Homeless International

BRIDGING THE FINANCE GAP IN HOUSING AND INFRASTRUCTURE

VIETNAM: Community Development Funds In 8 cities in Vietnam – A case Study

Canal-side slums in Ho Chi Minh City, Vietnam

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1 Urban poverty and urbanization in Vietnam

Vietnam's commitment to reducing poverty among its citizens has been successful in bringing down the poverty rate significantly in the past two decades. In the 1990s *doi moi* reforms generated high economic growth, which in turn was accompanied by exceptional reductions in poverty. This was in part because access to land, education and health services was distributed across the population in a relatively equitable manner. According to the World Bank's assessment, the Vietnam poverty rate stood at 58% in 1993, came down to 37% in 1998 and reached 30% by 2000, with around 30 million people still living in poverty. One of the main factors contributing to this dramatic reduction in poverty has been the doubling of Vietnam's average annual per capita income in the past 10 years. However, this average per capita annual income is still relatively low – about US$ 400 in 2000.

Vietnam is still a primarily agricultural country, with only 25% of its 80 million people living in urban areas. The majority of the country's poor still live in rural areas. In 2000, only 10% of the Vietnam's poor population were living in urban areas, while 90% remained in the rural areas. Urban living standards are five to seven times higher than that of rural areas. The average annual per capita income in rural areas is only 50% of that in urban areas, and this gap is a key factor in speeding up migration into the cities. Nevertheless, *Participatory Poverty Appraisals (PPAs)* made in 1999 show that urban poverty is a particularly harsh and complex phenomenon compared to rural poverty, and that urban poor people are more deeply indebted to informal money lenders (who charge interest rates of up to 60%) than their rural counterparts. Conditions are particularly difficult for new migrants who have not been able to secure permanent registration and are excluded from official social welfare systems and public services. Because so many of these new migrants are not yet on the registration lists or represented in poverty statistics, the official urban poverty rates may be underestimated by as much as five percent, and the real figures may be closer to 15%[1]. Migration is likely to increase in the future as urbanization increases in Vietnam, and the increasing numbers of people being excluded from entitlements will present a big challenge for poverty alleviation strategies in the future

Vietnam has 620 urban centers, with four cities classified as "1st Grade Cities" : Ha Noi, Hai Phong, Da Nang and Ho Chi Minh City. As in other developing countries in Asia, the pace of urbanization in Vietnam is increasing rapidly. The urban population is set to increase by 30 million people (45% of the current urban population) by the year 2020. This rapid urbanization is creating a range of environmental and infrastructure problems. At present, 35% of urban households have no access to water supply systems, over 50% of households are not connected to any sewer system and trash collection systems are available only in city centers.

Besides that, the imbalances in regional growth and investment show themselves most prominently in Vietnamese cities. There are dramatically different rates of governmental budget allocations for infrastructure in "1st Grade" cities and in the rest of the country's provincial urban centers. The cities of Hanoi (the national capital with 4 million inhabitants) and Ho Chi Minh City (with more than 6 million inhabitants) currently contain about half of Vietnam's total urban population and dominate its urban hierarchy. The infrastructure needs of these two major cities have absorbed the lion's share of urban development investment over the last

[1] ***Vietnam Development Report 2000***, *Attacking Poverty*, Joint Report of the Government, donors and NGOs Working group, December, 1999.

decade. In recent years, Da Nang and Hai Phong have become "1st Grade" cities and increasing attention is being paid to them.

2 The structure of the State apparatus in Vietnam

2.1 The Vietnamese Communist Party

Vietnam's political system, which encompasses the state bureaucracy, the government administration, mass organizations and special interest groups, is dominated by a mono-organizational structure, the Vietnamese Communist Party (VCP). Party dominance over society is maintained by the party's horizontal and vertical penetration of nearly all organizations and structures in the society.

The Vietnamese political system is highly hierarchical. The Central Committee is selected by representatives of the country's party members who participate in the national party congress and is composed of 124 full (voting) members and 49 alternate (non-voting) members. The Central Committee then selects a Political Bureau composed of 13 full and one alternate member.

The power to set national policy rests in the hands of a very small number of individuals. For example, Central Committee membership represents only .0096 of the total party membership. Members of the Central Committee in turn dominate the highest reaches of the state bureaucracy by occupying overlapping positions as ministers and deputy ministers (or their equivalent in rank as heads of central state commissions). Central Committee members also predominate in the National Assembly, Vietnam's highest legislature body.

At various lower echelons, the party committees exist constantly in the People's Committees, the administrative bodies at all levels. However, besides the Secretary of the Party, the party structure at these levels is mixed, comprising communist party members working in the People's Committees, the People's Councils and Mass organizations, which often reside in the same office.

2.2 The National Assembly

The National Assembly (NA) is the country's legislative body. Deputies are selected from candidates from electoral districts around the country. Since the Vietnamese renovation, the modification of election procedures has allowed a greater diversity of non-party candidates to stand for election. Deputies are permitted to debate issues, air their views and question and criticize ministers. Sub-committees of the NA have been rejuvenated and have become active in vetting proposed draft legislation. The NA also votes to determine the chairman of the Council of Ministers (called the Prime Minister) and supervises the activities of the state management bodies. In principle, the Vietnamese Communist Party (VC) only sets general policy outlines and does not interfere with the National Assembly's legislative work.

At lower levels, as mentioned above, the People's Councils, which coexist with the People's Committees, participate in meetings, discuss and decide practical matters. Important policies, bylaws and regulations proposed by the People's Committees should be approved by the People's Councils. These elected bodies also supervise and evaluate the performance of the People's Committees and other administration agencies at their level.

2.3 The State Council

The State Council is composed of the Head of the state, the Deputy Head and several officials. The role of the State Council is not very clear. Supposedly it cooperates with the NA to supervise and ensure the legality of the activities of the state management bodies.

2.4 The administration structure

The Prime Minister is the head of Vietnam's administrative structure. To assist the Prime Minister, a government bureau is established composed of several Deputy Prime Ministers and experts on different aspects of governance. The Prime Minister and his assistants consider and make final decisions on the proposals put forward by the People's Committees at different levels. The Prime Minister together with the Government Bureau and the Council of Ministers is also responsible for formulating necessary decrees to guide and organize the implementation of state viewpoints, policies and legislation. Under the Prime Minister and the Council of Ministers, there are various ministries, state commissions and general departments, responsible for specific aspects of the country's management. Within provinces and "First Grade" cities, there are various departments which operate under the guidance of respective ministries, general departments and horizontally under the supervision and management of the respective People's Committees. At lower levels (in secondary cities, districts and communes) there are only functional divisions, usually located in the same office with the People's Committees.

2.5 The People's Court

At the central level, there is the Supreme People's Court. At lower various echelons (down to district), there are local People's Courts, where trials and other law cases are held.

2.6 Mass organizations

Although various mass organizations are still under party control, the party renovation has transformed these associations into more effective and democratic bodies. Some of the important mass organizations are the Federation of Trade Unions, the Ho Chi Minh Communist Youth Union, the Women Union, the Collective Peasant Association, the Veteran Association and the Fatherland Front.

3 Formal microcredit systems

3.1 Hunger Eradication and Poverty Reduction Programme (HEPR)

In 1992, the national Hunger Eradication and Poverty Reduction Programme was started, according to a resolution passed during the VII Communist Party Congress. Steering committees of the HEPR were set up at three administrative levels (province/city level, district level and commune/ward level) in the all 44 provinces and all cities in the country. From 1992 to 1995, the main activities of the HEPR were to identify poor and needy families and to distribute individual loans to these families for economic development and income generation. According to official reports, since 1992 the government has invested about 21,000 billion VN Dong through the HEPR. The total amount lent to poor households reached 5,500 billion VN dong by the end of 2000, with about 5 million poor households having received loans, with an average household loan of 1.82 million VN dong.

From 1999, the government set out a new comprehensive direction for the HEPR programme. The HEPR's National Target Programme for the period 1998 –2000 was designed to increase investments in infrastructure construction in poor communes, besides providing loans. Between 1999 and 2000, the government invested about 2,000 billion VN dong to construct 6,500 infrastructure projects in 1,870 disadvantaged communes around Vietnam.[2] However, since the programme focused more on rural areas, the infrastructure funds did not serve urban poor communities. According to the national programme's criteria, "poor communes" are those with poverty incidence of at least 40% and which lack infrastructure such as roads, schools, clinics, electricity, drinking water, small irrigation works or markets.

The national poverty line (food poverty line) is defined by the Ministry of Labor, Invalids and Social Affairs of Vietnam (MOLISA)[3] in terms of monthly per capita income in kind. In compliance with these national standards, steering committees in each hamlet and commune develop a list of the hungry and poor households, who are eligible for getting credit and support from the government's HEPR programme. Different income levels are set for different areas/regions (rural mountain, rural plain and urban areas). However, the programme has also accepted changes in applying the national subsistence standards, depending to the levels of local economic growth and living standards at a given time. For example, the criteria applied in Ho Chi Minh City are often higher than the MOLISA's criteria in general. In 1992, the minimum subsistence standard for a poor household was 50 US dollars per person per year in the "rural plain" areas and 100 US dollars per year in the urban areas. In 1996, these standards increased respectively to 200 US dollars per year in "rural plain" areas and 250 US dollars per year in urban areas.

[2] The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) approved by the Prime Minister at Document N° 2685/VPCP-QHTH, dated 21st May, 2002.

[3] A national poverty line defined by the *Ministry of Labor, Invalids and Social Affairs of Vietnam (MOLISA)*, differs from the *Living Standards Measurement Survey* (the international poverty line) conducted by the World Bank. As a result, the national poverty rates measured by the two systems are different. According to the national poverty line, Vietnam's poverty is lower than if it were measured according to the WB's international criteria. In 2000, for example, according to the World Bank's assessment, the Vietnam's poverty incidence was 32%, but in applying the national poverty line it was 17.2%.

Table 1: Comparison of the national standard and Ho Chi Minh City's standard for a poor households
(US$ 1 = 14,000 VN Dong)

Subsistence standards for poor households (1996 – 2000)	**National standards** *(per capita, per month)*	**Ho Chi Minh City's standards** *(per capita, per year)*
Rural mountain and island areas	15 kg. of rice per person per month (55,000 Dong) (US$ 3.93)	
Rural plain areas	20 kg of rice per person per month (70,000 VN dong) (US$ 5)	US$ 200 per person per year
Urban areas	25 kg of rice per person per month (90,000 VN dong) (US$ 6.43)	US$ 250 per person per year

In view of Vietnam's achievements in poverty reduction, economic growth and improvement in living standards, a new poverty line was established in 2001 and applied to poverty measurement in the 2001 – 2005 period. Based on per capita income, the new measurements define minimal subsistence at 80,000 Dong (US$ 5.7) per month for "rural mountain" and "island" areas; 100,000 Dong (US$ 7.1) per month for rural plain areas and 150,000 Dong (US$ 10.7) per month for urban areas.[4] Each year, the HEPR's Steering Committee in the hamlet and the ward conduct a new survey on poverty to update the list of poor households. For example, one city's report collected data from 20 wards and communes and showed that in 2001, the number of poor households was 3,338 (about 6.43% of the city's total population). In 2002, the number of poor households had decreased to 3,028 households (about 5.75% of the city's total population). However, some have argued that these national standards do not reflect the differences which exist between living standards in different regions and cities.

A process of identifying those poor households eligible for support from the HEPR was carried out by local cadres, but these lists of beneficiaries were often compiled according to whim of a few officials and there were no effective participatory tools to monitor the decision-making process. Therefore, the official number of poor households is not likely to be highly reliable. Besides that, the Communist Party and Central Government promulgate planned targets for poverty reduction during each period. These planned targets become binding regulations on all levels of the local government, so any statistics which challenge these figures would put into question the local authorities' reports and their ability to deal with the poverty situation. The Resolution of the VIII Communist Party Congress (1996 – 2000) set out an objective "to reduce the poverty rate to below 10% in the year 2000 (300,000 households to be lifted out of poverty)".[5] In reality, this rate is still far from being achieved. If the new national poverty line is applied up to early 2001, then Vietnam's poverty rate is still 17.2% i.e. (2. 8 million poor households).[6]

In summary, there has been a great difference between HEPR's activities and investment in rural and urban areas. In rural areas, the HEPR's activities have been quite comprehensive, including household's economic development, income generation activities and community's

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[4] The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved by the Prime Minister in Document N° 2685/VPCP-QHTH, dated 21 May, 2002.
[5] Poverty Alleviation Strategy 2001 – 2010, by the Ministry of Labor, Invalids and Social Affairs (MOLISA), Ha Noi, May, 2001.
[6] The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved by the Prime Minister in Document N° 2685/VPCP-QHTH, dated 21 May, 2002.

infrastructure improvements. The programme has involved not only the mass organizations, but also technical agents who were in charge of construction services. In urban areas, however, the HEPR has focused only on household economic improvements through its microcredit programme. Some argue that the HEPR's microcredit programme has not fully reached the poorest households, especially those poor migrants in urban areas with registration problems. In addition, there is a lack of comprehensive strategy on urban development and urban poverty reduction in the HEPR's urban approach to reducing poverty. The HEPR has faced several obstacles in its efforts to support poor households facing eviction and relocation. In complying with Urban Master Plan, the urban development and housing projects which cause eviction have paid very little attention to social aspects of this displacement of poor households, and made no room for community participation in the planning process.

