Curriculum for Savings and credit group officers

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Forewords

This training material on RFS for savings and credit group officers of MRDP is developed basing on experience and practices of MRDP through operation since 1993 combined with those of other credit institutions and program in use in Vietnam.

The purpose of this material is to enhance capacity of Credit officers and S&C group officers to manage savings and credit activities more efficiently in the years to come and in the long run.

End result of MRDP-FRS:

1. “A range of alternative models for the provision of financial services in upland areas designed and tested in accordance with the legal and institutional framework of the government and fully evaluated.

2. Funds provided to facilitate the development of the above models for RFS in upland areas and to enable farmers and villages participating in the program to implement their land use and development plans.

3. Capacity in the management, utilization and monitoring of rural financial services strengthened at all levels.

To achieve such goals, MRDP is providing not only loan fund for the beneficiaries but also technical assistance for them to get used to market economy and banking services.

This material is the first so ever designed within MRDP so shortcomings are unavoidable that we, the designers, would like to get your comments.

Alan Johnson and Nguyen Quang Khai - MRDP Rural finance advisors

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Module 1: Introduction to MRDP

The strategy for savings and credit

Background

The Viet Nam Sweden Mountain Rural Development Programme (MRDP) supports a range of activities in areas such as agriculture, forestry, business development, gender balance, communication, rural finance and training. The MRDP builds on the experiences and achievements of a long cooperation between Vietnam and Sweden in the area of rural development and forestry. The programme covers the five Northern provinces of Lao Cai, Ha Giang, Yen Bai, Tuyen Quang and Phu Tho as well as supporting capacity development at the Ministry of Agriculture and Rural Development (MARD) in Hanoi. In the area of rural finance, MRDP provides support and credit funds to village-based savings and credit (S&C) groups through the extension service of the provincial departments of agriculture (DARD) in the five programme provinces.

The underlying principle of the MRDP is that people are willing and capable of taking responsibility for their own development, if given the opportunities. Thus, the starting point of the MRDP is what the villagers in the project area themselves want to create and develop in their environment.

Why do we support small-scale rural lending and savings (microfinance) services?
### Powerful
- Lending and savings services are one of the most important and powerful tools in the poverty elimination toolkit.
- Access to small loans provides the working poor with the means to make use of opportunities to improve their incomes.
- Access to savings facilities allow a wider range of poor families to stabilise their households, building up household equity and a valuable cushion against seasonal production shortages and unforeseen crises.

### Potentially sustainable with wide outreach
- If the lending and savings services system is sustainable, then many people can be reached at relatively low cost.
- To achieve sustainability, microfinance schemes must be carefully designed and managed.
- For microfinance to be successful on a large scale, there must be effective mobilization of voluntary savings which are then lent out (and recovered from) borrowers, with a spread between lending and savings interest rates that enables institutional viability.

### Large unmet demand for microfinance services
- Lending and savings services are poorly developed in rural Viet Nam.
- An estimated 70% of lending and savings services in Viet Nam are provided by the informal sector, particularly in the rural areas where most of the poor live and where the outreach of the formal banking sector remains most limited.
- Government and donor resources are insufficient to meet this demand.

### Lessons have been learnt
- There is now a growing consensus around “international good practice” in microfinance.
- The well-documented experience of numerous credit schemes since the 1960s indicates that a subsidised approach to credit typically results in large loan losses and low savings mobilisation. Moreover, if credit is subsidised and therefore desirable, such programmes have tended to both encourage corruption and reach the local elite rather than the poor.
1. The “Vision” for rural lending and savings services

“Vision”: long-term ambition that may not be attainable in the project period but which provides direction for project activities.

The vision:

“The Local access to efficient and sustainable savings and loans services though a village-based savings and credit institution, enabling lasting improvements in the lives of the working poor in upland communities.”

The terms used in the vision have been carefully selected to reflect different aspects of the programme.

“Local access” is emphasised because of the unique difficulties of the programme area, where villages may be widely spread across difficult mountainous terrain. Thus, to effectively meet the demands of poor farmers, lending and savings services should ideally be available at the village level. If the farmer has to make a number of long journeys to a distant district centre to apply for and obtain a loan or to deposit savings then his or her total transactions costs may well be prohibitively high.

“Efficient and sustainable” lending and savings services are emphasised to demonstrate that the programme supports the development of services that will be able to continue from their own self-generated resources after the end of the programme period, rather than services which are based on external subsidies. The services should also be good value for money or cost-effective in their operation.

The sustainability test

In order to assess whether sustainability is achieved or not, a simple question will be answered.

“Can the village savings and credit groups continue to function both legally and financially after the project finishes in the year 2000?”

The village-based savings and credit institution (VSCI) would be formed from the conversion of an S&C group after a number of years of successful operation, the training and certification of the group officers and the building up of group equity. The VSCI would be able to fully cover its costs and would be registered, and have its own legal “personality”. The VSCI would have a small number of professional staff, drawn from the local community, who would have been fully trained in S&C management. The staff of the Village institution would have the authority to approve loans of up to a certain size, which would enable a rapid response to local demand for loan funds. The VSCI would also offer a range of convenient local deposit taking services.
Each VSCI would be treated as a separate cost and profit centre fully covering the costs of its own operations. On the basis of its legal status, equity base and management capability, the VSCI would be able to obtain loan funds from the banking system to supplement locally mobilised savings when necessary to meet local demand.

Lending and savings services are not ends in themselves, but are a means to an end. Access to credit allows borrowers to take advantage of economic opportunities “enabling” them to increase their incomes and, over time, to escape from poverty. In the context of MRDP, some of these economic opportunities will be presented through other interventions in extension services and business development. Similarly access to savings facilities may “enable” the poor to protect their families by building up a cushion against unforeseen crises such as poor harvests and ill health.

It is envisaged that access to sustainable lending and savings services will bring “lasting improvements” to people’s lives rather than “one-time” benefits.

The “working poor” are poor households with productive capacity. The working poor are specified as the target group to demonstrate that lending and savings services are not a suitable intervention for all poverty groups. There are some members of the poor for whom credit is not suitable as it leaves them with excessive debt beyond their capacity to repay.

