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IMPACT OF REGULATORY INNOVATION ON MICROFINANCE SECTOR: A CASE OF VIETNAM

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Abstract

Although microfinance achievements are affected by many kinds of factors, this paper focuses on the side of regulatory policies. It identifies the existing regulatory gaps in the microfinance sector to recommend functional regulation changes in Vietnam. In other words, it examines how implemented regulation performs main regulation objectives by applying Regulatory Impact Analysis. The regulatory framework has gradually completed, but it might not serve the sector in the right way. There are policy and regulatory inadequacy in microfinance sector that does not meet the needs for sustainable growth. Although focusing on the microfinance institutions' operation, the overall regulation has created obstacles for sector growth. The regulation policy is much concentration on the Object "Promote safe and sound financial services" that results in good fact for only the breadth of outreach and the quality of micro-loan products. Instead of this, the legislation should pay more attention to protecting the benefit of customers as well as expanding the microfinance market that enables more people to access. It needs appropriate regulation to improve the microfinance sector in the country.

Keywords: Microfinance, Regulatory Innovation, Regulatory Impact Analysis, Regulation Objectives, Vietnam

INTRODUCTION

The popularity of formal financial services has been nominal in many countries. However, these providers are not well-adapted to the growing needs as well as able to fulfill all aspects of demand. World Bank (2018) pointed out that almost 69% of Vietnamese citizens could not access formal financial services. World Bank also stated that Vietnam still lagged behind the regional rate of financial inclusion at low access and usage of formal financial services. Only 31% of the Vietnamese adult had an account at a formal financial institution in 2014. Out of 137 countries, Vietnam ranks 78th regarding the availability of financial services, 60th regarding the affordability of financial services, 112th regarding the soundness of the bank (World Economic Forum - Global Competitiveness Report 2017-2018). Out of 144 countries, Vietnam ranks 104th regarding the number of bank branches per 100,000 adults (World Bank, 2015).

Like everywhere else, without sufficient collateral and viable business plans, the Vietnamese poor have limited access to loans and voluntary deposit services. The market segment for Vietnamese, especially the poorest, is not well served regarding outreach and products on offer. Many remote regions do not have access to formal banking services so that the poor there often face constraints in confronting a bank. According to the MIX, there are 61,255 mapped financial access points across the country, of which only 172 belong to microfinance institutions. Furthermore, most of the microfinance access points have concentrated in the North, such as Thanh Hoa, Nghe An, and Ha Noi, and the South, such as Ho Chi Minh, Dong Nai, and Long An.

Many Vietnamese citizens have needed accessing banking services since microfinance was born in Vietnam in the early 1980s. Correspondingly, more legal works have been passed to outline and guide specific responsibilities and regulations for microfinance activities aligning with poverty alleviation. However, weak practices and priority to the state sector remain in the vulnerability of the microfinance system.

Although microfinance achievements are affected by many kinds of factors, this paper focuses on the side of regulatory policies. It identifies the existing regulatory gaps in the microfinance sector to recommend functional regulation changes in Vietnam. In other words, it examines how implemented regulation performs main regulation objectives by applying Regulatory Impact Analysis (RIA), notably Multi-Criteria Analysis (MCA).

EMERGENCE AND DEVELOPMENT OF THE MICROFINANCE SECTOR IN VIETNAM

Since 1956, the formal financial sector in Vietnam mainly consisted of traditional credit cooperatives, the representatives of the State Bank of Vietnam (hereafter SBV) at the commune level. Several cooperatives were established in order to collect small deposits and provide access to credit to the individuals, farm households, small businesses, and production cooperatives. On behalf of the SBV, these cooperatives were supervised by the local People's Committees to operate as the local financial intermediaries within small communities. Unfortunately, most of them had failed and collapsed in the late 1980s due to the increasingly non-performing loans when rural collectives went bankrupt. The other reasons were the absence of the insurance system and refinanced policies and improper supervision (Putzeys, 2002; Tuan, 2005).