3.2 Vietnam's Bank for the Poor

The Vietnam Bank for the Poor (VBP) was established by a decree in August 1995 and started operating on 1 January, 1996. Although it is a state-owned bank, the VBP is not supposed to be managed along the lines of conventional commercial banks, but is supposed to be a non-profit bank. The VBP has no national infrastructure of its own, but makes use of the existing branch network and staff of the Vietnam Bank for Agriculture and Rural Development (VBA). VBP's chief objectives are to contribute to hunger eradication and poverty alleviation in Vietnam, by providing credit to those who would not otherwise qualify for individual loans because of limited collateral. Loans from VBP are made only to those households on the official lists of poor households. Eligible borrowers can get loans at subsidized interest rates set by the State Bank of Vietnam (SBV) and far lower than the rates charged on VBA loans. To today, there has been an ongoing debate about the impact of these interest subsidies on the VBP's sustainability and about the bank's impact on self-reliance among poor families and poverty reduction. However, over the past few years, the SBV has continued to reduce the interest rates it charges on loans. In 1997, the interest charged was 1% per month, 0.8% in 1999 and 0.5% from 2001 to now.

From 1995, a new credit policy which makes use of the "joint-liability groups" system was adopted by the VBA and subsequently taken up by the VBP. The idea of "joint liability groups" is that eligible poor borrowers have to be members of a "joint-liability group" in order to obtain loans. These joint liability groups, which contain ten to twenty members, collectively act as guarantor for the individual loans. In the VBP's system, individual loans are only processed through joint-liability groups, but there are no group loan applications, only individual. Loans are only provided on a short-term basis. Medium to long-term loans are not avail able for the time being. For loans up to 1 million Dong (US$ 70), no collateral is required, but for loans between 1 million and 10 million Dong (US$ 70 - 700), a guarantee by a third party (besides the "joint-liability group" is required. For loans above 10 million Dong, some collateral is required.

In urban areas, the VBP has in fact delivered loans directly to individuals, without the joint-liability group, and in these cases, the borrowers have only had to show their identity cards before receiving loans. The VBP's formalities require that borrowers submit three kinds of documents : (i) an individual loan application form; (ii) a record of their joint-liability group's formation, as certified by the People's Committee at the commune/ward level; (iii) a loan contract which requires signatures from (i) the bank officer, (ii) the local mass organization (often Women's Union) and (iii) the group leader.

One of major problems of the VBP has been its policy of collecting only the interest during the loan repayment period (monthly or quarterly) and the principal only at the end. This policy has made it more difficult for poor households to repay their loans. No exact figures about overdue repayments are available, but experience in poor communities has shown that there are many cases of non-repayment or late repayment.

In recent years, the bank has increasingly worked with joint-liability groups to collect loan repayments, especially, in cooperation with Vietnam Women Union (VWU). There are different methods to collect loan repayments through groups, according to local VWU cadres, who supervise the joint-liability groups. For example, in Hue City, group members repay both principal and interest in daily, weekly or monthly repayments to group leaders, according to their financial capacity and earning pattern. Every month, group leaders transfer the whole group's repayments into a savings account in the bank, which earns a small interest used to cover meeting expenses. Every quarter, group leaders give the group's repayment to VPB. The joint-liability group's formation and activities are supervised by the local Women Union and the VPB gives a WU leader a monthly allowance. The VBP has also used peer-pressure tactics within joint-liability groups to deal with loan defaulters by rejecting new loan applications from the same group until the defaulter's loan is repaid. In fact, the joint-liability groups could act as agents to help the bank expand its base of loan clients and to increase its profits while providing an efficient system for managing loan dispersal and repayment which substantially reduces transaction and administration.

Lending by VBP has spread across the country fairly quickly, but has targeted especially remote and highland rural areas. The VPB's credit capital sources increased quickly, reaching the amount of over 5,000 billion VN Dong (US$ 357 million) by the end of 2000, and extending loans to nearly 5 million poor households. The average loan stood at 1.82 million VN Dong (US$ 130). However, the VBP's capital available for loans is still not enough to cover all poor households in Vietnam. Most of this capital is provided by the SBV and foreign sources. Therefore, VBP has started to promote savings groups, again in collaboration with the mass organizations and particularly with the VWU.

3.3 People's Credit Fund

The network of People's Credit Funds (PCF) was first set up in July 1993. The PCF network could be described as a formal finance system which was developed from both above and below at the same time. The PCF system aims at mobilizing savings from households and communities and also promoting a self-management mechanism. However, because of the two-fold system it has adopted, the PCF's management mechanism is complex and has limited its effectiveness. A study on the advantages and disadvantages of the People's Credit Fund approach would be useful in helping the country's new community development funds (CDFs) to develop and maintain their activities in the future. The People's Credit Fund system and community Development Funds have several things in common:

(i) Both systems use the process of mobilizing household and community savings to create opportunities for savings members to get involved in community development and both establish bottom-up democratic decision-making systems.

(ii) Both create not only financial systems but also promote a spirit of cooperation among community members, between communities and with different levels of local authorities and organizations.

(iii) In both systems, self-managed saving and credit activities and networking are considered crucial.

There are also some important differences between the People's Credit Fund system and community development funds:

(i) The People's Credit Fund only promotes savings from individuals, while community development funds aim to establish and develop community savings groups.
(ii) The People's Credit Fund has mainly concentrated its activities in the rural areas while the community development funds are targeting poor communities in urban areas.

Because of the way the PCF's organizational set-up was designed, it's legal status is quite complicated. The PCF programme is governed by Cooperative Law of 1 January, 1997. While the rules and regulations of all types of cooperatives are outlined in the national cooperative laws and specified in the bylaws of each individual law, savings and credit cooperatives like PCFs are additionally under the supervision of the financial authorities. In general, such cooperatives involving savings and credit activities are classified as financial institutions or banks, and hence not only fall under the stipulation of the Cooperative Law, but also under the jurisdiction of the Banking Law. A new Banking Law has been adopted by the National Assembly in late 1997, which became effective 1 October, 1998.

The PCF system comprises three management levels: the Local Credit Funds (LCF), the Regional Credit Funds (RCF) and, on top, the Central Credit Fund (CCF). While all three of these funds are legally independent and do their accounting separately, they are interlinked. The three levels have to be integrated in line with their respective functions to ensure a smooth operation of the whole PCF system and to harmonize the flow of capital over the regions and over time. The functions of the CCF are to ensure relations with government and with internal and external financial credit institutions, to regulate resources within the system, to maintain accounts on lending and borrowing services throughout the whole PCF system. The RCFs will be established gradually. RCFs have the function to coordinate local activities. The LCFs manage direct relations with their members in providing credit and mobilizing savings.

After it was established in 1993, the PCF network spread fairly quickly across the country. The approach proved to be extremely popular, especially in rural areas. By the end of 1998, 988 Local Credit Funds had been established in 53 provinces (leaving only 8 provinces without LCFs), 19 Regional Credit Funds and one Central Credit Fund as the apex organization. The whole system comprised about 600,000 members at that time. In general, the PCF system serves the rural population but there are three branch offices in Hanoi and one in Ho Chi Minh City. In total 9 LCFs are located in the suburbs of both cities. These branch offices and LCFs are serving many urban clients.[7]

The PCF system has to be self-reliant through savings and not dependent on external funds. Therefore, only members are eligible for credit and they protect each other through their own discipline and social pressure. There is one exception to this rule when it comes to the urban branch offices, where non-members can borrow money, but only if they have a savings record. The branch offices are acting more like commercial banks. No further figures about the scope and effectiveness of PCF network's activities in urban areas is available.

[7] Discussion paper: *The transformation of Rural Financial System in Vietnam*, Wolz Apex, 1997.

Table 2: Development of the People's Credit Fund system (1994-1998)

Year	**1994**	**1995**	**1996**	**1997**	**1998**
3.4 Local Credit Fund (LCF)	153	534	847	923	988
Regional Credit Fund (RCF)	n.a.	3	9	9	19
Number of members	33,583	> 150,000	378,978	497,000	600,000
Deposits *(million US$)*	3.8	23	67	75	n.a.
Loans *(million US$)*	5	35	103	103	117

Source: The Transformation of Rural Financial System in Vietnam, Wolz Axel, 1997

The advantages of the PCF system can be summarized in two of its features: (a) the close proximity to its members and clients, and (b) the simplicity with which members can access its services. Because of these advantages, the initial growth of the PCF model has been quite remarkable, but the LCFs are not popular everywhere. In some communes, just about 5% of the population has joined, whereas in others more than 50% of the people have become members.

The People's Credit Funds, like community development funds, are intended to create not only a viable system to finance economic development among poor communities, but also to promote self-help and mutual assistance among community people. In reality, however, the PCF network has served exclusively its members as a financial organization. The LCFs have a more limited role, to provide credit to its members.

At the same time, the process of establishing the PCF's operational mechanism and expanding its network has been carried out entirely by the State Bank of Vietnam (SBV), without the participation of other stakeholders, and so has not met the programme's primary objective of creating a democratic, "bottom-up" system. Decisions as to which provinces will be included in the PCF programme are usually taken at the head office of SBV. The PCF was started in the more prosperous provinces and expanded only gradually into the more marginal ones, where the needs for such a finance programme were far greater. Provincial SBV branches in turn have the task of identifying possible communes where the volume of potential business would be sufficient to support an LCF. This involves carrying out an informal survey of a potential commune to assess its growth potential and the likely number of borrowers and savers in the locality. If the assessment indicates that conditions are favorable, a plan to establish an LCF is submitted to the local People's Committee. In this respect, the establishment of LCFs is initiated by SBV or its provincial branches and not by interested persons at the local level.

The process of setting up an LCF at the commune level includes four steps: (i) looking for 15 potential "founding members", the minimum number required for setting-up an LCF; (ii) electing a provisional board of directors and training them; (iii) recruiting members by selling "qualification shares", and (iv) organizing a convention to elect an official board of directors and to adopt bylaws.

To help introduce improvements and innovations in the structure and management of community development funds set up in the future, there are some critical lessons to learned from the process of setting up LCFs:

- Founding members of LCFs need to be better off than the general public since to found an LCF requires a certain minimum level of capital.[8] Even though, in theory, all LCF members can stand as candidates for any position in their self-governing bodies, many LCFs have bylaws which require candidates to have purchased a greater amount of "permanent shares" than the average member's. This effectively ensures that only the group's relatively better-off founding members are eligible for decision-making positions on the self-governing bodies. In these ways, the LCF's local systems are organized to serve the better-off members more than the lower-income groups.
- Elections for LCF's board of directors are likely to be done in very formal ways. While no minimum educational standards are stipulated to run for these positions, completion of secondary education appears to be an unwritten minimum requirement. Since the number of people with a certain level of education and social status is limited in the rural areas, this requirement becomes a way for local leaders (who tend to be better educated) to take over the LCF's structure and management. Very often, heads of the local branch of the Party and chairmen of the People's Committees are members of the board of directors of the LCFs, although officially this is not allowed. The interference by local authorities has been a chief factor in the collapse of earlier credit cooperatives and so their influence on the activities of LCFs must be strictly avoided.
- Membership as "shareholders" in LCFs is open to all kinds of people, including the poor. In 1996, those who wanted to become members had to buy only a single "qualification share" amounting to only VN Dong 50,000 (US$ 3.50). In addition to this single "qualification share", new members were welcome to purchase as many more shares as they liked and could afford, including "permanent shares". But according to some bylaws, which vary from one LCF to another, newly joining members may be required to not only buy the "qualification share", but also to contribute more money to the LCF through the purchase of additional shares costing between VN Dong 200,000 and 300,000 (US$ 14 - 21), or even as much as VN Dong 1 million (US$ 71). Those kinds of LCFs are obviously open only to those with the necessary financial means at their disposal. In reality, it is difficult for poor households with little money left over after meeting their day-to-day to invest in shares. Moreover, the LCF system only accepts savings deposits from members at three-monthly intervals, and so is unlikely to attract urban poor households for whom daily or weekly savings systems would be much more appropriate and desirable. In addition, the LCF's system of providing loans - which are also transacted only on the same three-monthly period, cannot meet the fluctuating financial needs of urban poor households by giving them access to loans when they need them.

In conclusion, the community development fund system and the PCF system do have some common features, but in reality, the PCF network has mainly served the better-off members of communities through savings and credit activities. The PCF network has been developed as a national finance system across the whole of Vietnam, at central, provincial and local (commune) levels, but its activities have been concentrated in more prosperous rural areas. The PCF network has been "top-down" in its structure, in the manner in which it was established and in the way it has developed. At the commune level, the LCFs have been influenced by local authorities in ways that have limited the funds' self-management minimized community

[8] From January 1996, SBV has introduced a minimum capital requirement of VND 50 million (or about US$ 4,400). Hence, each of the 15 founding members has to buy minimum shares, or permanent shares, amounting to VND 3.333 million (or about US$ 300) per person. In general, the founding members do not have to contribute their shares immediately, but can pay up in installments over a number of years. Recently, it has been discussed to increase the minimum equity base to VND 100 million.

participation. Hence, the PCF programme has not played an important role in reducing poverty in Vietnam nor has it promoted community-driven development activities. Although the PCF system has not been developed in urban areas, this brief study of the PCF network was intended to explore its management mechanism, its savings and credit systems and its network structure, in order to draw lessons from the PCF Network experience which can be used in developing community development fund initiatives in rural areas in the future.