**Sustainability**

As sustainability is such an important part of the vision and the desired End Results of MRDP it is worth considering in some more detail what sustainability actually means in the context of savings and credit. There are three main dimensions:

1. **Financial sustainability** for the loan fund requires that the income derived from interest charged on loans is sufficient to cover:

   - inflation or the costs of mobilising funds,
   - administration costs; and
   - an allowance for the risks of non-repaid loans.

   In the longer term, the loan fund would be financed from locally mobilised savings.

2. **Institutional sustainability** refers to the professional administration of loan funds within a sound legal financial institution or framework. We hope that within the framework of the group growth path (see below), groups at levels 2 and 3 will be able to obtain legal recognition.
3. **Environmental sustainability** implies that the activities financed by the loans preserve the ecological balance and do not erode the natural resource base of the area.

**Towards financial sustainability**

As an example we can attempt to calculate what a sustainable interest rate would be to preserve the loan funds and ensure that operating costs are covered.

Our example uses the following assumptions:

![Components of a sustainable interest rate](chart)

(a) inflation is around 10% per year,

(b) annual operating costs are equivalent to around 6% of the value of loans outstanding

(c) a suitable risk allowance is equivalent to 4% of the value of loans outstanding.

The addition of these three aspects implies a monthly interest rate of 1.67% (see figure) or an annual rate of 20%.

### 2. Desired End Result

- **20 village-based savings and credit groups have reached “level 2” according to the criteria that define the group growth path in the S&C regulations.**

How can we measure progress towards the “End Results” and how do we know when they have been reached?

The development of the MRDP supported S&C groups will be tracked through the data supplied in the relevant annex of the MILS system. The quantitative data provided and the use of measurable indicators will enable the monitoring of the groups progress towards the objective of sustainability. More specifically it will be possible to
Current Reality

Based on MILS data for 1997, there are 10 200 members of MRDP supported S&C groups in 311 villages in the five province projects. Total loans outstanding reached VND 9.9 billion while savings were VND 507 million.

The average number of clients per village is 33. There is a large variation between provinces from 85 persons per village in Tuyen Quang to 13 in Phu Tho.

Lending. The average loan funds per village were VND 32 million, with a range of VND 51 million in Ha Giang to VND 13 million in Phu Tho. Average loans per client ranged from VND 737 000 in Tuyen Quang to 1.4 million in Ha Giang.

Savings. Average savings per village reached VND 1.6 million, with the average individual savings balance only VND 49 000. However, the average savings in Yen Bai (VND 5.7 million per village; VND 121 000 per client) are well above the programme average.

Features of the S&C groups:

- formally registered with the commune people’s committee (CPC);
- responsible for the development, approval and implementation of their own “by-laws”;

record how many groups achieve level 2, which requires the meeting of seven “management quality” criteria.
• joint liability amongst group members. Mutual responsibility will provide a substitute for collateral when obtaining loans from MRDP.

• initial and regular savings required from members;

• 30-60 members in order to cover the operating expenses of the S&C group;

• made up of people from a variety of enterprises e.g. farmers, traders, agro-processing and other small-scale industries;

• women and ethnic minorities fully participate and benefit from group activities;

• annual election of group officers by secret ballot;

• regular meetings to serve the needs of members;

• lending interest rates will fully cover the cost of funds, operating costs of the group and the risk of loans not being repaid.

3. The advantages of the S&C groups for the different parties:

| Group members | • access to lending and savings services leading to improved standards of living and lower rates of poverty
|              | • the possibility to generate substantial group funds which will be owned by the group at the end of the pilot project period
|              | • development of capacity for the management of savings and lending within the community
|              | • the strengthening of community institutions devoted to mutual benefit
| DARD         | • provision of lending and savings services to farmer groups enabling them to invest in productivity-enhancing technical innovations provided by DARD

4. Discussion

Given the objectives and focus of the MRDP there are a number of issues which must be addressed at the group level:

• Who are the disadvantaged groups in our community? e.g. women headed households / ethnic minorities / the poor;
• What are their S&C needs? Do these groups have special S&C needs e.g. higher demand for savings products/higher demand for smaller and shorter loans?

• How do we support the participation of these groups in our village S&C groups?

These questions will have to be considered within the specific context of each village.
Module 2: Savings and credit group

A - Purposes and requirements

- The necessity for formation and goal of S&C group;
- Organizational structure of S&C group;
- Group by-laws;
- Rights and duties of group members;
- Consolidarity for group members.

B - Content

1. The necessary formation of S&C group;

a/ towards service providers:

Today, banks and programs providing financial services to and mobilizing savings from the beneficiaries have a tendency of gathering them into groups called “Savings and credit group”, “Self-help group”, “Trust group”, . . . in order to save on operating costs due to a large number of beneficiaries in large areas meanwhile the loan amount is often very small.

b/ Towards service receivers

The formation of groups, giving intensive training to those who manage group and delegating them appropriate authority will increase the proficiency in managing group, creating easy access to financial services for the working people, helping them seize opportunity.

Experience in micro-finance shows that social supervision/pressure and joint-liability of members in these groups is very important as it increase their participation and supervision. This approach is in line with the philosophy in leadership of the communist party “People know, people discuss, people do and people supervise”

The end and long term results of MRDP are to develop community-based S&C groups financially and organizationally sustainable. Those who take the lead in the group growth path may graduate into other kind of cooperatives such as: People’s Credit Fund, Bank for
the poor at village (VVBP), a channeling agent for Agriculture and Rural Development Bank or other NGO/Development program.

2. Definition of S&C group

Savings and credit group is a voluntary group formed by the people living in rural and mountainous areas in order to practice savings, getting loan and learning new technology applied to production/business to generate income and eradicate poverty.

3. The S&C group growth path

S&C groups will be supported within the framework of a group growth path. The path leads to the objective of a “sustainable” S&C group and eventual transformation into some form of legally recognised status e.g. a co-operative, PCF or village VBP (see figure 2).