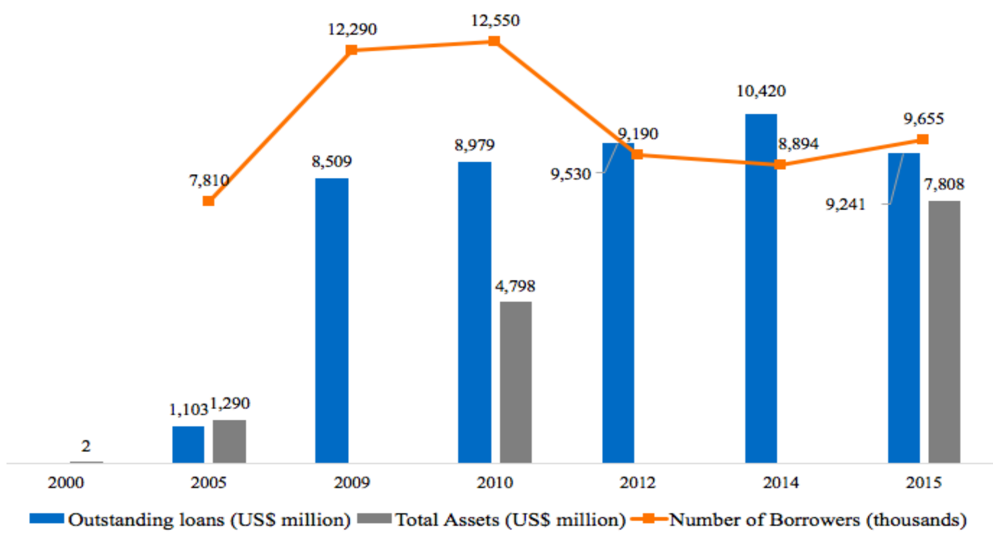
After the “Doimoi” policy in 1986, the Government of Vietnam (hereafter GoV)reorganized and expanded the financial system in 1988 to keep up with the rapid economic transformation. The agricultural reforms also created a vast and urgent demand for financial services to meet productive capital. As a result, the inception of microfinance occurred in 1989 when the Vietnam Women’s Union (VWU) launched the first credit program dubbed “Women help each other in the family economy” to alleviate poverty. With the primary purpose of empowering women as well as develop the role of VWU in the national credit programs, the program received a lot of positive responses from the local Women Unions (WUs). It started with mutual assistance, lending plants and animals, exchanging production and farming experiences, and then expanded to capital support for poor women doing business. The expansion led to the creation of the Capital Aid Fund for Employment of the Poor (better known as CEP) in 1991, which is the first MFI established under the Grameen Bank model and, more currently, the most extended-standing microfinance network in Vietnam.

Vietnam Bank for Agriculture and Rural Development (VBARD)was formed in 1990 as a policy bank. It delivers subsidized credit from SBV to the rural poor in Vietnam. The bank then increasingly transformed into a commercial bank since 1995. Additionally, People’s Credit Funds (PCFs) were established in 1993 to meet a mostly unsatisfied demand for agriculture development. Two years later, the Fund for the Poor (or the Vietnam Bank for the Poor - VBP), a not-for-profit bank, was established to inspect subsidized lending to poor households on behalf of the VBARD. Keeping on this process, the VBP was reformed to the Vietnam Bank for Social Policies (VBSP) and was released from VBARD to lend to the poor on more commercial lines. In 1997, the GoV launched a program on “Hunger Eradication and Poverty Reduction (HEPR)” to enhance poor communities’ access to financial services, especially in rural and remote areas. Also, in this year, the government of Belgium provided financial and technical support to improve the institutional capacity of the VWU. The microfinance sector has gradually expanded across the country to serve their target clients; for example, the implementation of “Extension of Microfinance and Micro-insurance to informal women workers” during 2003-2005, and the establishment of the Microfinance Working Group in 2004. Since 2005, the scale of the microfinance sector has increasingly expanded with the issuance of the first Decree on microfinance.

As a member of the World Trade Organization (WTO), Vietnam authorizes the activities of foreign professionals in the banking sector. The country’s recovery from the global economic downturn in 2007 was rapid but uneven. As such, the quick expansion of domestic credit to motivate the economy resulted in a lack of available liquid funds for some banks. Moreover, the recent growing economic turmoil has increased the inequalities between urban and rural areas and among regions. These situations require the involvement of microfinance to provide a broad scope of financial support that allows people to develop income-generating activities as well as protect themselves from adverse shocks. Therefore, with the support of local and international non-government organizations (NGOs), bilateral and multilateral official development assistance programs, social-political Mass Organizations (MOs), and local governments, various microfinance programs were deployed in Vietnam to fight against poverty, especially for women and children.