4 Semi-formal finance systems and their links with the formal sector

Since the early 1990s, international NGOs have cooperated with Vietnam's mass organizations to develop microcredit programmes and to form "joint-liability groups" of low-income people, who have joined in order to access credit. From the beginning, these groups were set up according to objectives and regulations which were particular to those programmes and most are linked to the formal financial institutions such as the VBP or VBA.

A number of mass organizations are active in microfinance, of which the Vietnam Women's Union (VWU) is the most active nation-wide. Other mass organizations such as the Farmers Association, the Veterans Association or the Peasant's Union assist in the disbursement o f loans under specific government programmes. The VWU's microfinance programmes, from central to local levels, have been set up to meet a broad range of needs of poor women: loans for economic development such as small businesses, production activities and income generation, as well as loans for improvements in sanitation, basic services and housing.

Beginning in 1991, the VWU adopted the system of "joint-liability groups", through which loans would be channeled to poor women. Two pilot projects were implemented in two rural communes under the VIE/91/P01 project.[9] These two projects were the first applications in Vietnam of lending principles borrowed from the Grameen Bank microfinance model in Bangladesh. This model was eventually replicated in almost all provinces and cities in Vietnam. In urban areas, however, the rigid application of the Grameen model has created some difficulties at local levels. Under the Grameen-style system that was applied in Vietnam, a credit officer was assigned to handle a maximum of 150 members, each of whom was entitled to borrow a fixed amount of money, repayable in 50 weekly installments. Before receiving loans, members were required to attend training sessions in group orientation mechanisms, production and business skills. Compulsory weekly savings are required for all members, and a complicated system of bookkeeping and management within each savings group had to be followed. In recent years, the system has been altered to be more flexible.

According to one analysis, the VWU's total capital funds available for microcredit came to about US$ 16 million, of which 60% came as credits from national banks (VBA and VBP), 20% came from government and private sources, 10% from savings of group members and the remaining 10% from international donors.[10] The VWU's microcredit programmes can be divided into 3 types: (a) microcredit programmes using state budget and loans from international finance institutions such as the World Bank and ADB; (b) microcredit programmes using project-based grants from bilateral donors, foreign governments and INGOs; (c) microcredit programmes using collective community resources such as the Savings Fund for Poor Women, the "Savings for Spring", and various rotating funds.

[9] VIE/91/P01project funded by UNFPA with FAO's technical assistance. The two selected pilot sites were Dong Thanh commune in Hau Giang province and Quang Bi commune in Ha Tay province.

[10] Analysis of the Informal Credit Sector in Vietnam, Tran Tho Dat, Ph.D. student at the national Centre for Development Studies (NCDS), Australian National University (ANU).

(a) ***VWU microcredit programmes using state budget and loans from international finance institutions*** are managed directly by banks, including loans disbursement and repayment. Since the early 1990s, Vietnam's mass organizations were encouraged to help their members get access to the banks. The Women's Union supports the formation of "joint liability" microcredit groups and supervises their activities, since the members of these groups are mostly women. The VWU's structure officially goes down to commune level (and even to the level of "cells" or "people's groups"), where it has been much more active in local level development activities than the other mass organizations. In the VWU microcredit programmes which use state funds and loans from international finance institutions, individual loans range in size from 1 to 5 million VN Dong (US$ 70 - 350) with repayment terms of 1 - 3 years. Repayment systems and timings vary according to the lending bank's policy, but daily loan repayment methods, which would favor the interests of poorer households, are not encouraged. Exact repayment rate figures for these programmes are not available, but compared to microcredit groups being managed by other organizations, the VWU's groups have a much better reputation in managing the groups' repayments and have lower rates of overdue loans. In 1999, for example, the rate of overdue loans was 0.8% among the VWU's groups, while it was 2.6% for the Farmer Association's groups and 1.6% for the another programme's groups.[11] One of the most important problems of these microcredit groups is that their activities are often dependent on external resources and tied to specific projects. As a result, thy tend to dissolve as soon as the project period ends. Another problem is that the promotion of savings has not been required in the VWU's collaboration with VBP, and in most of the VWU's microcredit programmes, it is left to each joint liability group to decide whether to make communal savings part in their activities. In fact, many groups have now opted to start communal savings on their own.

(b) ***VWU microcredit programmes using project-based grants from bilateral donors, foreign governments and INGOs:*** The VWU has a mandate to directly manage these kinds of funds when they are used in microcredit schemes. The numbers of international organizations or NGOs and the total amount of grant funds available varies a lot between different cities and provinces in Vietnam. The Women's Union in a particular city might manage several microcredit schemes supported by several NGOs at the same time, each NGO having its own objectives, it's own targeted beneficiaries (such as mothers with malnourished children, prostitutes, etc.) and its own programme of activities (such as latrine or well construction, handicraft promotion, etc.). Each project may have a specific microcredit scheme (including group formation, loan disbursement and repayment) as one of its component parts. Communal savings are now being encouraged in some projects but are not compulsory, and joint liability groups are generally set up only to channel loans to individuals, not to start communal saving. These kinds of microcredit schemes differ in several ways from the lending systems proscribed by banks, as described above. The NGO project-driven microcredit schemes provide loans at higher interest rates, with the idea of making the process economically self-sustaining and avoiding any external subsidy by covering all the costs through the interest. However, interest ceilings are determined by SVB and passed on to VBA, and so these microcredit schemes are not free to set their own savings and credit interest rates according to the local situation. Because of the predominant position of VBP, the interest rates applied in all schemes have to be in line with those of VBP. Local authorities and Women's Union can only allow very small deviations in the interest rates. While most NGOs

[11] Report on Participatory Urban Poverty Alleviation, Dr. Ngo Huy Liem, VIE97/008 Workshop in Can Tho city, 28/11/1999

collaborating with the VWU to support specific programmes with small, short-term loans of 6 months to 1 year, some NGOs have started promoting more comprehensive community development activities and have provided microcredit schemes to meet a variety of credit needs of poor communities, including infrastructure improvements, housing improvements and resettlement (*see part VI*).

(c) ***VWU microcredit programmes using resources mobilized within local communities :*** Funds for credit mobilized from community resources comes mainly from the process of communal savings, which is now being encouraged as a national-wide movement under the central VWU's policy. The number of savings groups and the capacity for mobilizing lending capital depends on the local situation, but most community savings under VWU fall into two categories: groups with compulsory savings and groups with voluntary savings. Groups which use compulsory savings systems tend to emphasize the provision of credit, and set fairly rigid rules which determine how much members are to save and when. The methods of savings collection in these groups tend to be rather inflexible, with monthly savings deposits being more popular and weekly or daily savings being quite rare. In voluntary savings groups, the VWU has increasingly promoted self-management, where group members have the freedom to make decisions according to their own savings capacity and diverse interests. The amount individual members save may differ within one group, while group members can choose to save daily, weekly or every ten days, depending their earning patterns. In these groups, monthly saving is not the favorite period, particularly among poor groups. However, because of predominant role played by the VWU in these microcredit programmes, savings methods applied by the groups have to be in line with those of local WU's programmes, and their flexibility depends very much on the understanding of the local WU leaders and their willingness to promote community participation in the process. In general, daily savings systems are slow to catch on and there is still little recognition of the value of daily saving, especially for the poor. In most VWU city reports, their are no exact figures of daily savings groups. In the VWU's Hai Duong City report, the number of daily savings groups is quite small compared with other monthly and weekly savings groups: out of a total number of 337 savings groups in the city, only 57 are daily savings groups (17%), while 150 (45%) are monthly savings groups.

In some cities, the local WUs have encouraged traditional forms of savings groups such as "Saving for Spring" groups or Rotating Fund groups to link with their savings and credit programmes. Savings and credit groups using different forms and different methods have been embraced on a city scale, and the aim is to bridge the formal and informal systems in order to more effectively channel external credit resources to the poor for sustainable development.

In Da Nang City, for example, the WU's report shows that in 2002, there were 257 new groups (using a traditional communal savings system and calling themselves "200 Dong per day" groups) and 407 revolving fund savings groups. With these new groups, the total number of savings groups in Da Nang City reached 2,727 groups and their total savings included more than 12 billion VN Dong (US$ 860,000) in cash, 3.6 "taels" of gold and 5.25 tons of rice! In addition to these savings groups, Da Nang City's WU has also helped form and supervise joint-liability groups to access external credit from banks and formal financial systems like the HEPR and has encouraged 198 new groups to start their own communal savings, which by 2002 had built up a combined lending capital of 5.5 billion VN Dong (US$ 393,000). It should be emphasized that by 2002, many more women in Da Nang City received loans through these savings groups (13,185 women) than received loans through the banking system (8,751 women).

It is now an established wisdom that lending within these small savings groups involves very small or no risk. Besides peer pressure, there are several other factors which affect the repayment process and keep the rate of repayment high: (i) collection methods are flexible and depend on the earning patterns and financial capacities of the poor households who are members; (ii) formalities and loan application procedures are simple, flexible, making loans easily available for a wide variety of needs, when they are needed; (iii) most loans are very small and loan repayment terms are short. Loans given through these VWU-supported savings groups are usually between 500,000 to 2,000,000 VN Dong (US$ 36 - 145) and loans are usually repayable in maximum one year.

At present, these semi-formal finance institutions show two major drawbacks. On the one hand, their resource base is very small, since the promotion of savings has not been a priority activity in many Vietnamese cities. As a result, out of the total microcredit funds being managed by the VWU, only 10% comes from savings group funds, compared to 80% which is channeled through VWU from banks and governmental resources. On the other hand, joint liability groups and women's savings groups are both considered informal groups. Even though joint liability groups are registered with the local People's Committee, they are "freestanding" and can dissolve easily when projects or specific programmes end. But at the same time, the women's savings and credit groups (particularly those using the traditional savings process) are not registered, but they have proved to be more popular and longer-lasting. However, since these groups are scattered and considered either as a movement of the VWU or as a spontaneous activity of community people, these groups have no legal status and they lack the capacity to transact legal business. In the long run, larger and longer-term financial transactions have to be undertaken by community groups if they are to develop their own economic production, create employment and (especially in urban areas) reconstruct their houses in resettlement projects. Therefore, within this semi-formal system, it may be necessary to strengthen and systematize the existing structure and management mechanisms to be able to bring together the two forces of community savings and credit combined with external resources of either credits or grants. One of the important things to look for in the future is an innovative structure to link all these scattered savings and credit groups at grassroots level. With a network, community-based savings and credit groups can help to bridge the formal and informal financial systems. These experiences have been demonstrated in several Asian countries, particularly through the work of CODI and the national community network movement in Thailand.

The question of how much interest should be charged for loans and paid for savings within these women's savings and credit groups has fuelled a lot of debate in recent years. In compulsory savings groups, interest rates are decided by outsiders (project officers or local WU officials). In voluntary savings groups, interest rates should be discussed and decided upon by group members - at least in theory. However, when they operate under the VWU's auspices, savings groups are not always free to set their own savings and loan interest rates. In general, the interest rates applied by all VWU-facilitated microfinance schemes have to be in line with the VBP's interest rates, which are unrealistically low. In fact, the central VWU has understood the need to consider sustainability and has tried to push the interest rate charged on loans up to 1.5% per month in some programmes. Nevertheless, in practice, local authorities and the Women Union have tended to keep interest rates low for all microcredit programmes in poor communities, close to the rates of the VBP. At present, the interest rates charged on loans from the savings and credit groups are between 0.5% and 1% per month, while the VBP's national interest rate charged on loans is 0.7% per month. Only in Ho Chi Minh City have some savings and credit groups charged interest rates of 2% per month. Again, the interest rate charged also depends on the open-mindedness of WU's cadres at local levels.

Table 3: Women's savings and credit groups in 8 cities

	Number of groups	**Number of members**	**The total of savings amount** *(in VN Dong) (US$ 1 = 14,000 VN Dong)*
Viet Tri	340		2 million
Hai Duong	337	4671	925.15 million
Vinh			
Hue			
Da Nang	2.727*		12, 271 million
Quy Nhon	848	12.107	759 million
Ho Chi Minh City			
Can Tho	240**	2842	

**In which, there are 9 savings groups in kind (5.25 tons of rice) and 3 savings groups in gold (3.6 taels)*

***This number is based on a survey made by the Vietnam Urban Upgrading Project (VUUP), funded by the World Bank in 2002.*

5 Informal financial system and community-based savings and credit groups in urban areas

Up to now, no official survey has ever been carried out to collect complete information about informal financial systems and community-based savings and credit groups in Vietnam - overall or in cities in particular. Actually, under the central planning system, informal financial systems have repressed. The financial liberalization in 1989 enabled the resurgence and growth of information on financial systems. Recent studies have revealed the fact that many poor households still find it difficult to access formal and semi-formal financial systems in Vietnam and are more likely to use informal financial systems. Formal and semi-formal financial systems like the VBA and the VBP have spread across the country fairly quickly since the early 1990s, but because they operate in the style of banks, because they are controlled by the government and because their policies prevent them from lending to unregistered urban migrants, these systems have not become accessible to most poor households. According to a recent CEP report, the incidence of poverty in Ho Chi Minh City is 10%. Of this 10%, only 3% have been able to access formal financial systems such as VBA or VBP; 3% have been able to access semi-formal financial systems such as CEP, NGOs and mass organizations and the remaining 4% have not been able to access any financial services.