Figure 2: The growth path for community-based savings and credit groups

As S&C groups develop, they will have the opportunity to graduate to higher levels. After two years of successful operation and certification of the skills of the S&C group officers, the group may apply to graduate to level 2. At this higher level, the groups will be able to exercise more managerial autonomy and will also be given formal...
ownership of part of the interest rate payments that had been accumulating in a group fund.

The grading system will provide a yardstick to measure group development and will also improve the targeting and quality of support offered by MRDP and VBP. As they reach higher levels the savings and credit groups will become increasingly self-reliant. Eventually their status may be legally formalised.

**Group grading criteria**

The village S&C groups will be graded into three categories based on criteria as follows (see article 15 in the S&C regulations):

<table>
<thead>
<tr>
<th>Category</th>
<th>Criteria to be met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>Commune People’s Committee and project approved group with agreed by-laws and elected officers; The S&amp;C group officers have received training from MRDP</td>
</tr>
<tr>
<td>Level 2</td>
<td>Criteria for level 1 plus the following seven criteria to be met over the two years prior to the evaluation date:</td>
</tr>
<tr>
<td></td>
<td>1. no serious infringements of MRDP S&amp;C regulations or state laws;</td>
</tr>
<tr>
<td></td>
<td>2. S&amp;C group officers having attended specific training in S&amp;C group management from MRDP and having achieved “MRDP level 2 certification”</td>
</tr>
<tr>
<td></td>
<td>3. Group Resources(^1) exceed 25% of the maximum level of the balance of MRDP loan funds to the group over the past two years.</td>
</tr>
<tr>
<td></td>
<td>4. Average savings balance per member &gt; VND 120,000</td>
</tr>
<tr>
<td></td>
<td>5. Overdue debt less than 5% of the MRDP loan fund</td>
</tr>
<tr>
<td></td>
<td>6. Having fulfilled regular reporting requirements to the upper management levels in terms of quality and timing</td>
</tr>
<tr>
<td></td>
<td>7. Final approval from province project director.</td>
</tr>
<tr>
<td>Level 3</td>
<td>Criteria for level 2 plus: Group Equity &gt; VND 40 million.</td>
</tr>
</tbody>
</table>

**A simple projection**

\(^1\) Including compulsory savings/shares; and other retained income; but not the proceeds of interest division (50% of interest payments) and risk fund (5% of interest).
A group has 50 members, who contribute initial savings of VND 10 000 each and regular monthly savings of VND 10 000 per month. After 3 months of regular savings, the group members receive loan funds totaling VND 50 million from the program. The group is able to generate “group funds” from 50% of the interest paid by the member-borrowers. After 2 years, the group members’ savings will total VND 12.5 million, equivalent to an average balance of VND 250,000 per member. As VND 12.5 million is equal to 25% of VND 50 million, the group is ready to meet two of the seven criteria required to reach level two (average savings per member greater than VND 1200 000 and group resources exceed 25% of loans from MRDP).

If the group reaches level 2, they will be entitled to own the accumulated interest division (VND 5.25 million) and risk fund (5% of interest) of VND 0.525 million). Thus, if they successfully reach level two, the group’s own resources will total VND 18.275 million. At this level of operations, if savings are mobilized at 0.7% and re-lent at 1.5% p.m. and the group can on-lend 80% of accumulated savings, the groups’ gross monthly income would be VND 650,000². With monthly costs of VND 312 500³, the groups net income will be VND 337 500 (650 000 minus 312 500).

4. Group managerial structure

Group organizational structure diagram

² Interest Income: (a) from MRDP loan = VND 500 000; (b) from savings = VND 150 000.

³ Costs: (a) Group Income Fund (25% of interest) = VND125, 000 (b) paid to province (20%) = VND100, 000; (c) cost of savings = VND 87,500.
S&C groups may be divided into some sub-groups based on geographical and topographical characteristics in the villages. Each group officer, if possible, manage one sub-group for closer relationship, mutual help and supervision to the members, in addition, reducing management cost for the group.

1. Group general member meeting

The group shall organize general meeting once a year, after a fiscal year that starts from January 1 to December 31. Purpose of the meeting is to evaluate activities, working out plan of action for the new year, accounting for expenditures, deciding on the division of income, re-election of group officers and group supervision unit.

At the meeting, the group officers shall report the sources of fund and utilization, incomes and expenditures, profit and loss, obligation of member(s) towards group; the meeting may decide to change group by-laws, dismiss or merge with other group. The resolution of the meeting is based on agreement of at least two-third of the group members.

Duty and Function of group officers

Officers of an S&C group are those elected and authorized by the members to implement the group activities, composing of the Chief, an accountant and a treasurer. If the group size is not very large, it
may have one chief and one accountant also does the work of a treasurer.

01. The chief

a) Directly manage group, chair group meeting;

b) Implement group resolutions, decisions;

c) Represent group in relations with MRDP, local mass organizations and authority;

d) Report MRDP as regulated in MRDP regulations.

02. Secretary

a) Assist the chief;

b) Summon members to the group meeting;

c) Record group meetings;

d) Manage cash of group as a treasurer;

e) Represent the chief when the chief is absent.

03. Accountant

a) Keep and record the bookkeeping system and other documents;

b) Report to the chief and the group meeting on income and expenditure, savings and credit activities.

c) Provide reports to MRDP and those authorized.

Allowance paid to the group officers based on group decision. Based on quantity and quality of work authorized and carried out, the group will decide allowance level to each position.

04. Group Supervision Unit

The group may elect a supervision unit to supervise group officers in implementing authorized mission, MRDP regulations and group by-laws as well as group decision/resolution. The number of supervisors should be appropriate with numbers of group and amount of authorized work.

The Supervision Unit shall have the following duty and function:

- Supervise group officers in implementing authorized mission, MRDP regulations and group by-laws as well as group decision/resolution.
• Report on the results of supervision to members at group meeting;
• Has right to require group management to conduct extraordinary group meeting if having evidence that the group officers have violated MRDP regulations, group decision/by-laws.

**Group membership**

The size of a group should be around 40-60 members to ensure managerial and cost-effect proficiency. Members of S&C groups are farmers, craftsmen and small traders. Any person who has willingness to cooperate with the others, wishing to better his/her live and accepts MRDP regulations and group by-laws will be eligible to become group members.