Figure 1 illustrates evidence on the significant increase of Vietnamese MFIs during the period from 2000 to 2015. Looking exclusively at micro-credit, the expansion of MFIs regarding capital mobilization and outreach has gradually increased the number of active borrowers. The clients are low-income and receive small loans (up to US$1,500) in the early stages. When they get "graduated" or become "small-traders," they tend to access the services of formal institutions to receive more massive loans. It is the reason why the number of borrowers decreased in 2012, mainly due to the fall in the number of borrowers of un-licensed MFIs from 600,000 in 2010 to 480,000 in 2012. On the other hand, the outstanding loans from 2009 to 2015 are not much fluctuation, but it kept increasing year by year in general. Positively, the loan size tends to be larger to serve better the demand of clients for various purposes (average loan amount of un-licensed MFIs ranges from US$152 to US$236 per client) (Bezemer and Schuster, 2016).

Figure 1: Vietnam Microfinance Landscape (in General)



Source: Nguyen and Le (2013), IFC (2014), MIX Market, Author's calculation.

Note: Only includes MFIs reported to MIX and VMFWG; The data of outstanding loans for 2000 and the number of clients for 2000 are not available

Conceptually, microfinance in Vietnam is the provision of various financial and non-financial services such as subsidized credit, savings, insurance, financial education, financial management, and business training to a perceived unmet demand among the poor and small-enterprises to diversify income-generating activities (small industries, trade, and small business…) besides agricultural production. This sector is led by the GoV and MOs with the join of many donors and NGO programs to develop and mobilize the social interventions of poor communities. Moreover, improving financial inclusion, including the safe construction and sustainable development of the microfinance system, has been a core policy towards 2020 to serve the poor and micro business in the country.

GOVERNANCE PRACTICES FOR MICROFINANCE SECTOR

The introduction of economic reform in 1986 had brought out the high demand, the gap in microfinance services as well as the importance of microfinance for poverty alleviation. The involvement of microfinance activities in Vietnam has been then increasingly formalized. Semi-formal MFIs are encouraged to transform into licensed small-scale institutions under the supervision of SBV. Moreover, many laws and ordinances governing the operation of the microfinance sector separately from state-led banks have been passed. This section explores the current regulatory structure for microfinance activities and microfinance institutions in Vietnam.

Primarily, microfinance activities in Vietnam were controlled by the Civil Law in 1995, Law on Cooperatives in 1996, and Law on the State Bank and Law on Credit Institutions in 1997. As the most critical mass organization, the VWU was accepted to mobilize deposits in 2000 (Official Letter of the GoV, January 17th, 2000) and officially provide microfinance services in 2002 (Prime Minister's official letter No.209 and No.699). The interest rate gradually became liberal since 1996 and fully liberalized in May 2002, except for the VSPB (Decision No.546/2002/QĐ-NHNN).With ADB's technical assistance by the agreement TA VIE-3741 in January 2002, Vietnam became one of the Asian countries having approved new legislation for assisting microfinance development.

During the working for new Decree, policymakers suggested having a separate law for MFIs to specify their operations, broad scope of a business, and other issues (Official letter of the Vice Finance Minister, No.583/TC-TCNH and No.7877/TC-TCNH, 2004).As a result, the Decree No.28 was passed in March 2005 to allow the establishment of independent and dedicated MFIs. For the first time, microfinance officially became a part of the financial and banking sector that plays a vital role in poverty reduction. The year 2005 is also the "International Year of Micro-Credit." The current semi-formal MFIs (including NMPs, social-political and social organizations, charity funds, social funds)had two years to apply new rules and convert into regulated MFIs. As the “license-applying organization,” MOs should implement all microfinance schemes. The management boards, audit committees, and executive directors have to be approved by the SBV. The SBV is the regulator issuing license and supervising the MFIs. Nevertheless, the limited supervisory capacity of the SBV, institutional weakness of MFIs, subsidized credit, interest rate controls were the significant challenges at that time. Two years later, in 2007, Decree No.165 came out and amended Decree No.28.