There is a need for reform in these formal and semi-formal financial systems in order to enhance their effectiveness. Vietnamese people are still reluctant to deal with formal banking systems and prefer to go through informal financial systems when it comes to obtaining loans. This is not only because they lack confidence in the formal banking system, but because the informal financial systems are so much more accessible and so much more popular in both rural and urban localities.

In urban areas, there are four principal sources of informal credit :

1. Mutual lending among family members, relatives, friends and neighbors at negotiated rates, depending on social relationship, reputation of the borrower, maturity, etc. The annual interest rates charged on loans range from zero to more than 100%.

2. Informal money-lenders: The in-depth Participatory Poverty Alleviation survey (PPA) carried out in 1999[12] showed that poor households still rely to a large extent on moneylenders for loans in most urban and rural communities. Because of the extremely high interest rates they charge, moneylenders are often blamed for exacerbating the poverty and vulnerability of poor households. Especially in urban areas, many families rely on very low and irregular cash incomes to meet their daily needs, and when there is a crisis, they have no choice but to go to the moneylender. Unregistered urban migrants with no family or friends to borrow from are particularly vulnerable and so make frequent customers of the moneylenders. Because the terms and conditions of loans from moneylenders are diverse, flexible and timely, and because their procedures for getting loans are simple and convenient, they tend to be the first choice for families with urgent needs. But the extortionate interest rates moneylenders charge (up to 60% per month in Ho Chi Minh City!) can rapidly consume a poor household's entire income and assets and send them on a downward spiral of debt. But where formal and semi-formal financial systems have strict rules about what people can and cannot borrow money for and do not make consumption loans, the moneylenders will loan for any purpose or any need.

[12] The four agencies implementing the PPAs - Action Aid Vietnam, Oxfam GB, Save the Children Fund (UK) and the Vietnam- Sweden Mountain Rural Development Program

So for the time being, most credit needs for consumption are met by the moneylenders. So while the moneylenders' interest rates may be high, the transaction costs are assumed to be zero. Conversely, while the interest rates charged by the VBP may be low, poor households may incur many additional expenses in the process of obtaining loans, both formally (fees for application forms and for getting seals from the People's Committee) and informally (such as bribes, cigarettes or tea to "entertain" people involved in process). Because banks are often far from the community, transportation costs have to be factored into the cost of the loans, as well as the lost income of several days absence from work. Given all these advantages, it is not surprising that poor families easily go with the moneylenders, even though it can be foreseen for them to be trapped in a debt spiral.

3. Rotating savings and credit groups have a very long tradition in Vietnam, and are referred to as *Ho* in the North and *Hui* in the South. Groups are composed of 10 - 15 members who are often neighbors who know each other well and gather voluntarily to promote periodic savings contributions from members, which in turn are "rotated" as a loan to a different member each time. The savings and loans can be made either in cash, in kind or in gold. In Da Nang City in 2000, for example, there were 9 rotating savings and credit groups in kind (rice) and 3 groups in gold. The period of each lending cycle (the "rotation") varies, but most common is less than one year.

There are some important differences between the women's savings and credit groups formed by the VWU and these rotating savings and credit groups. In the VWU system, groups are formed for the purpose of providing loans for economic, business and production activities, so all group members have more or less the same purpose and needs. Most of the VWU groups set regulations which forbid loans being given for consumption needs. The rotating saving and credit groups, on the other hand, are organized by community members, all of whom have their own purposes for joining and their own credit needs. The groups can bring together both members who all have the same specific needs, or members with different needs. For the groups in which members have the same specific needs (such as housing repair, buying the same products or equipment like rice cookers), the life-cycle of these groups usually end once all the members have had their turn collecting the common fund. Such groups often reassemble - with the same members or new ones - and start a new cycle of rotating savings right away. Community members who all have different needs can also form these rotating savings and credit groups to fulfill their disparate needs. The "different needs" system is more common in urban communities where household needs tend to be more varied. Because of their short cycle, community people tend to use these rotating savings and credit groups mostly to bridge short-term needs.

Decisions about membership, loan amounts and interest rates are made either jointly by all members, by a bidding process or by the group's organizer. Poorer group members are likely to loose out if there is a bidding process, and likely to be charged higher interest rates to get "quick" money over the other group members. In the view of local authorities, rotating groups which charge higher interest for quick money or whose leaders act like moneylenders are considered illegal. There are many stories of group leaders running away with the kitty.

4. "Savings for Spring" groups and some further needs for innovation. "Savings for Spring" is another traditional form of community-based savings and credit in which group members save together for *Tet*, Vietnam's new year festival, which happens during Vietnam's "spring" season and is a time families need to spend a lot of money on gifts, food and new clothes. The life cycle of "Saving for spring" groups is one year, and all the members get back the money they've saved with the group during the year. There are a few things, though, which make "Saving for spring" groups different than rotating savings and credit groups :

(i) The amount each member saves and the frequency with which each member makes savings deposits into the scheme are flexible, depending on their financial capacity and earning patterns. Many times, poor members on daily-wage incomes make daily deposits.
(ii) During the year, the group's savings funds are also used as a revolving fund to provide short-term loans to members for various needs. Members don't have to wait their turn, nor is there any bidding process, and the loans are provided immediately to meet urgent needs. Loan sizes and repayment terms vary from member to member and depend on negotiation within the group and the amount of time left until the end of the year ("spring") deadline, by which time all loans must be repaid.
(iii) Not all members join these groups to get loans; some join only because they find it a convenient way to save (for "Spring") and also as a means of helping other community members.
(iv) Because it usually the group leaders who collects deposits, maintains accounts, distributes loans and collects repayments, they are the key to the success of the "savings for spring" groups. In practice, the establishment and development of groups depend very much on the reputation and commitment of these group leaders.
(v) Groups lead by leaders with a strong reputation and commitment tend to get very big - sometimes as much as 50 – 100 members who have joined not only on the basis of trusting each other but also because they believe in the group's leader.

For urban poor households, the "Savings for Spring" groups have some clear advantages over the rotating savings and credit groups in that they allow for daily savings deposits and allow loans to be obtained in a timely way in emergencies. Because of this flexibility, once "Savings for Spring" groups had been established on a pilot basis in two cities (My Tho City in 1987 and Da Nang City in 1993), the groups spread quickly into many cities around Vietnam (Ha Noi, Hue, Da Nang, Can Tho, My Tho and Ho Chi Minh city). The popularity of this approach varies from city to city, though. In District 2 in Ho Chi Minh City, for example, "Savings for Spring" groups started in four wards in 1999, with the support of the ward authorities and the Community Development Committees (or Social Work Boards). By 2002, there were 24 groups with 981 members and combined total savings of 909 million VN Dong (US$ 65,000). In Da Nang, the city's Women Union reported that the community-based savings and credit groups (which were called locally the "200 Dong per day Savings groups) had developed in all 47 wards and communes by 2002. In the city reports of five secondary cities, there are no exact figures available about the "Savings for Spring" groups or other community-based savings and credit groups in the cities. Presumably large numbers of these traditional savings groups exist in these cities, but have not been officially reported or kept track of because of a lack of in-depth community surveys. In urban poor communities, the "Saving for Spring" groups have been extremely popular and have been operated efficiently. At the same time the rapid expansion of the "Savings for Spring" model is a reflection of how urgently urban poor communities in Vietnam need viable finance systems, and how poorly these needs have been met by the formal and semi-formal microcredit systems. However, in order to sustain and improve on this model of community-based savings and credit, it is important to scrutinize some of its problems :

1. The "Savings for Spring" approach works within a limited objective: As the name "Savings for Spring" suggests, the primary objective of participants in these groups is to save money for expenses incurred during the Tet Festival (in Spring). In practice, however, the

"Savings for Spring" system has addressed another important objective for urban poor households and for urban poor communities as a whole by encouraging and strengthening a process of self-help development. For urban poor households, the programme has built the habit of saving and a step-by-step process for dealing with the their vulnerability. For poor communities, the "Savings for Spring" programme has built a spirit of solidarity and created a self-help system among community people. The groups have played an active role in helping poor households to climb out of the vicious cycle of poverty which is caused by irregular incomes, high risk, family crises and high interest payments to moneylenders. However, the sense of who owns the group's savings funds is still based on the idea of each individual member's owning his portion of the funds. A sense of the common savings being a communal asset is not yet strong in most of the groups. As a result, it is difficult to use the common savings to promote a community-driven process which encourages people to work together to achieve their various and diverse needs. In the long run, to foster a greater spirit of community participation and to support a more comprehensive community development process seems to be the most important objective of any urban development strategy.

2. The short life-cycle of "Savings for Spring" groups prevents the group from satisfying member loan needs in terms of scale and timeliness: The funds and life-cycle of "Savings for Spring" groups last for one year only, and all the funds are dispersed at the end of year and re-started in the new year. This cycle of closing and re-starting has prevented the savings funds from expanding and so has limited the scale of activities and curbed the size and scope of loans available to members. Since groups start saving again in the first month of lunar calendar (February), the amount of money available for loans will still be quite small during the first two and three months, and if members need larger loans during that time, the funds will not be available. On the other hand, by the last months of year (November and December), the groups will have saved dozens of million Dong - even up to a hundred million Dong in some groups. But most groups stop making loans in October, and so just when the communal savings reaches a quantity which would make it possible to extend a lot of sizeable loans, the group leaders only hold onto it, collecting repayments and savings, so that the savings funds will be replenished so that each members savings can be returned in full by the deadline (in December on lunar calendar). Because of this short cycle, loan terms are limited to a maximum of 6 to 8 months and the loans are provided primarily during the middle months of year (February to October). Obviously, this rhythm prevents groups from being able to give timely loan assistance to members when they most need it, when emergencies arise, unless those emergencies happen to come in the middle of the year.

Being able to get loans in a timely way, exactly when people need them, is the biggest advantage informal financial systems have over other formal and semi-formal financial systems. In communities with NGO-supported Community Development Funds (CDFs), group members have been able to obtain loans from the CDF even when the group's communal savings may still be quite small. Some community-wide loan funds were set up on an experimental basis in District 11 in Ho Chi Minh City in 1997. After visiting some community-based savings and credit systems in Thailand and Sri Lanka, one savings group leader worked with social workers to try to encourage several "Savings for Spring" groups to keep a portion their savings in the common fund for more than a year, and to use that money to set up a communal loan fund. To reinforce this direction, Enda Vietnam transferred to the ward's Women Union about 60 million VN Dong (US$ 4,300) as seed funds for a district-wide CDF to supplement the lending capital of the savings and credit groups. However, this attempt was not successful, and the fund ended up being divided equally among all the groups, creating little communal funds within each small group, instead of one common community fund for all the groups. The groups have managed to use these funds to provide loans to their members and to pay back part of interest earned on the fund to the ward's Women Union as a management fee. Interviews with some of the group leaders revealed that their main reasons for rejecting the community fund idea was anxiety about increasing their bookkeeping and accounting workload. This is understandable, given the fact that in the existing model, most of the burden and responsibility of group management and accounting falls to the group leader, and under this system, the CDF would add to their burden, particularly in the large groups up to 50 –100 members.[13]

3. In view of community development, community-based savings and credit activities are not simply an end in themselves, rather they are a means to bring community people to work together so that their many diverse needs can be addressed and achieved. In Vietnam, however, the term "community participation" was rarely circulated at a large scale until recent years, when the Communist Party's decree on Grassroots Democracy was promulgated in 1998. There is a common agreement that the "Savings for Spring" groups help to establish a certain solidarity among community people, but in practice, there are some constraints, which have a negative impact on the group's solidarity. Since women are the majority of "Savings for Spring" group members, the local WU and authorities may be interested in trying to integrate some their own programmes in women's health care, child nutrition and family planning into the group process. But meetings of the savings groups are not likely to be organized regularly for two reasons: (i) the large number of members in many groups (50 –100 persons in many groups) make it very difficult for group leaders to gather all these people and "animate" them at regular meetings since they work on voluntary basis; (ii) group members are often passive, uninterested in participating in regular meetings and prefer to let their group leader (or two leaders) make decisions for them. Hence, the group processes and group dynamics is not strongly promoted and internal links between group members are not usually well developed. In many groups, when meetings are organized at all, they focus on the process of opening the group's accounts in public and accounting group's money. In this respect, "Savings for Spring" groups are limited, as savings and credit activities as an end themselves. There is a great need for innovation in order to enhance a true process of community participation and to strengthen community's capacity for a comprehensive self-development process in this saving system.

4. In Vietnam, there is an increasing awareness of the value in creating networks of community groups at different levels. Community networks can work as a horizontal learning mechanism which allows people to share experiences and exchange ideas directly, without intermediaries. Networks also make it possible for urban poor communities to join together and speak with a stronger collective voice, and to participate more effectively in decision-making on issues related to their community life. With the support of international NGOs, the community-to-community exchanges have been encouraged, to some extent, between "Savings for Spring" groups and between communities in different cities since the early 1990s. These exchanges have helped the "Savings for Spring" groups to spread fairly quickly throughout urban poor communities. However, these groups are still scattered and there are no official links between them - either within individual communities or between communities in the same or different cities. With support from the UNDP/ UNCHS and the two NGOs (Enda and ACHR), community networks have now been established at three levels: at the national level (between the 5 secondary cities); at the district level (between the 3 wards in district 1 of HCMC); and at the community level (between community groups in the 2 wards of Binh Trung Dong and Binh Khanh, District 1, HCMC). However, all these networks are still at a the beginning stage.