**5. Group formation steps**

The S&C groups shall be formed basing on “Participatory Rural Assessment” of MRDP. Staff of MRDP will visit the villages to evaluate living standard of people, demand for financial services, available resource, . . . then propagate Savings and Credit scheme and help local people how to form group.

To ensure the consolidarity of participants, Project staff may cooperate with local mass organization such as veteran’s association, farmer’s union, women union, and gardener’s association . . . The local people will comprehend the goal of S&C group is to promote production/business, poverty alleviation, not for religion or politics; people who wish to join should be clear about rights and duties of a member, how to select group leaders.

• People who wish to join group have to fill out an application form individually or collectively. The condition for joining a S&C group include:
  ♦ **Local people legally residing in the commune;**
  ♦ **Having willingness to join group;**
  ♦ **Having capacity for production/business;**
  ♦ **Cooperative and joint-liability willingness;**
  ♦ **Faithful and right mentality;**
  ♦ **Agreed by other members.**

Upon the formation, the group may have an interim group management either selected by founding members or appointed by the project staff. The management has responsibility to receive
application forms of people, make a member list, with the assistance of project staff to outline group by-laws, organize the primary meeting to elect group officers officially by balloting. Then, the group officers will, together with the members, finalize group by-laws and register group by-laws, member list at the commune people’s committee.

The selected group officers will be invited to attend training course(s) by the Program to manage S&C group. Then they will receive savings of members. Upon joining group, member may contribute initial savings to set up group equity. Regularly, members will contribute compulsory savings and the lowest level should be 5,000 VND/month. Whenever being member, he/she has to contribute the compulsory savings. The real amount of compulsory savings set by each group base on the real economic situation in the locality and shall be decided by the members themselves.

After a period of 1-3 months practicing savings, the group will get loan from MRDP. If it is the group of MRDP in operation, it is no need for the members to contribute initial savings.

6. Group by-laws

Main content of group by-laws

1. Group membership

Members of S&C group are representative of households residing, having production, and operating business legally in the commune, being 18 years of age or above, having right mentality, not committed social evils.

Duties of member

a) Use loan as committed in loan application, loan contract;

b) Fulfill contributing savings;

c) Ensure cooperation with other members with respect to equality, mutual benefits, joint-liability;

d) Compensate damage to the group;

e) Other obligations set by the group.

Rights of member

a) Participate in training course(s) of MRDP;

b) Participate in decision making-process of group;

c) Elect or stand for group officer, supervisor;
d) Other rights set by the group.

2. Group assets

Assets contributed or/and generated by group members, jointly awarded are group assets. Any outside grants will be group assets

3. Representatives of the group

a). The chief of group will represent group in transaction with related organizations. The chief may delegate authority to some group members to carry out necessary tasks for the group.
b) The whole group members will be responsible for any civil transaction established and done by the group representative(s) for benefit of the group.

4. Joint-liability of the group

a). The group shall be responsible for any transaction for the group benefit represented by the chief or those authorized.
b). Members of S&C group shall be responsible for group’s liabilities and other obligations, assets of group will guarantee those liabilities, if assets of group are not enough for group’s liabilities all members shall jointly be responsible.

5. Admission to new member

Group will adopt new members if the majority of group members so agree. Candidate has to apply for membership and follow group by-laws and Regulations of MRDP.

6. Member withdrawal

a). Member has right to withdraw from group;
b). Member is compulsory to leave group if he/she violates his/her commitment upon joining group.
c). Member who wants to withdraw membership shall fulfill one’s duties and obligations towards group and MRDP, has right to get one’s assets contributed after being deducted for solving group joint-liability.

7. Termination of group activities

The S&C group terminates in the following cases:

a). The duration of by-laws ends;
b). All group members so agree because continuation will not benefit them.

When terminating operation, group shall settle all of its liability to MRDP, other organization; if group’s assets are not enough for settlement, individual assets shall be taken to guarantee payment. Group shall inform MRDP and Commune People’s Committee in advance of its termination.

7. Group management

7.1. Definition of group management

Group management is to manage funds for production/business effectively so that maximize the benefit to group members, consolidating group, ensuring joint-liability.

7.2. Group manager

The managers should know regulations of MRDP on savings and credit, financial management well, together with group by-laws, decision and resolution; having good relationship with members, good listener to the wish of members, democratic in discussion, active in group work.

7.3. Management object

The object of management is loan fund from MRDP and savings of members, people with right and duty. Managing fund, the manager should comprehend regulations of MRDP; managing people, the manager should know their living condition and relation; encourage them to do the good work for the group and alleviate backward practice.

7.4. Managerial methodology

The manager should apply democratic managerial methods, ensuring transparency in finance, ensuring every member to actively participate in developing group, ensuring equality for the members. The equality in the following aspects:

- Access to loan;
- Savings contribution;
- Benefiting services from group and MRDP fund, and;
- Participating in decision making, giving constructive criticism for the development of the group.
To ensure justice, equality, prestige and impartiality, the group manager should rely on regulations set by MRDP and group, in addition, relying on good traditional customs of the locality to orient group interest for a better living standard of people and of the whole community. It is realized that the prestige of every member in a community or others in that community is a very important issue that may encourage him/her to fully participate in the scheme and fulfill one’s duties like repaying both principal and interest, not to bother the others. Evaluating difficulties of a member and having appropriate assistance or giving him/her good opportunity is also a good method to help member develop trust to the group and other members, building the self-respect sense also.

Any partiality, wrong favor would lead to inappropriate approval of loan application forms, arrears, misunderstanding amongst members, distrust of members to the group officers. Accordingly, members may hesitant to fulfill their obligation/duties.

The collective strength of a group is reflected in group decision or resolution, so knowing how to organize a good meeting is a good managerial method. In the meeting, the group officers should have well-prepared contents and reasons, orienting members to the purpose and try to get wide agreement of members. After a meeting, the follow-up steps are also very importance.

To evaluate qualitative aspect of group management, the group officers may refer to the Group Management Assessment Criteria in the appendix II.

