidelines on the Use of Consultants*. Deployment of the consultants was postponed until April 1995 at the request of the Government because of the Tet holidays so as to allow an uninterrupted period for TA implementation. Total consultant services were extended by one person-month from 17 to 18 to enable the credit operations specialist to assist in the in-house training of VBA staff.

¹ Messrs. A. Barker (Team Leader and Credit Management/Banking Specialist); M. Cordero (Credit Operations Sr. Specialist); D. Garland (Small-scale Credit and Microcredit Specialist); and K. Gill (Training Specialist).

C. Organization and Management

9. The training of the staff took three forms: (i) seminars for top level management on policy issues and direction; and on evaluation of the training programs, the basic credit manual, and the implementation of the TA in general; (ii) training courses and fieldwork for middle-level management (especially for credit officers) designed to impart knowledge about the fundamentals of loan appraisal; and (iii) overseas on-the-job training in Malaysia and Philippines for selected course participants and the senior management staff.

10. Initially, the consultants were making their presentations directly to the participants, but because of language difficulties this approach was modified to training a smaller group of core staff, who in turn trained their colleagues. This two-stage training might not have been necessary if the Francophile background of the country had been given greater weight in the selection of the consultants. Nevertheless, at the time of TA implementation, the two-stage training process was very well accepted compared with the initial approach.

D. Implementation Schedule and Financing Arrangements

11. Except for the overseas training, all the components were implemented within the original time frame. The overseas training component was affected by delays in the finalization of the arrangements with cooperating institutions and was completed by mid-December 1995. As a result, the TA completion date was extended by two months from October to December 1995.

12. The actual cost of the TA was \$551,000 compared with the estimated cost of \$642,000. The actual amount funded by the Bank of \$477,000 (compared with \$568,000 estimated) from the Bank was utilized for consulting services, vehicles, equipment, and training. The contribution by VBA was in kind by way of counterpart staff, office space, other facilities, materials, and supplies.

E. Supervision

13. Bank supervision during TA implementation was adequate, with 19 staff days spent in various missions. The close rapport among Bank staff, VBA staff, and the consultants contributed to the generally smooth implementation of the TA. VBA management support for the TA was significant, with attendance of the very top management at the Seminar on Policy Issues and Direction despite pressing demands on their time. The consultants also received very strong support from VBA management in terms of office accommodation and other support facilities.

III. EVALUATION OF OUTPUTS AND IMPACT

A. Adequacy and Quality of Reports and Services Provided

14. The output of the consultants comprised a comprehensive Final Report and a three-volume credit manual (strategic planning for lending operations in general, strategic planning for lending operations for medium and large-scale loans, and basic credit manual for small-scale and microenterprise lending). The manual was of good quality, having been subject to review at special sessions by the participants of the training courses, which helped to ensure its quality and acceptability. The manual has been translated into Vietnamese and heavily used since for training of other staff.

15. The services provided by the consultants during training and in the preparation of the manual and action plan were assessed by the beneficiaries to be professional and of high quality notwithstanding the language difficulties. The only complaint was that the participants had difficulty in keeping up with the fast pace of the consultants in the training sessions.

B. Training and Transfer of Technology

16. The total number of VBA staff who benefitted from the seminars on policy issues and the structured training under the TA was 185, which exceeded the target of 160. Those who benefitted from overseas on-the-job training in Malaysia and Philippines numbered 22 as against a target number of 3. The trainees ranged from mid-level to top management staff. Women accounted for about 18 percent of the trainees.

17. The training curricula were heavily geared towards operational considerations and procedures of loan processing, documentation and disbursement, management, accounting, monitoring and control, as well as repayment and collection. This was highly relevant to the operations of VBA. In addition, the trainees were introduced to the use of computers and of spreadsheets as tools for loan appraisal, processing, and supervision. The curricula did not specifically include issues relating to strengthening women's access to small-scale credit, but measures for enhancing the role and participation of women in rural development through targeted credit were addressed in the action plan submitted by the consultants.

18. The impact of the training was reflected in the greater professionalism of the credit officers, who old conduct site visits to have a clearer understanding of the market for the output of a project presented for financing. Time limits were also set for the processing of loans at both the branch and headquarters level. Beyond the time limit, credit officers would have to explain to their superiors and the credit applicants the reason for the delay.

19. The emphasis on operational considerations, however, imposed a strain on many of the participants, as invariably participants' understanding of many of the economic concepts introduced in the course of the training was taken for granted. Many participants, having been exposed only to a planned economy in the past, had difficulties in understanding basic concepts, for instance those concerning the market, supply, and demand, and had suggested a separate session at the beginning of the course to introduce these ideas. Lack of familiarity with such concepts perhaps contributed to the trainees' difficulty in keeping pace with the consultants' training.

20. Emphasis on operational considerations also led to participants being trained in financial analysis and the derivation of the Financial Internal Rate of Return (FIRR). Participants had no notion of economic analysis (particularly involving the use of the Economic Internal Rate of Return [EIRR]), as the training on economic aspects was confined to mere qualitative evaluation based on such criteria as employment created, improvement in living standards, and foreign exchange earned. Given the role of VBA to provide loans to the rural areas and to the poor, and the fact that the market in Viet Nam is very distorted as a result of the past planned economy orientation, greater benefit could have been derived by the beneficiaries if they had also been exposed to the

full rigor of quantitative economic analysis including formal risk analysis, which was also found to be lacking in the curriculum.