[13] Since 1994 the groups of Savings for Spring has started in the Triangle community, in ward 5, District 11, HCMC. Each year, about 500 members have joined together in 7 groups. Their average savings amount stood up 500 –600 million VND yearly.

6 The historical process of establishing and developing Community Development Funds and Community Savings and Credit systems in urban poor communities

6.1 Hiep Thanh Community

The first international Workshop on Housing for low-income people was held in October 1989 in Ho Chi Minh City, as a collaboration between the Peoples Committee of Ho Chi Minh City and UN-ESCAP. The workshop's subject was "Housing development based on the partnership between government and people." As a result of the workshop, a pilot community upgrading project was launched in the Hiep Thanh Community, where about 300 households live in 4 cells of Ward 6, District 4 in Ho Chi Minh City. This early pilot project aimed to promote ***on-site slum upgrading based on community participation***. With the advice and support of ACHR and through a series of study tours and community exchanges, a Community Development Committee (CDC) was set up in Hiep Thanh and its members were elected by community people and representatives of the ward's mass organizations. The first upgrading activity prioritized by community groups was piped water supply construction. The community decided where the seven water meters would be installed, constructed seven public water taps and selected seven families to be responsible for distributing the water to families and collecting water fees for the CDC. In a precedent-setting move, the CDC decided to ask for an interest-free loan of 10 million Dong (about US$ 3,000, at that time) from the Land and Housing Department to construct the public water taps. ***This loan was Vietnam's first community loan for slum upgrading activity in the historical process of urban development in Vietnam.***

The Hiep Thanh community fully repaid the loan in quarterly installments over a period of three years, without any delay. As part of the community's plan, a certain portion of water fees collected by community people was kept aside for the purpose of establishing a ***Community Development Fund (CDF)***, which was set up in at the end of 1990. The CDF was used for multiple purposes, including grants for community welfare, small loans for income generation projects, lane upgrading and trash collection in community. Savings and credit groups were also organized, as part of the CDF process, to self manage repayments by group members. At that time, the Hiep Thanh community were pioneers in self-managed savings and credit groups in urban areas. Other microcredit programmes supported by international NGOs had only targeted communities in rural areas. Unfortunately, the Hiep Thanh community could not be protected from Ho Chi Minh City's policies for urban development, which aimed at slum demolition and city beautification, and in 1994 the community was evicted. However, the model of community-driven slum improvement which was established in the Hiep Thanh pilot project, based on community participation and self-managed savings-credit groups, continued, and was replicated in six other slum communities in Ho Chi Minh City [14]

6.2 The Slum improvement projects jointly implemented by the Land and Housing Department and international NGOs (ACHR, CIDSE and JIVC)

During the period between 1992 and 1995, the NGH CIDSE cooperated with Ho Chi Minh City's Land and Housing Department (LDH) to initiate several integrated community development projects, which included a component of providing loans through women's groups. The projects were designed to help slum communities to identify, prioritize and solve their own problems through a loan programme for infrastructure improvement and housing repairs. As part of the

[14] These are Tan Dinh ward, District ; ward 9, district 3 ; ward 12 and ward 14, district 8 and ward 12, district 11 with the financial support of the two international NGOs – CIDSE (Cooperation International pour le Development et la Solidarite) - and JIVC(Japanese International Volunteer Center).

project's framework for training activities, horizontal exchanges between communities and women's groups were encouraged and these exchanges began setting up a kind of community network. Through cooperation with LHD, the projects were to have an impact on the city's housing and resettlement policies for low-income people, to provide an opportunity to experiment with credit programmes for multiple activities and to build up a community network. During this period, the ACHR kept in constant contact with the LHD to help supervise and support different community-based slum improvements and especially for networking and exchange activities. However, after 1995, changes in the LHD leadership lead to serious changes in the LHD's policies and its approach to dealing with slum areas, with the result that most of these community-driven slum improvement projects were stopped and CIDSE and JIVC were no longer able to support those pilot projects. The LHD's policy made a sharp turn from supporting in-situ slum improvement to supporting demolition of slums and resettlement to peripheral areas of the city. The city's largest-ever eviction of slum dwellers happened soon after this, to make way for the Thi Nghe-Nhieu Loc Canal Project (1994 - 1998). Slum areas in six central districts were completely demolished and about 14,000 households were forced to relocate. Collective high-rise housing was constructed and was intended to provide resettlement for a third of those relocated families.

6.3 The Urban Community Development Projects of Enda Vietnam

The primary objectives of Enda Vietnam (Environmental Action in the Third World) are to support urban poor communities to raise environmental awareness and to improve their living conditions. Since 1997, Enda continued to help community groups in the Tan Dinh ward, District 1 and the "Savings for Spring" groups in Ward 5, District 11 as well. At the same time, Enda has also developed comprehensive community development projects in other cities in Vietnam: Hue (1996), Da Nang (1999) and Ha Noi (2000). Since 1999, Enda has aimed to achieve sustainable community development, enable self-management of community savings and credit groups so that poor communities can more efficiently use external financial resources. To do this, Enda has experimented in its approach towards supporting urban community development by:

(i) Establishing Social Work Committees or Community Management Committees at ward level, transferring funds to these committees and helping them to set up Community Development Funds.
(ii) Experimenting in the process of implementing community improvements through the mechanism of community-managed savings-credit groups.

In Da Nang, Enda started a community-managed "200 Dong per day" savings initiative in 1993 (with savings methods that are similar to "Savings for Spring") in Xuan Ha ward. The Women Union of Da Nang City supported this process and replicated the model across the whole city. Da Nang is probably still the city in Vietnam with the most community savings-credit activities. In Enda's projects, most of the infrastructure improvement and economic activities have been carried out through the mechanism of community savings and credit groups. Since the year 2000, most of Enda's projects include components offering loans for housing and resettlement to the poorest groups.

In the end of 1997, the *Support for Five Provincial Cities Project* was initiated in Can Tho, Hai Duong, Hue, Quy Nhon and Viet Tri, with funding from the UNDP and with technical consultants from UNCHS, VIE/97/008. The preliminary study carried out as part of the project's formulation was made by Enda Vietnam, and the overall objectives of the project were to support the poor urban communities and to strengthen the capacity of the city authorities to promote participatory community development. The project's preparatory phase and pilot activities took place between 1999 and 2001. During this phase, the main activities were strengthening the capacity of different levels of local authorities and community leaders. A range of pilot projects in infrastructure upgrading and income generation were also implemented during this phase through savings and credit groups. At present, the formal project is stopped, and is waiting for additional donor funds to carry forward the fruitful experiences from its preliminary stage. However, through the Community Development Funds (CDFs) which were established in each city, the local authorities and community groups are continuing to replicate their activities at a small scale. These five CDFs were set up in June 2001, with the advice and assistance of the ACHR. From November 2001, a network of these five city-based CDFs was established after the final workshop of the project's preparatory phase. The network aims at stimulating a learning process between participating cities and also aims to involve other Vietnamese cities interested in community participation approaches. The establishment of CDFs and the formation of this 5-cities network represents an important breakthrough in the historical process of urban community development in Vietnam.

7 The Support for Five Provincial Cities Project (VIE/97/008) – The development of the cities' five community development funds and their network

Urbanization in Vietnam over the last two decades has been characterized by rapid growth and development in a few principal cities such as Ho Chi Minh City, Ha Noi, Da Nang and Hai Phong. The imbalance of development and investment between regions and cities has been clearly reported in recent studies. Ho Chi Minh City, for example, is the Vietnam's commercial and economic hub, and it produces a quarter of the country's gross domestic product. One third of Vietnam's small enterprises and light industries are located there, and 35% of the country's trade is concentrated there. In the capital city of Ha Noi, the concentration of government offices and educational institutions gives the city a big advantage over other cities in all the services and commerce that are linked to those institutions, and have fueled Hanoi's rapid economic and population growth. At present, there are 620 urban centers in Vietnam with an urban population that is about 25% of the country's total population, but the combined population of Ho Chi Minh City and Ha Noi is about half of the total urban population, or about 10 million people.

The Support for Five Provincial Cities Project was set up to assist Vietnam's government to set appropriate policies to promote a more balanced urban development across the country and to work with local authorities and poor communities to promote a more participatory urban poverty alleviation process and more community-centered environmental improvement process in five secondary cities. In 1997, the UNDP supported the formulation process of the project's preparatory phase and from 1999-2000 the implementation of the preparatory phase.

The primary objective of the preparatory phase was to formulate a participatory urban development strategy in line with the existing structures of the Government (at central, provincial and city levels) and in accordance with current relevant programmes. At the same time, the project set out to set up a network of five secondary cities and provide loans for pilot projects at community scale as tools to stimulate a process of community participation and comprehensive self-help development in urban poor communities. Some of the main activities in the project's preparatory phase were:

(i) Strengthening the capacities of a range of stakeholders (city and ward leaders, city managers, community leaders) through various workshops, from community level to national level. There were six national workshops, 11 city-level workshops and 10 ward-level workshops conducted during the project's preparatory phase. In addition, nine exposure visits were organized for about 140 officials and community leaders within Vietnam, and four exchange visits were organized to learn experiences from communities neighboring countries of Thailand and Indonesia, involving 52 participants from communities, NGOs and local government. These intensive activities implemented during the last two years have brought extremely important basis of institutional system and human resources for the next step.

(ii) Setting up a network of five participating cities and promoting various networking activities through experience exchanges and workshops.

(iii) Implementing 14 pilot projects in poor communities involving infrastructure improvements and income generation (US$ 8,000 for each city and about US$ 2,000 - 4,000 per project). To achieve sustainability (in terms of revolving funds, project extension and replication), during the process of implementation, with the assistance of city and community facilitators, a community-based savings and credit approach was promoted and applied in all five cities.

(iv) Establishing Community Development Funds (CDF) in each city, with the advice and support of ACHR in order to engender a real process of community participation and also to launch a network of community-based savings and credit groups at a national scale in Vietnam.

At the start of the project, the Asian Coalition for Housing Rights was nominated as a subcontractor of the project to organize the regional exposure tours and to link the process in Vietnam with the regional network of community-based organizations in Asia and Africa. In the project's ending phase, in November 2001, ACHR helped set up Community Development Funds in each of the five cities, provided seed capital of US$ 5,000 to each fund and helped establish a network between all five cities. The aim of ACHR's intervention was :

- to strengthen the network of cities in Vietnam in order to extend the project's activities beyond the duration of the project.
- to open new ways for community-based savings and credit activities to be institutionalized and scaled-up
- to combine effectively people's own resources with external resources (resources from government and formal financial systems and international institutions) to finance a real process of comprehensive, self-help development in urban poor communities in Vietnam.
- to change the role of poor communities from being passive beneficiaries and recipients of aid to becoming active owners of a richly varied, community-driven development process.

7.1 Community Development Funds at city level

7.1.1 Management Committees of cities

At the beginning of the project, most of the five cities proposed management structures for their new CDFs that followed very conventional lines. Most structures were based on existing governmental structures, with two levels of administration management (city and ward) and people's groups. ACHR advised that these management structures be simplified to enable community groups to access these CDFs quickly and easily, without so many levels of bureaucracy. This simplification was accomplished by compressing the two governmental levels into a single city management committee (MC). The management committees in each city, however, were not structured the same way in each city :

- The number of members in these management committee vary from city to city, with a minimum number of five members in Viet Tri, to a maximum number of nine in Hue.
- In four cities (Viet Tri, Hai Duong, Quy Nhon and Can Tho), community members are members of the city management committees. Only in Hue are there no community members on the management committee.
- In three cities (Viet Tri, Hai Duong and Hue) representatives of the city's Women Union are the only representatives from mass organizations on the management committees, while in Hue, there are representatives of most other mass organizations sitting on the management committee.
- Representatives of the ward authorities are on the management committees in only two cities (Can Tho and Quy Nhon).

7.1.2 Responsibilities and roles of the Management Committees

Table 4: Responsibilities and roles of the Management Committees

	Hai Duong	Viet Tri	Quy Nhon	Hue	Can Tho
1. Approving application forms	x	x			x
2. Communicating and disseminating information	x	x			x
3. Holding bank account	x	x	x		x
4. Supervising groups, collecting group reports	x	monthly			monthly
5. Monitoring group bookkeeping	x				x
6. Raising funds		x	x		x
7. Collecting repayments (principal + interest)		x			x
8. Mobilizing savings		x			
9. Allocating funds to the wards			x	x	
10. Organizing regular meetings	quarterly	quarterly	year		

7.1.3 Management Structures

The management structures of the five CDFs can be divided into two types:

1. Three-level management structure: In this type, there are management committees at three levels: at the city level, at the ward level and among the community groups. This type of structure is being used in two cities, Hue and Quy Nhon. The two main differences between this management structure and the two-level management structure are:

(i) The entire funds are allocated directly to the ward's MC, either as a credit fund with interest (as in Quy Nhon, where the interest rate is 1% per month) or as a grant (as in Hue). In principle, the funds are kept and circulated by the ward's MC for a certain time and then returned to the city's MC for revolving to other communities in the city. In practice, however, this depends on many factors such as capacity levels of management and cooperation between the levels, as well as the willingness and understanding of this approach by the local authorities and the people involved in the process. In the Quy Nhon city's report, for example, after three years managing the fund, the Hai Cang Ward promised to return the funds they'd been allocated to the Quy Nhon City MC in the end of this year, 2003. It will be difficult for the authorities of 4 wards in Hue city to give back their funds to the city, since Hue city's MC is not so interested in participating in this process and the entire responsibility for the programme rests on the wards' shoulders. On the other hand, the ward authorities are not actively making use the funds as revolving funds. Instead, some wards consider the funds as grants, the same as other programmes funded by the government and international donors, and as a result, they have experienced a high rate of defaults on loan repayments, especially for those loans made to finance infrastructure improvement projects.