8. Discussion questions

A./ On group formation

1. Do you have any method to disseminate contents and significance of RFS component?

2. In a locality where the chairman of the commune people’s committee was very eager to form the S&C group, he bought a rice husking machine, after several months he earned several million VND and he used part of this sum as initial savings for other villagers who wish to join the S&C group. What is your opinion in this matter? Give reason.

3. Whom the group should admit?
   a. Rich people only;
   b. Poor people only;
   c. Pure the average-income people;
4. Why S&C group of MRDP includes people living closely to one another?

B/ On group administration

5. What main contents should be included in the group by-laws?

6. What features/characteristics do you consider when selecting the group officers?
   - Chief of the group;
   - Group treasurer; and
   - Group accountant.

7. How often the re-election of group officers should be done: annually, every 6 month? Why? Is it good if the group officer(s) stay in the post(s) for one year or longer?

8. In an S&C group, a member wanted to withdraw from group while he was still having a loan unpaid to MRDP/group. What is your opinion and solution? Why?

9. Can you devise a way through which group members can exchange market information?
Module 3 : Lending

A- Objectives and requirements

Enhancing learners' understanding of:

- The necessity and importance of lending operation in a S&C group;
- Lending principles;
- Conditions of a member to get a loan;
- Lending procedure and methodology;
- Supervision before and after disbursement;
- Principal and interest collection;
- Arrears settlement.

B. Contents

The necessity and importance of lending activities

Lending is one of the importance activities of S&C groups as it can generate interest income, the main portion of incomes of a group.

1. Lending principles

1. Lending interest rate should compensate/cover cost of fund and operating cost of the group.

2. The loan term should be appropriate with the nature of production/business cycle and repayment capacity of the borrower;

3. Candidate for a loan should have power for production/business, running production/business not against state laws.

4. Loan must be utilized as committed in the loan application form/loan contract.

5. Loan must be repaid fully and timely.

MRDP doesn't require candidate for a loan to have collateral so the social supervision/pressure amongst the members of an S&C group is very important to ensure the above mentioned principles and development of it.
2. Preconditions for borrowing

2.1. For the member of S&C group

a) Having production power, and running business not against the state laws.

b) Having filled out application form committed to use loan correctly and accepted supervision of Project/group.

2.2. For the S&C group

a) Having group officers elected by the members;

b) Having group by-laws approved by the commune people’s committee;

c) Group officers have obtained appropriate training given by MRDP;

3. Lending procedures and methodology

The S&C group will open office to serve members in terms of taking savings, collecting loan application forms and disbursing loans. Based on loan application forms handled by members, the group officers will do the following steps:

3.1. Approval of loan application forms

• Checking preconditions whether they are appropriate or not;

• Gathering information about the borrower and their family members, purpose of loan, debts owing to other individual/organizations, . . . to ensure that he/she would not misuse of the loan that may lead to arrears.

• Savings of the members so far;

• Market assessment: answer the following questions

  * Will the product be easily sold in the market?
  
  * What price(s) can it/them be sold?
  
  * Are there any seasonal changes?
  
  * How is competition of that product?
  
  * Is there any competitor for such product/service?
  
  * Will it be oversupplied?
• Production assessment
  * Is the production/business plan technically feasible?
  * Does the manager of that plan have enough experience?
  * What are the necessary inputs?
  * Are the inputs available in the local market? The price high or low?
  * Is the input oversupplied?

• Profit/loss calculation

For example:

1. Total income

<table>
<thead>
<tr>
<th>Kind of products</th>
<th>Volume of Out puts</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total output value:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Production costs

<table>
<thead>
<tr>
<th>Kind of costs</th>
<th>quantity</th>
<th>price unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>sum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total production costs:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Cost of fund (interest on loan = loan amount x loan term x rate ) = . . . . . . . . . . . . . .

4. Income from production plan: (1 - 2 - 3) = . . . . . . . . . . . . . . . . . . . . . .

Calculation of income and expense, profit/loss of the production/business plan. If the plan is not profitable, never give loan to the borrowers as it loads a burden on them.

3.2. Organizing group meeting to assess every loan application forms.
• The purpose of this is to allow all members to involve in the assessment process so as to make full use of social supervision/pressure and joint-liability amongst members, avoiding abuse of authority.

• The outcome of the meeting should be recorded in kind of minute, enclosed with the loan application form and sent to commune people committee/project. Any dispute between group/project and member shall only be solved based on legitimate loan documents.

3.3. Handling loan application forms to the commune people’s committee

• Commune People’s Committee (CPC) is a state management authority in the locality, so getting authentication from CPC is a must to have loan document legalized.

• Within 03 days from the date of receiving loan application from member, the chief of S&C group has to fulfill peer group assessment and getting authentication form CPC.

For lending from group self-generated fund, to this step, the group officers may disburse loan to the approved borrower.

For lending from MRDP fund, the group officers shall continue the following steps:

3.4. Handling loan document to the project (district/province)

• The chief of S&C group may handle loan document directly to the project management unit (at district or province level) or through the project credit officer in charge of the group.

• Within 07 days from the date of receiving loan document from the S&C group, project director (at province) or the head of project management unit (at district level) shall finish the approval and issue the result whether approval or disapproval to the group. The chief of group shall inform to the members.

3.5. Joining disbursement with project staff.

The group officers shall join with the disbursement team, which is composed of project accountant, credit officer and treasurer, to disburse loan directly to the approved borrowers. The participation of the group officers in loan disbursement reflects in loan documents such as: loan contract and disbursement vouchers.
4. Principal collection

The borrower can repay his/her loan in installments. MRDP encourage such a practice to reduce risk for the borrower in repaying a large amount of money incurred at the end of the loan term.

5. Interest collection

To ensure the regular income to cover operating cost of both project and group, interest on loans shall be collected in a monthly basis. In the case the borrower has difficulty as mentioned in section VI.1, the chief of S&C group shall only extend interest payment to a period of 3 months.

To reduce operating cost related to collecting interest, the group officers should agree with the borrowers on the date of payment. It is advisable that interest payment should be collected in one or two fixed date in a month. After such date, if someone fail his/her duty, group officers may visit and find out what has caused him/her late in payment.