A significant step forward, the most important event, in the microfinance development milestones in Vietnam, was the enactment of the Credit Institution Law (CIL) in 2010, granting legal acknowledgment of all MFIs. This regulation in place has turned the microfinance sector in Vietnam into a profitable investment. From then on, MFIs are a unique entity in the national financial system. Only official MFIs operate under the CIL, the management and control of the Ministry of Finance, and the supervision of SBV. It aims to protect financial consumers and build a more sustainable financial inclusion in the country. However, the guidelines for the CIL were not completing while some MFIs were operating under the Decree No.28 and Decree No.165. For example, TYM and CEP were confused, which implementation rule they should follow.

In 2011, the Prime Minister ratified the National Microfinance Strategy up to 2020 to strengthen and enhance the quality of microfinance activities in the country. This roadmap aims to integrate microfinance into the formal financial market by promoting the development of emerging MFIs and transform them into formal credit institutions under the management of the SBV. Nonetheless, despite the encouragement of the Government, the transformation progress has been slow and reluctant.

As shown in Table 1, the GoV and the SBV have promulgated many laws and regulations to support and develop the microfinance sector. Several government agencies have reinforced at the central and provincial level, including the Banking Supervisory Authority (BSA), the Insurance Supervisory Authority (ISA), the Vietnam Competition Authority, Ministry of Finance for state-owned banks, and the Provincial and Commune People’s Committee. However, overall coordination among these regulators and supervisors still lack in the reform strategy.

“*Microfinance programs and projects of political organizations, socio-political organizations, NGOs and credit institutions which have implemented before the effective date of this Law are not required to adjust their organization and operation according to this Law. The Prime Minister shall specify the operation of microfinance programs and projects defined in this Clause*” (Clause 6, Article 162, CIL 2010).

Table 1: Significant Points in the Regulatory Framework of the Microfinance Sector in Vietnam

Effective Date	Law No./Events	Remarks
August 1995	The VBP was established.	It is the first formal not-for-profit bank in Vietnam.
November 1997	Hunger Eradication and Poverty Reduction (HEPR) Program	Enhancing the access to credit and social services for the poor
January 2000	Official Letter from the Government Office	The VWU is allowed to implement micro-savings.
January 2002	- TA VIE-3741 Technical Assistance Project with the ADB - Decision No.546/2002/QĐ-NHNN On the implementation of the mechanism of negotiable interest rates in VND commercial credit activities of credit institutions for customers	Embarking the new legal framework for the development of the microfinance sector MFIs are free to build their interest rates, except for the VBSP.
2004	The Vietnam Microfinance Working Group was established.	It has become an essential part of the microfinance sector of Vietnam that supports the implementation of the rules and guaranteed access for target clients.
March 2005	Decree No.28/2005/NĐ-CP On organization and operation of small-sized financial institutions in Vietnam	A legal milestone that prepares for the policy framework on the formalization of microfinance activities
November 2007	Decree No.165/2007/ NĐ-CP Amendment, supplementation, and repeal of some provisions of the Decree No.28/2005/NĐ-CP	
April 2008	Circular No.02/2008/TT-NHNN Guiding the implementation of the Decree No.28/2005/NĐ-CP and Decree No.165/2007/ NĐ-CP	MFIs are not allowed to establish in the form of the joint-stock company. Their owners may be MOs and domestic NGOs, but not including foreign NGOs. Individuals or foreign organizations may contribute capital to establish an MFI but not more than 50% of charter capital.
September 2009	Decision No.1450/QĐ-TTg On the establishment of the Working Committee to assist the Prime Minister in developing microfinance policies and strategies.	Coordinated by the SBV, the Working Committee is allowed to access all level information on micro-financial operations to making recommendations.
April 2010	Decree No.45/2010/ND-CP On the organization, operation, and management of associations	Regulating the operation of local NGOs in Vietnam
June 2010	No.47/2010/QH12 Credit Institution Law (CIL)	It is a landmark law. For the first time, MFIs in Vietnam are recognized as an official credit institution, a part of the banking system of the country, and supervised by the SBV (except VBSP).
December 2011	Decision No.2195/2011/ QĐ-TTg National Microfinance Strategy up to 2020 "Build a safe and sustainable microfinance system in order to serve the poor, low-income	It affirms the acknowledgment of the country about the significant role and position of microfinance in the national financial system.