(ii) The ward's MCs are responsible for managing group's activities (forming groups, screening and approving credit applications for groups and individuals, delivering loans, collecting repayments etc.). The responsibilities of city's MCs are mainly to be in charge of communicating, disseminating of information through regular meetings at city level and fund raising. In reality, these functions remain unclear and the city's MCs of Hue and Quy Nhon have participated only passively in the process.

2. Two - level management structures: As mentioned above, in this type of management structure, the representatives of ward authorities become members in the city's management committee and the two bureaucratic levels are compressed into one. This management structure has been adopted in three cities: Can Tho, Hai Duong and Viet Tri.

The two systems have different characteristics in terms of roles, division of work and responsibilities and has resulted in disadvantages and advantages which are summarized in the following tables:

Table 5: Division of work and responsibilities employed by the two systems

Management Committee	Three-level management structure	Two-level management structure	Notes
City's MC	1. Communicating and disseminating information 2. Raising funds 3. Allocating funds	1. Communicating and disseminating information 2. Raising funds 3. Screening and approving a group's loan applications 4. Delivering loans to groups	Up to today, these first two functions are not being carried out
Ward's MC	1. Approving a group's credit applications 2. Delivering loans and collecting repayments from groups 3. Assisting groups in with administrative tasks	xxx	Assisting groups having difficulties with administrative procedures to connect or improve infrastructure systems (electricity, water supply, etc.)
Group's leaders	1. Forming savings groups. 2. Making group proposals for loans and submitting to the ward's MC 3. Delivering loans to and collecting repayment from group members	1. Forming savings groups. 2. Making group proposals for loans and submitting to the ward's MC 3. Delivering loans to and collecting repayment from group members	-In Quy Nhon, group leaders receive and repay group's loans at the ward's MC. - In Can Tho, group leaders receive and repay group's loans at the bank, through the bank account of the city's MC.

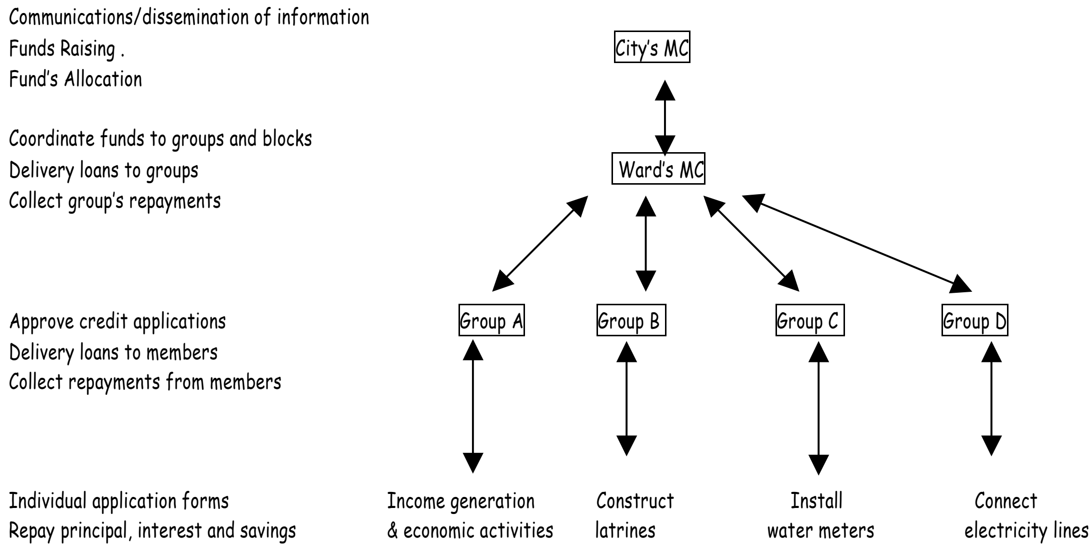
Table 6: Organization Structures and division of human resources

Management Committee	Three-level management structure	Two-level management structure	Notes
City's MC	-Chairman of the city (1) -City's expert (1 person) -Ward leaders and mass organization reps (3)	-Chairman of the city (1) -Chairman of the wards (2) -Block leaders (4).	In general, all members of the city's MCs seem not to be functioning actively, except in their role of processing loan applications in Can Tho, Hai Duong and Viet Tri. Often, only one or two persons are assigned to look after these tasks.
Ward's MC	-Chairman of the ward (1) -The ward Women Union (1) -Community leaders (2)	None	
Group's leaders	-Two persons per group (block leaders or cell's leaders (To Dan Pho)	Two or three persons per group (accountant, cashier and secretary); they are often cell's leaders or leaders of women's groups	

Table 7: Some advantages and disadvantages of the two systems

	3-level management structure	**2-level management structure**
Advantages	• Disbursement of loans is timely. • Credit and finance transactions are more convenient for groups. • Responds better the diverse needs of communities and gives adequate support • Funds are revolved more quickly for extension activities in one locality. So the number of beneficiaries is larger(950 households got loans in Quy Nhon while only 280 households got loans in Can Tho)	• Influences better the city-level policies related to community-based activities, since the city leaders are regularly provided updated information from groups. • Have a better opportunity to replicate this approach to other communities and wards within their respective cities.
Disadvantages	• Have little impact on city-level policies and programmes, since the reporting to the city's MC tends to be irregular and leaders pay less attention to the process. • More difficult to expand activities and replicate the approach to other communities and wards.	• Disbursement of loans is slow. • More complicated for groups to get loans because of the banking procedures and the location of banks and office distant from communities. • Ward authorities can be more troublesome as they are less active. • Extension activities are encouraged slowly and funds are revolved tardily, resulted in reduced numbers of beneficiaries.

Three-level Structure and divisions of responsibility
(Management Structure of CDF in Quy Nhon city)



7.1.4 Assessment of the Community Development Funds at city level

- Each of the two CDF management structures have strong points and weaknesses. Moreover, the effectiveness of CDF activities under both structures varies according to the human resources and capacity of the city and ward level actors. For example, Hue and Quy Nhon have both employed the three-level management structure and funds are directly managed by the ward's CDFs. However, the results achieved in the two cities have been very different. In Quy Nhon, the ward's CDFs have made use of the revolving funds to meet the diverse needs of communities such as installing electric lines and water supply systems, building small bridges and roads in communities, constructing household' latrines and initiating income generation projects. In Hue, groups are only implementing only two conventional types of activities: road upgrading and income generation - the two activities most often implemented under most local government's programmes. So it's not surprising that in Hue the loans for upgrading roads are no longer being given because of non-repayment of earlier road-building loans. No exact figures about the default rates of CDF are available in Hue city's report.
- The two-level structure adopted by Can Tho, Hai Duong and Viet Tri cities aims at enabling community groups t access the CDF easily and quickly, so that loans should be provided in timely and convenient ways. The paper work should be kept to a minimum and loan applications should be quickly processed. These objectives, however, have not been achieved in the three cities. In Can Tho, it has taken more than a month to complete the process of group's credit applications, because of the complicated paper work groups have to complete. Keep in mind that the VBP's cumbersome application process is often blamed for the slow decision-making process on loan applications, which generally take about ten or fifteen days, and sometimes more than a month. In Viet Tri, according to the city's report, the city's MC needs one week to make decisions once the application papers have been received. It should be emphasized that one of the important problems that often delays disbursement of loans in the semi-formal credit systems is the infrequent and irregular meetings of the management committees, who must make decisions on loan applications. In this respect, the

quarterly meetings set out in the regulations of the city's MCs in Viet Tri and Hai Duong would become a problem, if there is no exceptional meetings for loan applications .

- One of the keys to the success of any community development process is that it should have some impact on city policies and should be able to scale up to at least a city-wide scale. In comparison to other community-based projects supported by international NGOs since the early 1990s, the CDFs' have several advantages: linking the CDFs with the city's People's Committees enhances the legal status of community-based savings and credit groups and opens innovative and legal ("formal") ways for poor communities to become the key actors in their own development process. In the CDF approach, they are no longer considered as merely beneficiaries. There is still a need to strengthen the city's leaders confidence in CDF structures and activities, compared with other existing governmental programmes for poverty alleviation. After only one year of implementation, it is too early to assess the impact of these five CDFs on urban poverty alleviation. However, some strong points can be seen in comparing the national program with the CDF, as summarized in the table below :

7.1.5 Comparison table of the two microcredit programmes – the national and the CDF

Table 8: Comparison table of the two microcredit programmes – the national and the CDF

	HEPR's microcredit	**CDF microcredit**
1. Target groups and beneficiaries	- Must conform strictly with the criteria and standards defined by MOLISA. - Identified through surveys conducted by local authorities, not by people	- Chosen by community's groups - Include the larger number of the poor households are on threshold of poverty, but not on the official lists
2. Procedures and process of credit application	- Depend on budget allocations planned by the hierarchical system, from central government, provinces, cities, wards, and then blocks - Procedures regulated by the banks and administration offices - Process of making decisions on loan applications takes from 10-30 days - Credit applications are only processed on an individual basis; no group applications	- CDF and cities directly manage the funds or allocate them to wards. - Procedures are set out by the city' or the ward's MCs so that community groups access quickly, easily and conveniently - Decision-making process depends on the city and ward's MC, and seems to work more quickly at ward level. - Group applications are encouraged
3. Purpose of Loans	- Mainly for economic development, production, business activities, household income generation - Not for infrastructure improvements in urban areas (only for poor rural communities as defined by MOLISA criteria). - Other household's needs are strictly rationed out (like emergency consumption; informal debts)	- For multiple and diverse needs of community groups - Support priority needs of poor communities for infrastructure improvements. - Depends on the MC of the CDF, loans may satisfy emergency or consumption and may even be used to repay high interest informal debts (as in District 2, HCMC)

	HEPR's microcredit	CDF microcredit
4. Savings mobilization	- Savings are not encouraged or required. - Depends on the intention of the local Women's Union and the interests of each joint-liability group.	- Formation of savings groups is a precondition to get loans. - Promotes a network of savings groups within communities
5. Disbursement of loans and collection of repayments	- Loans are provided on individual basis. - Monthly repayments are common policy for collecting in joint-liability groups - For individuals, monthly interest only is paid, and principal collected at the end of loan terms (i.e. after 1-2 years)	- Encourages all group's activities: disbursement of loans, repayments and savings. - Depends on local MCs of CDFs, but for self-managed groups, the financial capacity of households is highly respected so repayment process vary on daily or weekly or monthly basis
6. Interest rates and use of the interest funds	- Conforms with state and bank policies – interest rates kept unrealistically low at 0.5% per month - Have state bank's subsidy to cover entire costs and risks - the VBP makes decisions entirely to make use interest funds as giving monthly allowances for the local WU's supervision and group's leaders alike, etc.	- More flexible, depends on local situations, setting rates not lower than the VBP's interest rates, but not higher than local commercial lending rates, ranging from 0.5% to 1% per month - Interest funds divided into 2 or 3 parts: Groups, ward's MCs and city's MCs. At the city level, they may be used to develop the CDF (in Viet Tri city)
6. Group and network activities	- The set-up of the joint-liability groups emphasizes providing loans and peer pressure for repayment, so group's activities are limited and groups are isolated from other community groups.	- Promote different group's activities - Facilitate a network of groups within a community, a city and between different cities, through horizontal exchanges

With the respect to community participation and development, the table above shows that the CDFs have substantial advantages over the existing national programme for poverty reduction. However, there are still several institutional constraints which may impact negatively on the long-term sustainability of CDFs at the city level. These constraints are described below :

1. Difficulties in linking CDFs to other city programmes: Most of the city leaders involved in the CDF process agree that one of the most important roles of the city's MC is to advocate for the CDFs. But this task of advocacy seems to be understood only as broadcasting and disseminating information about CDFs to the public and to other communities. In fact, this advocacy role needs also to influence existing city policies and programmes to mobilize their own forces and combine different resources to replicate the CDF approach and achieve its ultimate goal of self-help community development at a larger city scale. For the time being, there is no link between the CDF process and these other city programmes, and the existence of this gap reduced the CDF's effectiveness in supporting poor households.

2. Problems of limited funds in the CDFs: All the five cities have complained that the funds in their CDFs are too limited to expand their activities into other communities. As a result, in all five cities, no new communities are participating in the network and the funds have remained in the same 14 pilot project sites during the last two years. The total funds of the Five Cities Project supported by the UNDP in two stages are US$ 70,000, of which part has been used by the cities as grants for infrastructure construction in communities during the project's first stage. While all five cities originally received the same amount of funds, each city has made use of the funds in different ways. To some extent, it could be said that the different amount of money which now exists in the various cities' CDFs reflects how much the local authorities have taken an interest in the CDF approach and how the CDFs have been managed at different levels. There are no exact figures on the total capital in the CDFs in Hue and Hai Duong, but it is assumed that the funds in both cities are no bigger that in Quy Nhon, a leading city for the CDF's total amount by far.