6. Loan supervision

1. Loan supervision of group officers to members

1. a. Content of supervision

At least 10 days from loan disbursement, the group officers shall supervise loan utilization of borrowers. Every loan shall be supervised at least one time.

Contents of loan supervision

* Utilization of loan whether as committed in loan application/contract? The loan amount borrowers received whether of the same in loan contracts?

* Effectiveness of loan use.

* Other information related to the borrowers and their family.

1. b. Supervision methods

* Before the course, the supervisor fills out the supervision minutes with data extracted from loan documents.

* When visit the farmer, the supervisor get information from family members by asking them prepared questions and looking upon member pass book, vouchers and activities in the field. Then writing down assessment of loan utilization and other that seems necessary.
The supervision minutes shall be kept in the loan document. After every supervision, the group officers should bring the fact-findings to the members for discuss and judgment.

2. Supervision of project to S&C groups

The methodology likes before, project staff will join with group officers to carry out supervision, and the fact finding is to be recorded in form of minutes of supervision. The minutes will be kept with loan document. If some cases have happened seriously, the supervisors have to ask the group officers to organize a meeting and forward the fact-findings to the members for democratic discussion and decision making.

7. Arrears settlement

A loan to be considered overdue if the deadline for repayment has come one day or more. Then there are two theories, first: the borrower is really having difficulty in his/her production/business, second: he/she deliberately violates his/her commitment and now he/she is having problem caused by misuse of loan.

For loan comes from MRDP fund, only project director can extend the loan, the director may delegate authority to decide on loan extension to the head of district project management unit.

For incomes from group self-generated fund: the group resolution/decision will govern the extension case by case.

The borrower who is having difficulty in repaying should write an application form for loan extended.

7.1. Approval of loan extension

Within the time of 3 days from the date of receiving the application form for loan extension, the Chief of S&C group will investigate the borrower's real situation. The fact-finding must be in the form of supervision minute.

If it is a loan from group self-generated fund, it is ratified and decided by the group member in the group meeting.

If it is a loan from MRDP fund, the group officers shall handle loan extension application to the head of district project management unit or project director. Within 07 days from the date of receiving the application from S&C group officer, the project director or the authorized head of district project management unit shall approve or disapprove the application. The time of extension shall not exceed one half of the loan term.
7.2. Transfer to overdue debt

If the borrower deliberately misuses loan, the group or project shall transfer such loan into overdue debt and charge overdue interest rate at 150% of the lending interest rate in the loan contract.

After 30 days since transferring a loan into overdue one but the loan is still unpaid, the group will have right to use savings of the borrower to cover the debt. If his/her savings are still not enough, then he/she is obliged to use his/her assets to ensure the debt payment. Eventually, if the borrower still fails to clear his/her debt, the group has to use group equity/self-generated fund to cover.

7.3. Bringing a legal law suit

If the borrower deliberately misuses the loan, resulting inability to repay the loan, the group officers will bring a lawsuit against him/her. All the cost related to resolving such a lawsuit will be born by the defaulter.

8. Discussion questions

1. What are lending principles of MRDP?
2. What are conditions to get a loan from MARDP?
3. In a group meeting, some members apply for loans for:
   a. Pig fattening;
   b. Trading green vegetables in the market;
   c. Buying medicines to cure their children;
   d. Buying presents for wedding.
What are your opinions about the purposes of the loans?
4. If group A has MRDP loans as follows: VND 1,000,000 with a term of one year, VND 700,000 in 6 months and VND 1,300,000 in 9 months then what is interest of each?
5. What are advantages and disadvantages for the group and the borrowers in paying loans in installments?
   a. For the group?
   b. For the group members?
6. When supervising loan use in a group, the group members realized that the group officers lent to the outsider, what would you do if you are group members?

7. When supervising member A, the group officers discovered that he used VND 500,000 out of VND 1,500,000 loan buying a cassette player. What would be your judgment and solution?

8. When supervising member A, she used loan amount buying a gig instead of a buffalo as in the application form and loan contract, what would be your opinion and action?

9. If group A had 3,000,000 VND fund abundant so they lent group B. If you were the Chief of group B who were lacking fund, would you borrow? Why so and why not.

10. Can you make a flowchart of steps to supervise a loan?

11. Can you make a flowchart of loan document circulation?
Module 4: Savings mobilization

A- Objectives and requirements

Enhancing learners’ comprehension in:

- The necessity of mobilizing savings;
- Forms of savings;
- Savings mobilization methods.

B-Content

1. The necessity of mobilizing fund

Funds of an S&C group are composed of external and internal sources. The internal mainly come from savings of members and retained earnings. The external is important at the beginning but the how much the group can borrow depends on the lender, not the group themselves.

Although the internal fund grows slowly but steadily and is of great important as:

- The group is independent from the external resource.
- The internal fund is an indicator of group’s success in fund autonomy,
- It is a basis for the group to enhance its status in establishing relation/transaction with the banking system or other credit institutions, and
- It is a basis for the group to graduate into PCF or VVBP.

Members of S&C groups can benefit directly from savings if they save and indirectly if they use savings. For the savers, savings now are for future use. There fore, savings should be regarded as a good habit, new thinking of people, the S&C group has a role in building such a good habit for its members.
**2. Methods of mobilizing fund**

Here under are principles in fund mobilization:

**2.1. Suitable seasons:**

* For the farmers, it is after the harvest time when they have product harvested and sold;

* For the handy craftsmen: even though their incomes are often not so high but they can earn the year around, so they can save monthly.

* **The saver will consider those things when putting money in savings:**
  * Safety of savings;
  * Convenience upon depositing and especially when withdrawing;
  * Earnings on savings.

---

How important is savings mobilization to the saver and group?

**To the saver**

- Savings is a financial shield for the family as it can help them solve contingency without requiring them to sell their assets or borrow with throat-cut rate.
- Building the trust of MRDP with group and so with the savers;
- It is the way for the family to accumulate every penny to have the pound for later use;
- It is a basic guarantees for loan;
- Income generation.