	people, micro and small enterprise, to ensure social security and sustainable poverty eradication."	
March 2012	Decree No.12/2012/ND-CP On the operation registration and management for international NGOs in Vietnam	NGOs are encouraged to implemented long-term projects of at least five years in humanitarian and development domains. They can get the certificate for registration within 45 days.
November 2012	Circular No.31/2012/TT-NHNN On the transformation PCFs into Cooperative Bank	A capital of $142 million and additional equity of $45 million by the Government has strengthened PCFs' capital.
December 2012	Decree No.30/2012/ND-CP On the organization and operation of social funds and charity funds	A set up for Social Funds. However, it did not indicate to microfinance, and there were a few points regarding regular supervision.
January 2013	- Circular No.03/2013/TT-NHNN Providing on credit information activity of the State Bank of Vietnam - Circular No.06/2013/TT-BTC The financial regime for MFIs	Credit institutions are requested to report all credit accounts regardless of the loan amount.
2014	- Decision No.381/ QĐ-TTg: On the re-establishment of the Microfinance Working Committee to assist the Prime Minister in guiding the development of microfinance operations. - Circular No.08/2014/TT-NHNN Interest rates applicable to short-term loans in Vietnamese Dong of Credit Institutions - Decision 2174/QD-NHNN: Interest rate for short-term loans	The policies aim to develop an inclusive, responsible, and sustainable microfinance sector. Many negotiable frames on interest rates were promulgated to ensure the benefit of both credit organizations and their clients. The annual interest rate cap is 8%.
2015	- Decision No.28/2015/ QĐ-TTg Credit policy for households escaping poverty - Decision No.30/2015/ QĐ-TTg The amendment and supplementation several regulations on the financial management of VBSP	- VBSP is guided to improve production and business for stable livelihoods and sustainable poverty reduction. - VBSP can preferentially borrow and access idle funds with low interest based on the State budget balance, the official development assistance source, aid, and other low-interest capital sources to lend to the poor and or policy objects.
June 2017	Decision No.20/2017/ QĐ-TTg On microfinance programs and projects of political institutions, socio-political organizations and non-governmental organizations	Maximum loan size for microfinance clients is VND 50 million.
February 2018	Circular No.03/2018/TT-NHNN On licensing, organization and operation of microfinance institutions	It replaced the Circular No.02 in 2008. The conditions for granting licenses for the establishment and operation of MFIs are improved.For example, minimum charter capital is VND 5 billion. The number of shareholders still limited to 5.

Source: Synthesis by the author.

In reality, there are no specific legal regulations to determine which are political organizations, socio-political organizations, and NGOs. The MOs are also not discussed the legal acceptance to provide microfinance products. Notably, government regulations on the establishment of funds and associations under Decree No.5/2010/NĐ-CP and Decree No.30/2012/NĐ-CP regulated the operation of NGOs and social funds without mentioning microfinance activities and regular supervision. Due to the lack of guidelines and supervision, many present WUs in the provinces need to establish microfinance schemes for poor women in localities but are not allowed by the local authorities.

Furthermore, the specific issue of promoting finance to the poor, the opening to foreign financial institutions, and the related methods of financing support to targeted communities has less attention regarding global financial integration. According to Circular No.03/2018/TT-NHNN, for example, the number of shareholders still limited to five. Also, foreign investors are not allowed to establish organizations providing microfinance servicesindependently, but through community organizations such as WUs.

The present regulatory system is still giving high priority to state-led banks on a level of the competitive ground. When coming to the implementation, it is sometimes uneven such as the cases of the mobilization activities of NMPs and the interest rate charged by semi-formal MFIs. The massive government involvement seems to eliminate a fair and competitive environment for players in the microfinance market.

Additionally, the operations of VBSP as the largest MFIs in Vietnam so far are governed and supervised by different ministries but not directly by the SBV while it was established to specialize in delivering financial service for women and the poor.