C. Impact of Institution Building

21. The TA contributed to the process of more intensified training in VBA in regard not only to the processing, appraisal, and supervision of loans but also to other banking dimensions such as general bank management and mobilization of funds, the latter of which is based on the action plan for improving VBA's portfolio, prepared under the TA. Compared with 1994, total training courses increased about twofold, and total number of trainees by over two and a half times in 1995. The training budget was increased from D12 billion in 1994 to D28 billion in 1995 and was proposed to be D30 billion in 1996. Three regional training centers (Hanoi, Dinh Binh, and Ho Chi Minh City) were organized to provide ongoing training to regional and provincial staff.

22. The increased training enabled VBA to handle more loans in its loan portfolio, which increased by 33 percent in 1994 and further increased by 43 percent by August 1995 to D12 trillion (see Appendix 1). The increased confidence in being able to handle more loans led to the adoption of mobile units to bring credit to the rural areas which began as a pilot project and will be intensified in 1996 with the import of 200 such units.

D. Performance of Consultants

23. As measured against their terms of reference, the consultants, consisting of a credit management/banking specialist (as the team leader), a credit operations specialist, a small-scale and microcredit specialist, and a training specialist, performed their assignments very well. Their skills-mix and experience were appropriate for the assignment. Their ability to work together as a team contributed to the smooth implementation of the TA. The rapport they had with VBA staff was complemented by cooperation from the VBA management, who ensured that they were given the necessary support for carrying out their assignments. Language difficulties were minimized by the use of interpreters. Nevertheless, the consultants displayed their flexibility when, upon being confronted with language difficulties in the course of their training, they were able to switch to a two-stage training approach of training a smaller core group of participants as trainers

E. Further Capacity Building of VBA

24. Realizing the benefits of training and the constraints posed by language difficulties, VBA management had embarked on a scheme to train its staff in the English language. Where no formal training would be available, staff would be encouraged with incentives to engage in self-study. The need to acquire higher level language skills in English was perhaps underscored by the continual revisions of the TA's translated credit manual as more conceptual errors were discovered from time to time.

IV. CONCLUSIONS

A. Key Issues

25. A major issue is whether the benefits of the training will be sustained in terms of (i) continued training with the same curriculum and credit manual provided under the TA, and (ii) those who were trained being retained in VBA. In the case of (i), VBA management recognized the importance of continued training, for which an annually increasing budget would be provided. However, given the inflation rate of around 14.5 percent, the nominal increase of 7 percent of the proposed training budget for 1996 is actually a decrease in real terms. Thus, with a huge staff strength currently at 21,000 (even though there are plans to cut down the size), it will be difficult to sustain the momentum of training with a decreasing training budget in real terms. In the case of (ii), this posed little problem for, while there is upward movement of some staff, they remain within VBA, which is a relatively attractive employer in terms of compensation and other benefits.

26. The structure for a system of credit appraisal, processing, and supervision has apparently been set up but it is still evolving with the availability of trained staff for its implementation. Improvement in the system over time will not likely occur as long as the issue of continued training remains unresolved. Nevertheless, a Credit Department has been established with programs mapped out for 1996-2000 (see Appendix 2). There remains the problem of having it equipped with the necessary hardware like computers, which are insufficient, supported by a management information system, which is still in its infancy.

27. An original intent of the TA was to assist VBA in improving its operations on small-scale and microcredit lending. In 1995, the Viet Nam Bank for the Poor (VBP) was established with staff seconded from VBA. Currently it is supervised by VBA (see Appendix 2), but it is planned to be independent by 1997. As an independent entity, it is likely to take on the role of extending small-scale and microcredit loans. There is an apparent shift in VBA to lend more to larger enterprises (such as the joint stock companies formed from previous State-owned enterprises) and leave more small-scale and microcredit lending to VBP. Training of VBA staff in handling small-scale and microcredit lending provided under the TA would be misplaced unless these trainees are transferred to VBP.

28. An issue that could arise is whether training in economic analysis is necessary for VBA staff, since VBA is a commercial bank. In a highly distorted market like Viet Nam, where an enterprise may be financially viable because of price subsidies and other support, there is a risk that it may no longer be so once the Government undertakes market reforms resulting in the convergence of market and economic prices. Training in economic analysis should enable VBA staff to discern the financial risks involved based on the divergence of results between financial and economic analyses.

B. Overall Assessment

29. The TA was meant to play a catalytic role in capacity building. That the VBA management subsequently followed up with more training programs is testimony of the initiating role of the TA. The objectives were lamely achieved. The TA is rated as generally successful.

C. Lessons Learned

30. This Report concurs with the TA Completion Report² that the language difficulties and the cumbersome procurement procedures were underestimated. Language difficulties may be

² TCR:VIE 26627: Development of Small-scale Rural Credit Project, December 1994.

reduced by having a longer lead time, but ensuring that consultants have the proper language facility would be more helpful, especially when technical terms are involved. Advance action may alleviate cumbersome procurement procedures but would not substitute for a thorough investigation of the procedures during TA formulation for possible alternative solutions. For more effective implementation of a TA involving training in a transition economy, the general background of the trainees should first be evaluated, and remedial action incorporated in the training to increase absorption of training benefits.

D. Follow-up Actions and Recommendations

31. The training budget needs to be monitored by VBA to ensure that the quality of training will not suffer because of inadequate provision as a result of inflation. With the creation of VBP, there is a need to coordinate the extension of small-scale loans and the training of the relevant staff. The Bank should monitor this development for possible future policy dialogue and assistance, especially in the consideration of further loans to VBA. It is recommended that the Bank consider follow-on TAs to (i) ensure that what has been accomplished in capacity building will not be dissipated, particularly in the context where so many VBA staff remain to be trained; (ii) fill in gaps in complementary skills, including economic and risk analyses for loan processing; and (iii) build up or enhance complementary systems such as a management information system and application of computer technology to ensure that capacity building in the original areas envisaged in the TA (namely, credit appraisal, processing, and supervision) will be enhanced.