**To the group and MRDP**

- Having extra fund for on-lending;
- Trust worthy building.

*If a family is a unit of a community, savings of a member will benefit the whole community.*
• The group mobilize fund has to lend to generate income from interest

To ensure the effectiveness of using savings, the learner should refer formula to calculate the break-even point below:

### 2.2. What is break-even point?

Break-even point is a point where all incomes meet/cover all expenses, no profit gained at all.

If the group can not use all mobilized funds for on lending, it should deposit the idle portion in to a bank a count to get interest and to keep the money safe; whenever the group needs money, it can withdraw.

The calculation of break-even point in mobilizing and using savings is as the follows:

\[
\text{Break-even point} = \frac{(\text{Mobilizing rate} - \text{Bank deposit rate})}{(\text{Lending rate} - \text{Bank deposit rate})}
\]

Example:

The group A has mobilized voluntary saving worth 1,000,000 VND at a rate of 0.9%/month, interest rate for on-lending is 1.2%, if group can not use the whole savings they can deposit it in a bank account and get interest of deposit at 0.6%/month.

The break-even point = \( \frac{(0.9 - 0.6)}{(1.2 - 0.6)} = \frac{0.3}{0.6} = 0.50 \) or 50%.

It means that if the group can use at least 50 % of savings (1,000,000VND) for on-lending with the rate of 1.2%/month then the group can get enough income to cover cost of fund, above such level, the group may has benefit, below that, the group has a loss.

### 2.3. Forms of savings

a) **Demand deposit**: for this kind, the savers does not fix the time to withdraw, whenever the savers need, they have right to withdraw, so it is very convenient to the saver but it is not the same to the group as the group has to ensure an appropriate cash.

The principle is that, whenever wants to withdraw, the saver has to inform group one week in advance so as the group have enough time to prepare and that the group is not allowed to use 100% the savings, the group has to set aside at lest 15% of savings in the form of cash or bank deposit.

When lending, the group has to calculate lending interest rate and percentage of utilization.
b) Time savings

For this kind of savings, the savers fixed time of withdrawing right upon depositing. So it is easy for the group to plan the usage of savings in a certain period of time and ensure that when the deadline comes, the group will be able to pay. The principle here is that loan term does not exceed deposit term.

With these savings, the group has to use savings maximally to maximize benefit.

c) Compulsory savings

This savings are, to some extents, a little bit forced. In the context of MRDP where people has just get used to micro-finance services so compulsory savings is still useful that’s why there have been around 7,000 savers so far in MRDP. Compulsory savings has some positive points as the follows:

* Building sense of contribution to the group equity/development;
* Help members know how to save even its a small amount;
* Through savings contribution, the S&C group can make full use of social supervision/pressure and joint-liability amongst member to consolidate the strength of group.

When members of group have realized the importance of savings and practiced and accumulated a rather high level of voluntary savings, compulsory savings, therefore would be demolished.

In some non-government programs, they consider compulsory as a yardstick for lending., some require borrower to chop-off a certain percentage of loan for compulsory savings. MRDP does not apply such practices, instead, require compulsory with a small amount of idle money with the hope to build “savings habit” for the beneficiaries.

3. Discussion questions

1. Can you draw a vision for your group fund?

2. If one member thinks that he/she joins the group is mainly to borrow, so whenever need a loan he/she will contribute savings or whenever his/her loan is unpaid will he/she contribute savings? Is that thinking well? How can you persuade him/her?

3. In a group, the members set savings level based on amount of loan to ensure that the bigger the loan, the bigger the savings he/she has to contribute. Is that rule acceptable, why? Why not?
4. In a group there were two members who had contributed compulsory regularly for 4 months but hadn’t borrowed yet. At that time the group were having arrears of three members worth VND 2.5 million. The two members were afraid that if they stay with the group, they might bear joint-liability to solve the arrears. So they handle application for withdrawal from the group. What would you do in that situation?

5. Some members of a group said that compulsory savings are not good and it does not sound very nice. So the group should apply voluntary savings only. What would be your opinion about this argument?

6. In one group, in the mid of the year there were 2 members who have paid off their loans to MRDP, at that time the group has an accumulated earnings worth VND 3,000,000. These tow members apply for withdrawing their savings from group and want to get the retained earnings allocated. If you were group officers, what would you have done?

7. In a group, a member after fulfilling his savings contribution he wants to lend group 1,000,000VND. If you were group officer, would you accept that offer? Why, why not?

8. In a group, more than a month before the crop, some household members lacked food so these people asked the group leaders for withdrawing their savings accumulated so far to purchase food. What would you do if you were group leaders?

9. What is the most benefit of compulsory savings, is it interest generating?
Module 5: Financial management

A- objectives and requirements

enhancing learners’ comprehension in:

• The importance of managing group financial resources;

• How to manage group resources;

• Income and expenditure of a S&C group;

• Benefit and allocation.

1. Resource of funds

The resource of fund include: savings of members, interest division that project leaves to group so as to increase group fund, loan fund from project and group retained earnings.

1.1. The initial savings (share)

The group may set a rule regulating that right upon joining group, members have contribute initial savings (or share) to set up group equity or building up group assets.

1.2. Compulsory savings

Purpose of compulsory savings is to reinforce relation of members with group in term of increasing group equity, creating savings habit and financial shield in future for members.

If a member leaving group, his/her savings will only be repaid after the annual meeting of members and at the meeting the financial statement of group has been clearly made.

Vision of group savings/equity

With a number of members ranging from 40-60, every member contribute 10,000VND monthly then after 3 years the group may reach 15-20 millions VND savings. If the level of savings are higher then the amount of savings are higher too.

If the group has willingness/determination to graduate into People’s Credit Fund and has shown positive steps in mobilizing savings, the group will get gradation and may be awarded the interest division left to the group.
For example, in a group which has 50 members, each member contribute 10,000VND/monthly, the group will have 50 * 10,000 =500,000 VND savings monthly and 6,000,000VND savings yearly. Loan fund from project is 50 millions at a rate of 1% /month, every month Project will divide (50.000.000 * 1% * 50%) = 250.000 VND to the group to increase group fund.

