PROFILE OF THE PEOPLE'S CREDIT FUNDS/CENTRAL PEOPLE'S CREDIT FUND SYSTEM

I. People's Credit Funds (PCF)

1. PCF is a cooperative society mainly serving its members. The PCF network has undergone the following stages of development: (i) Initial Growth Phase (1994-1998), where the number of PCFs have dramatically gone up from 179 PCFs in 1994 to 977 PCFs in 1998, or 95% of the total number of PCFs in 2009. It was also in 1995, where the CCF was established as an apex organization to provide, financial and advisory services to the PCFs; (ii) Consolidation Phase (1999-2002), where the number of PCFs declined from 977 PCFs to 888 PCFs in 2002, due to the closure of 89 PCFs for insolvency and weak management. It was in 1999, when the 21 PCFs were folded into the CCF, and its offices became the initial CCF branches; and (iii) the Perfection and Development Phase (2002-2009), where the number of PCFs grew but at a slower rate compared to the initial phase. The reason for the declining growth appears that the various ministries and the SBV have units to promote the PCF network growth, but no single government entity appears to be focused and accountable. In 2005, VAPCF was set up to support and guide the PCF network to comply with SBV Rules; technology transfer; and set up reporting standards and professionalizing the PCF organization. The draft 2011-2020 Plans for the PCF network envisions the VAFC to provide the following additional services: (i) Safety Fund Management; (ii) Audit Services; (iii) Training, Information and Data Center, and Banking Services Providing Company. It appears that many of the services provided are major duplications with the services now being offered or done by SBV e.g. Training and CCF as it becomes a cooperative bank under the new CI Law e.g. consultancy and management services.

2. To establish a PCF, minimum membership requirement is at least 30 members. The total number of PCF network is, 1.50 Million members or an average of 1,449 members per PCF in 2000 from 179 members per PCF in 1994. After 15 years of establishment, although the average membership size per PCF show an increasing trend, their size of membership remained small for the PCFs to achieve greater economy of scale and scope. The reason for the slow growth in membership appears to be the policy initially limiting membership to come from the commune only. It was only later when PCFs were allowed to recruit membership outside of its franchise area. Under the new CI Law, SBV shall prescribe the area of operation of the PCFs and may help PCFs expand membership size to achieve economies of scale and scope. Among the ways to increase PCFs size is to promote merger and consolidation among the PCFs in different communes, district or provincial level. There is no reported data on the number of PCFs consolidated under this decision. Merger and consolidation of PCFs will also relieve SBV of supervising numerous but small PCFs. It was gathered that SBV conducts more off-site inspection to the PCFs rather than on-site supervision due to lack of inspectors. Finally, while CIs are required to submit annual financial statements done by external auditing firms accredited by MOF, PCFs are not required to do so by SBV, due to PCFs inability to afford the services of an accredited accounting firm. In fact, among the reasons to organize the VAPCF is to provide auditing services to the PCFs. A tactical option is to explore for the PCFs network to outsource through tender the audit preparation of their financial statements in accordance with the generally accepted accounting principles and standards.

II. Central People's Credit Fund (CCF)

3. CCF is a cooperative institution established by the PCF as an apex institution to support, improve or strengthen the operations of the PCF. It was organized in 1994 under the CI and Law of Cooperatives, subjected all the prudential banking standards. Its headquarters is located in Hanoi, while its 24 branches and 60 transaction units are present in 56 provinces and cities of Vietnam. CCF is governed by an 11 man member board composed of 4 representatives from commercial banks, 5 members representing the PCF network, and 2 members from management, the General and Deputy Director, who are both deputized by the SBV. It plans to become a cooperative bank in 2010 under the new CI Law and being supported by Rabobank International, a subsidiary of the Rabobank of Netherlands.

III. CCFs Products and Services

4. CCF provides loans to PCFs and non-PCFs, and the loans are priced at market rates, and funded from domestic and international sources. CCF lending services to PCFs include traditional loans and loans against deposits or equities and with interest rates at 1.25% per month or 18% per year. These loans have either short term or medium term (payable within one year) or long term (payable more than one year to five years). CCFs loans to non-PCFs are consumption, business or production loans and with interest rates ranging from 15 to 18% per annum. It appears that CCFs interest rate is higher (18% p.a.) to PCF, while interests of non-PCF loans are charged up to maximum of 15% annually. For deposits, CCF offers term and non-term deposits and priced at the prevailing market rates. CCF also offers remittance services in partnership with Western Union, non-life insurance in partnership with BaoViet Insurance Company, and CCF also plans to market life insurance also in partnership with BaoViet Insurance Company.

IV. Ownership Structure

5. CCF's total equity stood at 1,530 Billion VND (USD 82.70 M), of which chartered capital represented 87% or 1,362 Billion VND (U.S. $ 55.89 M). Its chartered capital is contributed by the PCFs, SBV, and SOCBs.