3. Problems of adding counterpart funds to CDFs from municipal budgets: In addition to the amount originally funded by the UNDP, the authorities in the five cities promised to add to the CDFs from their own municipal budgets as "counterpart" funds. The idea is that by contributing to the CDFs, these cities are showing their political willingness and commitment to sustain and develop community -based activities. So far, however, only Hai Duong city has followed through on this promise and contributed 20 million VN Dong (US$ 1,430). The other four cities have so far contributed no funds to the CDFs. Some of the difficulties these cities are having in investing municipal funds in the CDFs are caused by existing government policies and budgetary laws which strictly control all expenses of city authorities under yearly allocations, and forbid to transfer the governmental budgets into any project which involved "investments". And to a certain extent, because they extend loans to poor communities and collect interest, the CDFs could be seen as a special kind of financial investment, even though there are no "profits" as such. So the result is that the CDFs are considered a kind of outlaw activity, which the participating cities are forbidden to invest in. Therefore, to contribute their counterpart funds into the CDFs, the cities would have to use some kind of "informal" solution. One city leader explained that taking some funds from the municipal budget line for "receptions and meetings" is one of these 'informal' solutions, and using those funds to offset the food and accommodation expenses involved in inter-city exchange visits, which are an important part of the 5 Cities network process. Given this difficult situation, it is difficult to encourage the cities to commit themselves to mobilize their own local resources to sustain the CDFs and their activities.

4. Problems of loosening the system to obtain government support for the CDF process: It is important that city authorities and the 5 cities network push for reforms in the existing governmental policies and programmes for urban poor communities, especially for the national programme, to integrate these kinds of community-driven development initiatives and to open the ways for urban poor communities to participate more actively so that urban poverty would be tackled more efficiently at a national scale. To do this, two things are necessary :

(i) Loans should not be given only on an individual basis, but should be given as a package to urban poor groups or communities and allow them to make use the funds according to their needs and to manage their dispersal and repayment.

(ii) Loans should not be reserved only for purposes of economic development or income generation. Instead, a variety of loan options should be designed and made available to poor community groups, particularly loans for community-based infrastructure improvements. If they didn't offer loans with this kind of flexibility and for these multiple purposes, the five CDFs would not have grown beyond the stage of "pilot project" and would only have survived so long as international support kept them going, as is the case with most development projects supported by international NGOs. In this

respect, it must be emphasized that international donors such as the World Bank and the Asian Development Bank exert a powerful influence on changing city policies and approaches. Amongst the eight participating cities (expanded from the original five!), Can Tho (with support from the World Bank) and Da Nang (with support from the ADB) have a great opportunity to support these CDF's activities. But their success very much depends on the cities' willingness and capacity to be able to integrate the CDF strategy into their programmes and to support it with municipal and state resources.

5. Problems of lack of human resources to support the CDF process: A shortage of human resources has been a problem experienced by all the five cities' MCs. All the members of the city MCs work on part-time basis, and their understanding of the CDF's progress can only come through contact and discussion with the members in regular meetings. In practice, however, these city-level meetings happen only rarely. Infrequent or irregular meetings may create two problems for the CDF's activities:

(i) **Delays in loan approvals:** Loan applications invariably take longer to be approved if the city MCs are not meeting regularly to consider applications and transact their CDF work. In Viet tri and Hai Duong, no person has yet been assigned to assist groups with all the procedures involved in applying for loans, while in Can Tho, there is only one member of the city's MCs who's been given the very big task of helping all the community groups in the city to complete their paper work. The process of credit applications relies heavily on this one person's time, commitment and capacity. In Can Tho, it takes more than one month for group's applications to be processed due to the MC's complicated procedures. Some feel such unnecessarily complicated procedures have been initiated by "professional experts" and city facilitators, during the implementation of the preparatory phase, who brought the culture of formal banking bureaucracy along with them.

(ii) **Dwindling interest and support from the local government:** Irregular and infrequent meetings of the city MCs can also cause the city authorities to loose interest in the process of community participation in general. Without the consistent involvement and enthusiasm of the city government partners in the process, the CDFs could fall into the "only another pilot project" trap and fail to expand into other communities or to scale-up. This is a danger that exists especially in Hue and Quy Nhon, where the CDFs have been managed directly at the ward levels, and the responsibilities of city MCs remains so limited that they have reportedly become "impassive and sleepy" during the last year.

7.2 Community development funds at ward level

Community development funds which operate at ward level have been in operation for a longer time than the CDFs at city level. Since the mid 1990s, many CDFs have been initiated as part of a variety of community-based development projects supported by international NGOs, in which ward-level authorities were the official local partners and were given the task of directly managing the funds for different project activities. Within the project framework of these initiatives, management committees (MCs) or Social Work Boards (SWBs) were set up to promote community participation and reinforce community-based activities. In many of these projects, community leaders were required to be the members of these MCs or SWBs and had to work closely and efficiently with community groups. In these ways, ward-level MCs were set up in several of the eight participating cities and are described below:

- As part of the *Support for Five Provincial Cities Project*, two of the city MCs decided to set up ward-level management committees (WMCs) for the CDFs, to which the project funds were directly transferred. In Quy Nhon, two WMCs were set up in Hai Cang Ward and Le Hong Phong Ward. In Hue, four WMCs were set up in Vy Da, Kim Long, Phu Binh and Xuan Phu wards.

- In Ho Chi Minh City, District 2 manages only a fund for long-term housing loans. Social Work Committees in three wards (An Khanh, Binh Khanh and Binh Trung Dong) manage all other activities and funds, as supported by Enda Vietnam.
- In Da Nang, the city's Women Union also manages a fund for long-term housing loans. The MCs of 16 wards manage funds for specific activities based on agreements within each ward's MC such as infrastructure improvements, latrine construction or income generation.

Unlike the wards involved in the urban community-based projects in Ho Chi Minh City and Da Nang, the ward authorities involved in the Support for Five Provincial Cities project tend to play a somewhat passive role. Two exceptions to this are the Hai Cang and Le Hong Phong wards in Quy Nhon, where the ward authorities have participated actively in the city MCs and directly managed the CDFs at the same time. These ward authorities have played a leading role in the whole process of the CDF's activities in Quy Nhon. In these two instances, the wards have made very effective use of the CDFs to expand activities within their locality, especially for infrastructure upgrading activities.

In cities which have applied the two-level management structure (Can Tho, Hai Duong, and Viet Tri), the role of ward MCs has been diminished and ward authorities are instead intended to be members of the city-level MCs. In these cities, all the groups' credit applications are processed by the city-level MCs, which also take care of loan disbursement and repayments. Community's groups are supposed contact their city's MCs directly, without going through any ward-level structure. As a result, the ward authorities have more-less abandoned their groups' activities. According to a report prepared by the city facilitators, the ward authorities seem to like this structure because it gives them no responsibility to follow groups' activities! This kind of alienation of the ward authorities could lead to serious problems for the CDF process. In Can Tho City's Xuan Khanh Ward, for example, while cumbersome application procedures have so seriously discouraged community groups from participating that only one group remains, a lack of the commitment from the ward authorities has even further eroded the possibility of CDF activities expanding within the ward. There is still an enormous need for activities like latrine construction and income generation in the ward, but the number of beneficiaries of CDF loans for these purposes remain very small. Only 55 households took CDF loans in Xuan Khanh Ward during the last two years, while at least 900 households still have no in-house latrines.

In Vietnam, ward authorities are the lowest level of state administration system. Because they have daily contact with community people, the ward authorities seem to be ideally placed to understand the particular and diverse needs of poor households and poor communities within their wards, and they are supposed to be responsible for all community work. But ward cadres are often burdened with massive amounts of paperwork and daily assignments from offices in the upper administrative levels. Those who have experience working with them know that there is some truth in the complaint frequently heard from ward officials, that their problems "come from above and below at the same time", and that they begin to feel like "a drainage ditch".

At present, most ward authorities are managing a variety of credit programmes initiated by NGOs or various other actors. As has already been discussed, these credit programmes tend to focus on very specific problems or target groups and come with all sorts of different approaches and regulations. Many of these credit programmes have also been assigned to various mass organizations, according to which groups they target or which purposes they extend loans for.

Most of the existing credit programmes are designed to give loans for economic development and income generation, and at the ward-level, the Women Unions are still the most actively involved in facilitating these loan programmes.

Most CDFs operating at ward level have either been handed over entirely to ward-level Women's Unions to use for extending income generation loans (as in some wards of Hue), or have been divided into two parts: a small part being given to the ward's WU for income generation loans and another part (usually the larger amount) being reserved for infrastructure improvement loans managed directly by the ward-level MCs (i.e. ward's authorities). It should be emphasized that the ward-level MCs have made very effective use of these revolving funds (which have expanded fairly quickly) for upgrading community infrastructure in other communities within the ward areas. These CDFs, however, have not been intended to meet the diverse needs of communities and households since the ward authorities have set out rules which allow them to be used only for financing infrastructure projects. When groups have completed these projects, they must repay the funds to the ward-level MCs. The Hai Cang Ward, for example, expects to return the loan funds to the Quy Nhon City at the end of 2003, having accomplished a variety of infrastructure upgrading projects and fulfilling the responsibilities of ward-level MC. As an example of the effectiveness of ward-level CDFs, this model has some serious limitations:

(i) The varying needs of poor communities and households in the ward (other than those needs specifically targeted by the loan programme) are not addressed in any way by the CDF process.

(ii) Community-based savings and credit groups established during the implementation of these infrastructure upgrading projects are generally dissolved as soon as the projects are complete, even though the savings activities might have been running very well. In this way, all the effort and innovation that went into starting these savings groups, bringing people together to undertake communal activities and promoting participation in the community are thrown away. Needless to say, in this approach, the value of community-based savings and credit activities hasn't been fully understood at either city or ward levels. This short-sightedness creates obstacles not only for the CDFs in all five secondary cities, but also for most state poverty alleviation programmes, which are in great need of reform.

8 The Necessity for linkages between community-based savings and credit groups and CDFs

8.1 Interaction between community-based savings and credit groups in project areas

In the past decade, community-based savings and credit groups in various forms have spread fairly quickly in urban communities in Vietnam. At present, there are four types of savings and credit groups:

(i) Rotating fund groups
(ii) "Savings for Spring" groups
(iii) Women's savings and credit groups
(iv) Project-based savings and credit groups

Each type of savings and credit group has its own objectives, activities, management structure and targeted membership. In urban communities, these groups tend to be established in fairly flexible ways which allow community people to participate in more than one type of group at the same time. The first two types of savings group are based on traditional systems of communal savings and have been initiated in many communities long before the second two types were introduced through credit programmes supported by external resources (state programmes or international NGOs). In the first two types of savings group, the group tend to include a mixture of poor and better off members who join the groups voluntarily. The second two types of savings group are usually made up of mostly poor members, since members are selected according to the regulations of a specific project of to the Women's Union's programme criteria, which often target poor households. The last two types of savings group could also be considered as "semi-formal" credit groups under the auspices of VWU as discussed in the above section. A lack of exact information makes it difficult to classify these savings groups as semi-formal or informal groups. Since the early 1990s, with support from international NGOs, local authorities and WUs have been encouraged to reinforce community initiatives in which traditional savings groups are a component of the project, and these traditional savings groups have been seen as a valuable tool for realizing the potential which is in community groups. As a result of this emphasis, project-based savings groups and women's savings groups have tended to be integrated and interwoven with the more traditional forms savings groups in many development initiatives.

According to reports from the eight participating cities, all five southern cities (Hue, Da Nang, Quy Nhon, Can Tho and Ho Chi Minh City) have savings groups from all four types of group. In the three northern cities (Hai Duong, Viet Tri and Vinh) there appear to be only savings groups of the last two types (only women's savings groups and project-based savings groups - VIE97/008 project). It is assumed that the women's savings and credit groups reported in Viet Tri (340 groups) and Hai Duong (337 groups) include the traditional savings groups, since they haven't been counted and reported separately. Given limited information and time, these city reports may not include all the traditional savings groups operating in the city, since there is still a lack of a participatory survey process in most Vietnamese urban communities.

The two main features which characterize the last two types of savings and credit group are :

(i) Group members usually have the same credit needs, in accordance with the objectives and activities set out by the specific project or national programme the savings process is a part of. Loans are given most commonly for income generation and infrastructure improvements.

(ii) Compulsory savings are set for group members at fixed amounts and follow the same (often monthly) savings process.

These two features have affected the sustainability of the last two types of savings groups and have been blamed for the ease with which savings groups under these systems are dissolved after projects have ended, most lasting less than a year. This doesn't compare well with the traditional savings groups, many of which are sustained for many years, even without any external support. It is interesting to observe the interaction of community people among the various existing savings and credit groups in the participating cities. For example, in Quy Nhon and Can Tho, it has been reported that in the project-based savings and credit groups, members have used two parallel processes for their savings, in which the processes set out by the CDFs are considered temporary, and once the project-based groups have been dissolved, members still remain together and continue to save an lend communally using their own traditional "Savings for Spring" process.