"*The Board of Directors includes 12 members: nine part-time members and 03 full-time members. The nine part-time members are: the Governor of the State Bank of Vietnam, who is the Chairman of the Board of Directors, Vice-Ministers or equivalent to Vice-Ministers of the Ministry of Finance, Ministry of Planning and Investment, Ministry of Labor – Invalids and Social Affairs, Ministry of Agriculture and Rural Development, Committee for Ethnic Minorities, Government Office, Vice Chairman of Vietnam Farmers Association, Vice Chairman of Vietnam Farmer Association, and Vice Chairman of Vietnam Women's Union. 03 full-time members include: 01 member who holds the position of Permanent Vice Chairman, 01 member who is the General Director, and other is Head of Supervisory Board."* (Decision No.131/2002/ QD-TTg of The Prime Minister about the Establishment of VBSP)

The interventions of too many governmental stakeholders in the VBSP's operation without concerning the financial regulatory framework supervised by the SBV might cause the asynchronous when processing the microfinance service to the target groups. Moreover, formal

MFIs in Vietnam generally operate in the province and district where their head office locates, and the current regulation does not permit agent banking. These factors might limit the expansion of formal financial services for the low and middle-income segments.

Last but certainly not least, many institutions in Vietnam providing microfinance services up to now are not applying for a license, so that they are not subject to the present regulations and must terminate their operation soon. As such, there is a lack of the practical legal framework to cover all types of current microfinance programs and projects as their unofficial nature has separated them from the scope of banking and finance regulation supervised by the SBV.

REGULATORY IMPACT ANALYSIS (RIA AND MULTI-CRITERIA ANALYSIS (MCA)

Guided by the OECD in 2008, RIA is a fundamental tool to examine the likely effect of new and already existing regulations. “Effective regulation is regulation that achieves the policy objective that led to it being made. Efficient regulation achieves these objectives at the lowest total cost – to all members of society” (OECD, 2008, p.4).As for the potential economic impact, inappropriate regulations can restrain national growth by creating obstacles in doing business and creating a negative environment. An RIA process includes (1) Identification of the problem → (2) Identification of objective for solving the problem → (3) Identification of alternatives for obtaining the objective → (4) Identification of impacts → (5) Decision of the best alternative.

Among decision-making support tools of RIA, MCA is chosen as it “allows systematic and transparent decision to be made even where quantification of major regulatory impacts is not possible” (OECD, 2008, p.15).It is an aggregate of all concepts: objectives (goals), criteria (or attributes), and criterion scores. Based on the suggested criterion, the weighted scores of each available policy option are added together and then determine which one best meets the objectives. The outputs of MCA can be used to decide the most preferred policy alternative or a shortlist of policy options for further appraisal, or rule out unacceptable policy options (Manual on regulatory impact assessment – Short version for the public service use in the Republic of Armenia).

Microfinance is a part of the overall financial system. However, the fundamental principles for its regulatory framework are likely different depending on institution and client characteristics. The mission that protecting customers and stabilizing financial markets has to be focused. Table 2 summarizes the main regulatory objectives for microfinance serving the poor communities. These objectives are to improve the safety of both clients and providers. A specific rule should direct to at least one goal.

Table 2: Regulation Objectives for Microfinance

Objective	Main reason for including objective	Type and scope of regulation	Examples of regulation measures
A - Promote safe and sound financial service providers	Information problems in deposit and lending business and negative externalities affect safety and soundness of providers	Prudential regulation: required only for deposit-taking institutions	Capital, liquidity, and provisioning requirements; management and governance standards
B - Guard against systemic risk	Risk of contagion exists among providers caused by negative externalities both among deposit -taking institutions and – to a lesser extent – among credit – only institutions	Systemic regulation: mostly for deposit-taking institutions	Lender of last resort; deposit insurance; payment system oversight
C - Establish a competitive market	Regulation can establish barriers to entry, and providers might benefit from market power when operating in unsaturated markets	Competition regulation: considering market power in specific locations and newly created entry barriers	Mergers and acquisition, interoperability, anti-cartel, and anti-collusion rules
D - Protect consumers	Negative consequences of market failures may hurt loan and savings clients	Conduct of business regulation for all types of financial institutions	Disclosure and fair treatment rules; recourse mechanisms
E - Improve access	Transaction costs, information problems, and externalities, as well as regulation itself, is all reasons for lack of access	Enabling regulation for all types of financial institutions	Removal of existing barriers; adjusting norms to suit microfinance

Table 3: Linkage between Regulation Objectives and Key Indicators

Year*	1995	1997	2000	2002	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2017	2018
Related Regulation Objectives**	E	E	E	C A	D	C		A	A C	A	A C	A	A	B	A D	E	A	A
Borrowers				■	■	■	■	■	■	■	■							
Depositors							■	■					■		■	■		
AOB												■						
LLR								■	■	■	■	■			■	■		
ROA								■					■					
ROE								■					■					
CPB												■				■		
OE															■			

Source: Author's Analysis based on Table 1, Table 2, and data from the MIX.