So we have results as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>End of year 1</th>
<th>End of year 2</th>
<th>End of year 3</th>
<th>End of year 4</th>
<th>End of year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>6,000,000</td>
<td>12,000,000</td>
<td>18,000,000</td>
<td>24,000,000</td>
<td>30,000,000</td>
</tr>
<tr>
<td>Interest left</td>
<td>3,000,000</td>
<td>6,000,000</td>
<td>9,000,000</td>
<td>12,000,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td>Sum</td>
<td>9,000,000</td>
<td>18,000,000</td>
<td>27,000,000</td>
<td>36,000,000</td>
<td>45,000,000</td>
</tr>
</tbody>
</table>

The average group equity by year (unit: 1000,000VND)

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start</td>
<td>0</td>
<td>6</td>
<td>12</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>End</td>
<td>6</td>
<td>12</td>
<td>18</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>Interest divided</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>Sum</td>
<td>0</td>
<td>9</td>
<td>18</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td>Average</td>
<td>4.5</td>
<td>13.5</td>
<td>22.5</td>
<td>31.5</td>
<td>40.5</td>
</tr>
</tbody>
</table>

The group can use above fund for on-lending at the rate of 1.2% to 1.5%/month and earn income as the follows:

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on lending</td>
<td>from 648.000 to 810.000</td>
<td>from 1.944.000 to 2.430.000</td>
<td>from 2.160.000 to 2.700.000</td>
<td>from 3.024.000 to 3.780.000</td>
</tr>
</tbody>
</table>

Equity of group may increase due to interest earned on lending.

The chart below will reflect process of group equity increasing, for more simplicity, there are only two kinds of fund: savings and interest divided.
Looking upon the chart we realize that savings of group is of the most important. That's why MRDP just leave the interest division to those group who have shown making great effort and results in mobilizing savings.

1.3. Voluntary savings

To increase group's independence from external funds, the group should mobilize savings from its members. It will offer some savings products to suit the taste of savers. It is principle that in any case, interest paid on savings of members shall not exceed interest rate MRDP charges on loan and the time deposit must bear higher interest of the demand.

With voluntary savings, members can deposit and withdraw at a fixed/agreed time so it is convenient and help group mobilize idle money to serve production and therefore improve lives of people.

1.4. Interest divided to the group

In addition to develop group organization, MRDP help group increase fund for investment by leaving 50% of the interest earned on loan fund to group.

When the Project Director approve group grading and if a group reach level II then the interest will be awarded to the group, means that group has whole ownership of that fund and that fund will be used according to group’s by-laws.

1.5. Donation, awards

If an individual or organization donates the group, the donation is group asset and the group has power to allocate it. The group should use this for the benefit of its members and not against the group by-laws.

Retained earnings
If the group has income after cover expenses and it is not allocated yet, it is a source of the group.

2. Utilization of group fund

2.1. On-lending to members

Loans from group to members should be short term ones (less than 12 months) and be repaid according to commitment in the loan contracts. The interest on loan from group fund shall not exceed 1.5%/month.

To give a loan to member, the group officers shall assess loan application of member to ensure that the production/business plan is technically and financially feasible, purpose of loan use suits regulation of MRDP and state laws.

2.2. Bank deposit

If there is idle money, the group should deposit in to a bank to get earning and to keep money safe.

2.3. Cash held

The group is allowed to keep a certain amount of money in its trunk for regular expenditure like group meeting, stationery, and allowance to group officers. This sum should be 200,000 VND. The amount exceeds that limit should be put in bank account so whenever the group needs fund it can withdraw. The group treasurer will manage all the cash-based transactions of a group. The treasurer shall manage cash of group according to regulation on accounting.

3. Income and expenditure

3.1. Income

a. Income earned on loans from group fund and MRDP loan fund;
b. Interest on bank deposit;
c. Others (present, award, donation, ..).

Amongst the three, income earned on loans from group fund and MRDP loan fund takes the biggest share so the group has to improve quality of lending activities.

3.2. Expenditure

a. Interest paid on savings to members;
b. Allowance to group officers;

c. Administration costs: meeting, stationery ...

d. Others.

The group has to save down on expenditure and has to maintain a transparent and sound financial management, allowing supervision from project and members.

4. Benefit and allocation

Benefit: is the portion of income left after covering operating costs, it is advisable that the group should allocate benefit as the follows:

- 50 % to set up group Risk Fund, and;
- 50% to set up group Incentive Fund.

Group Risk Fund: It will be used to help group members when natural disaster occur and damage economy of member. It is hoped that group can cumulate this fund equivalent to 10 % of outstanding loan. The more arrears the higher Risk Fund should be.

Group Incentive Fund: the amount of incentive that every member can get based on interest paid by the member in the year. The formula as the follows:

\[
\text{Incentive to a member } = \frac{\text{Total interest paid by the member in the year}}{\text{Total interest paid by all members in the year}} \times \text{Incentive amount}
\]

If member want to add this incentive into savings, the group accountant will transfer it.

To record financial activities, the group shall obey regulation of bookkeeping system of MRDP.

5. Discussion questions

1. Why financial management is very important to the group?

2. How do you manage financial matters to achieve the grade II in the group growth path?

3. What are results in calculating the following theories:
• Group size: 50 members;
• Group loan: VND 50 mil.
• Initial savings each member: VND 50,000;
• Monthly compulsory savings each member: VND 10,000.

4. What is the most important source of fund of the group? Will that source remain the same in 3 or 5 years?

5. What are impacts of interest rate:
• Savings rate?
• Lending rate?

6. What are the main incomes of the group? So the main expenses? What elements affect incomes of a group?

7. Can you set a formula to calculate the break-even point for a group when mobilize savings for on-lending to its members with the following assumptions:
• Mobilizing rate: 0.7%/month;
• On-lending rate: 1.2%/month;
• Bank rate on demand deposits: 0.5%/month;
• Administration costs of the group: 0.3%/month;

8. Why the group has to make reports on its activities and handle them to project management unit monthly or quarterly? What are the most important items? Why?

9. What are main purposes in:
• Reporting on sources of funds and their utilization?
• Incomes and expenses?

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