8.2 Some comparative characteristics of CDF's credits and credits of Savings for Spring

Table 9: A case study in District 2, Ho Chi Minh City

	Savings for Spring	CDFs (at ward level)
1. Loan terms and disbursement	Maximum of 8 months repayment term. Loans are disbursed only in the middle months of the year. Loans are not available in the first two or the last two months of the year.	Maximum repayment term of 24 months. Loan activities are not curtailed. Disbursement of loans takes place constantly.
2. Average amount of loans	Less than 1 million VN Dong	More than 4 million VN Dong
3. Purposes of loans	Emergencies, individual consumption and daily urgent needs like school fees, hospital fees, illness, accidents, funerals. Also economic improvements and income generation activities at a small scale	Meet needs of both communities and individual households. Infrastructure improvements, production activities at a large scale (like investment in equipment), housing repair, etc. Also to satisfy diverse needs of poor households such as repaying high-interest loans to money lenders.
4. Interest rates	2% per month, or zero % (in cases where loan amounts are smaller than savings, applied in some groups but not all). Also, no interest charged in cases of loans for illness, accidents and funerals.	0.5 - 1% per month
5. Procedures and process of credit applications	Simple, quick and timely (available even at night). In groups, there is no paper work.	More complicated in procedures and longer time for application. Some paper work with application forms, group approval and meeting notes, MC's ward authorization (i.e. need to wait for regular meetings and other members, groups), loan contracts and money transaction records.
6. Target groups	All community people (even community outsiders) can participate in savings activities. All savings members can receive loans, depending to their savings amounts (equivalent or lower).	There are some conditions to be group members, such as participation in group meetings or activities or capacity to repay loans.
7. Formation of groups	The number of members in a group is not limited and is often numerous (up to 50 – 100 people). The life-cycle of groups is one year, but most groups restart early the next year. Members and activities are united and sustained for years.	The number of members in a group is limited, often not more than 15 persons. Group members have same loan needs, follow same activities. Groups are easily dissolved after finishing project's activities. (often not more than a year)
8. Savings	People save voluntarily any amount. Savings amounts vary from member to member. Process of saving is decided by group members, depending on their individual earning patterns: daily and weekly savings and repayments are popular.	Compulsory savings with amounts and process regulated and the same for all group members. Monthly savings and repayments are commonly applied in groups.

8.3 How to link the CDFs and community-based savings and credit groups?

There is problem which recurs in most of the cities where "Savings for Spring" groups have spread quickly but where their activities have been separate from the project-based savings and credit groups. In only Da Nang and District 2 in Ho Chi Minh city, the design of project's objectives and activities sought to combine the external support of the project with existing community groups from the beginning. Therefore in these two cases, there are some linkages between the groups established for project's activities and the traditional savings groups in communities or community-based savings and credit groups. The experiences in these projects has shown that there is a need for change from both sides: from the side of the projects with external support and from the side of the community groups with traditional forms of savings and credit. In addition to critical changes in project design and project approach to working with poor communities, the community groups also need to be encouraged to extend the group's savings activities, not only reserve the funds for individual expenses, but also collect communal resources and make efforts to meet a variety of community needs such as infrastructure and welfare services. In reality, however, there are still some constraints which need to be addressed:

1. The differences in the source of the financial resources (where the money comes from) have a substantial impact on the entire management mechanism of these groups, which often strictly set out their own objectives, targeted beneficiaries, working methods and approaches. Most of the city level CDFs, supported by various external financial resources, have separately fabricated their own management mechanisms and groups, which are often copied from formal structures (blocks, cells or To Dan Pho). Under the umbrella of the ward authorities, these groups are formalized and labelled as "semi-formal" groups. As a result, the community-based savings and credits groups and other informal groups alike have often been set to one side.

2. In the Vietnam context, it is stated that on the one side, the existing informal groups in urban communities have often been disregarded because of the rigidity of formal structures in communities. On the other side, the fact that the community-based savings and credits groups are fragmented and their activities are limited to individual interests, makes it difficult to support the communal need of groups or the community as an entity. In view of local authorities, the groups of Savings for Spring are spontaneous activities to satisfy the urgent needs of households. They have not been encouraged to be linked together, nor supported to develop more integrated activities amongst themselves.

3. A real process of participatory community development requires not only innovative structures but also new capacity and practical skills for city's stakeholders at all levels how to bridge formal financial systems and informal ones; how to combine the two forces of community based savings and credit activities with an external source of credit so that poor communities and households become the owners of the process, not merely passive recipients. In this respect, there is a need of comprehensive strategy for urban poverty reduction and development, which requires an integration of the CDFs activities and existing governmental programmes.

4. To support a self-development process of urban poor communities, there is a need for networking at different levels that also requires an adequate facilitation. While in the higher levels (national and city) the networks of CDFs have been established, further support is still needed to strengthen the confidence and attention of city authorities. At the community

level, networks of community -based savings and credit groups are still a new development strategy in Vietnam and so a common capital fund which brings together savings capital of community's groups is a real challenge for the next step.

Capital Aid Fund for Employment of the Poor (CEP) and Enda Vietnam together held a workshop on Savings and Credit and Community Development hold in the middle of last December 2002 in Ho Chi Minh city. I the workshop a community leader of the Binh Trung Dong ward in District 2 suggested a way to link together the two credit systems of Savings for Spring and CDF. Since the suggestion is based on the practical experiences in managing the two credits systems at the community level, it is recommended to experiment with the suggestion. Therefore, Enda Vietnam is going to elaborate further on pilot activities in the Binh Trung Dong ward, District 2. The first step is to convince groups of Savings for Spring to build up a communal fund from individual savings of 30%. However, in addition to the financial arrangement, there is still a need for institutional arrangements to link together the community-based savings and credit groups with the CDFs. As discussed above, at the group level with proper facilitation it is essential to renovate the roles of group's leaders as key actors of the groups of Savings for Spring so that group's members should participate more in the process of making decisions. Some suggestions given by community facilitators follow:

1. Establish smaller groups or sub-groups of 5 to 7 members to replace the existing big groups.
2. Each member will contribute voluntarily their own savings to the CDF and they will be a shareholder of the CDF. Its aim is to increase the members' powers and rights to participate in making decision. In this respect, the initiation of the CDF's shareholders and the set up of the network of community-based savings groups could create a new legal financial structure - an Urban Community Financial/Savings Cooperative. This member-owned financial institution maybe stipulated under Cooperative Law similar to the set up of the network of People's Credit Fund (PCF) as discussed in the above section. But this network will focus more on the urban poor communities since the PCF's network has focused more on the rural areas to date.
3. Promote daily savings processes in groups in order to favor the poorest groups and at the same time to challenge the new ways in which all group members participate more actively, not only rely on their group's leaders.
4. Increase the CDF's interest rates from 1.5% - 2% per month to cover related costs and sustain the system.
5. External support should focus on experienced experts/consultant; training and experience exchanges. With regard to financial support, it should be in accordance with the local situation of each city, giving priority to those who have a lack of access to international sources (for example Quy Nhon city).
6. At the beginning, when the interest funds are still small, the costs of management and coordination within a city will require external support.

9 Conclusion

Viewing the historical development of savings and credit programmes in urban communities in Vietnam over the last decade, there is no denying that the state financial systems have significantly improved their ability to reach poor households. The national Hunger Eradication and Poverty Reduction (HEPR) and the Bank for the Poor (VBP) have spread over the country fairly quickly. However, with strict criteria for classification of eligible poor households and some constraints of credit's management, the effectiveness of the VBP is limited to some extent, such as; (i) the rate of poor households who can access VBP's loans is still low; (ii) there remains a gap between the capacity for repayment of the poorest groups and VBP's requirements. Moreover, the HERP has improved not only to meet individual needs, but also started to support the communal needs of poor communities as a whole. This support has been reserved only for poor communities in rural areas and considered as a state subsidy.

Besides the state systems, since the early 1990's, international non-government organizations (INGOs) have supported Vietnam's mass organizations to develop microcredit programmes and the formation of joint-liability groups for low-income people. The Vietnam's Women Union (VWU) is considered the most active nation wide. These semi-formal financial systems have played important roles to bridge the formal financial systems and the informal ones in poor communities. The savings and credit groups have become a popular approach applied in most all credit programmes. At the same time, the involvement of the VWU and the development of women's savings and credit groups help not only to improve the women's roles in the process of participation in general, but also to effectively integrate social aspects into urban poverty alleviation and community-based infrastructure improvements. However, in practice, there are two major problems of these semi-formal savings and credit groups:

(i) Women's savings and credits groups have only targeted the provision of credit either for economic development and generating incomes, or for specific programmes related household infrastructure components such as water supply, in-house latrines etc.

(ii) These project-based groups have often dissolved once project activities finished. In the long run, the women's savings and credit groups face challenges to meet the multiple and long- term needs of urban poor households such as housing repair and construction for those, who are faced with relocation and resettlement programmes.

Also in the last decade, with the promotion of community development in the cities in Vietnam, community-based savings and credit groups have been encouraged and replicated. On the one hand, the groups are mainly based on traditional forms of savings activities (rotating savings and credit or savings for Spring), but re-organized by local authorities and Women's Unions to implement some activities applying community development approaches. At the same time, local authorities still considered the community-based savings and credit groups as spontaneous activities of community people. In comparison to the semi-formal savings and credit groups, while the community-based groups which apply the traditional process of savings (like groups of Savings for Spring) have proved to be extremely popular, have a great sense of ownership and solidarity within poor communities, these groups are scattered, have no legal status and their activities are still based on individual interests of group members.

In Vietnam, the establishment of the city's Community Development Funds (CDFs) and its network in the five secondary cities have marked a great change in the implementation process of community-based development programmes in cities since the early of 1990s. However, after one year of implementation, it is clear that the approaches are still new for local authorities and communities. Still, it can be seen that, in comparison to the national approaches , the city's CDFs have some comparative advantages to reach the urban poor communities in terms of meeting their multiple and diverse needs, especially for infrastructure improvements and creating more opportunities for a self-help comprehensive development process of poor communities through its networking activities.

In practice, the CDF success depends very much on the genuine interests of local authorities (city and ward), who manage the CDFs and sustain its activities and approaches. The two systems of management of the CDFs at city level and ward level have both strong points and weaknesses, however overall the effectiveness of CDF activities vary in accordance with their human resources and capacity. Besides this, there are also some institutional constraints and a lack of practical skills that may be limiting the sustainability of the CDF network:

(a) at city level, there is a limited effort made by the CDF's Management Committees to influence national and city's policies, to integrate with the existing programmes, and to combine different resources to replicate the CDF's approaches and achieve its ultimate goals of self-help community development at a city wide scale
(b) the city's CDFs have still remained at a pilot project-based scale (at the 14 pilot wards) because of not only a lack of funds, but also a lack of human resources and capacity, which in fact have also restrained the whole CDF's initiatives
(c) at the ward level, it seems the funds have been revolved more efficiently to serve a number of poor households, but as with semi-formal savings and credit groups, they have been limited in using these funds for addressing more diverse needs of poor communities resulting in a lack of comprehensive community activities of savings and credit groups. It can be observed that in the 14 pilot wards, all related efforts made by the CDFs to promote innovative approaches and start up the process of community participation seem to be meaningless once the activities supported by the CDF finished.

Clearly, with these limits, local authorities consider that CDF's structures and its approaches have yet to prove their advantages compared with the other existing credit programmes. The experiences in District 2, in Ho Chi Minh city and in Da Nang city show how to link community-based savings and credit groups combine effectively with external credit sources supported through the CDFs at ward levels. Their experiences also show that there is a need for proper facilitation to encourage changes in the existing community-based savings and credit groups using traditional forms of savings such as Savings for Spring toward a comprehensive development programme and long –term needs of urban poor communities such as housing and resettlement.

Experiences in other Asian countries illustrate how networks of community –based savings and credit groups that bring together and build up communal funds are not only to provide a learning process, but also to enhance a stronger status, a legitimacy for poor communities to negotiate with the external support and credit resources. However, in the Vietnam context, it maybe difficult to create a new legal status under the rigidity of formal structure in communities. Therefore, drawing on experiences in the establishment of the People's Credit Fund network (PCF), it is suggested that networks of community-based savings and credit groups could be institutionalized under Vietnam's Cooperative Law. Such a legitimate status like Community Savings Cooperatives could change the roles of poor communities from passive beneficiaries/recipients to become active actors/owners of a real process of self-help comprehensive development.

Annex 1: Some Features of Community Development Funds in 8 cities

	Viet Tri	Hai Duong	Vinh	Hue	Da Nang	Quy Nhon	Can Tho	District 2 / HCMC
Started	2000	2000	2002	2000	1999	2000	2000	Naêm 1999
Total capital in Funds (in million VN Dong)	210.440					234.065	174.738	385.000
Source of capital	UNDP + city's budget+ 15% interest fund	UNDP	Habitat		Enda	UNDP	UNDP	Enda
Purpose of Loans	Economic development, environment improvements; infrastructures	Job creation ; small business ; production activities ; environment improvements		Economic development, environment improvements; infrastructure	According to community's initiatives and diverse needs of poor women and communities	Economic development, environment improvements; infrastructure upgrading (bridge, roads, electricity, water supply…	Economic development, environment improvements (in-house latrines); infrastructure	According to community's priorities and plans.
Interest rates	0,5% – 1%	0,5%				0,1% (for ward's CDFs) 0,6% (for members)		0,6% - 1%
Loan disbursed	265.620	72.000	102.000			162.200	680.000	
Beneficiaries	307	41				949	282	
Number of Group	11						7	