Note: * Year of Regulation Important Changes ** Regulation Objectives for Microfinance: A - Promote safe and sound financial service providers, B - Guard against systemic risk, C - Establish a competitive market, D - Protect consumers, E - Improve access

Criterion includes: Borrowers: Number of active Borrowers, Depositors: Number of Depositors, AOB: Average Outstanding Balance, LLR: Loan Loss Rate, ROA: Return on Assets, ROE: Return on Equity, CPB: Cost per Borrowers, OE: Operating Expense

IMPACT OF REGULATORY INNOVATION

Table 3 reveals how significant indicators were improved by regulation policies' innovation to obtain microfinance objectives in Vietnam. At first, implemented regulation changes (Table 1) were matched with regulation objectives (Table 2). Next, MCA is applied to determine the impact of regulatory objectives. The criterion framework is the result of microfinance performance indicators in the Microfinance Consensus Guidelines (Ledgerwood, 1998; Schreiner, 2002; Cull et al., 2009) and available data sources. It is supposed that any indicators' achievement is partly affected by regulation changes in that year and later. The linkages are signed by "■" in Table 3.

The number of active borrowers is rising from 2002 to 2010, so this increase can be the result of regulatory policy changes. In this period, the GoV passed many rules focusing on expanding the microfinance market and empowering providers, which are the objective A and C. Similarly, the regulatory took attention on regulation objective A that improved the Loan Loss Rate during 2007-2011. In general, the regulation policy is much concentration on Objective A that results in good fact for only the breadth of outreach and the quality of micro-loan products, as shown in Table 3.

Although the microfinance sector in Vietnam has developed significantly, most of the primary indicators are very fluctuating. The average outstanding balance (Depth of outreach) gradually increases, which means microfinance regulation changes do not work well on this criterion. For example, that of a MFIs, ACE in Vietnam, rose from US$61 in 2009 to US$228 in 2015, that of other MFI, Dariu in Vietnam, increased from US$76 in 2007 to US$318 in 2016 (based on data from the MIX). Moreover, ROA and ROE did not have good improvement. They achieved a little increase in 2007 and 2012 but were decreasing in general. Two last criterions in Table 3, cost per borrower and operating expense, are increasing year by year, so it seems the regulations do not have a good effect.

CONCLUSION

Since 2005, the microfinance sector in Vietnam recorded an impressive development regarding the number of clients and the establishment of new MFIs. The GoV has built a series of regulations to regulate the microfinance sector as well as put in place a sound governance system, especially in response to the entry into WTO. It is expected that MFIs in the country will become more professional toward market-oriented, and eventually, the disadvantaged groups will benefit from these positive changes.

The regulatory framework has gradually completed, but it might not serve the sector in the right way. There are policy and regulatory inadequacy in microfinance sector that does not meet the needs for sustainable growth. Although focusing on the MFIs' operation (Objective A and C), the overall regulation has created obstacles for sector growth. Additionally, the legislation should pay more attention to protecting the benefit of customers (Objective D) as well as expanding the microfinance market that enables more people to access (Objective E). It needs appropriate regulation to improve the microfinance sector in Vietnam.

Today, the sector has passed about 30 years of development, but it is considered a young industry. The total asset of all Vietnam MFIs accounts for just 2% of that of the banking sector (VMWG, 2015).Many of them are mainly providing small credit from donations and using the workforce and network of mass organizations to deliver the services. Only nine MFIs are formal in the market to be able to provide all microfinance services legally. MFIs in Vietnam have been forced to apply for proper operation under the supervision of the SBV rather than supported to facilitate operations to serve more poor people and attract investors.

Future studies will try to collect more relevant data over a more extended period to better understand the impact of policy reforms. Moreover, quantitative research methods should be applied appropriately to make recommendations more accurate. Microfinance is not a new field, but issues of how to have a suitable policy, systems, and governance to ensure the dual social and economic objectives are not easy for any organization or country.

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