

Capital Aid Fund for Employment of the Poor (CEP)

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**An Impact Assessment of the Microfinance Institution
Capital Aid Fund for Employment of the Poor**

Ho Chi Minh City, Vietnam

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CEP Impact Assessment

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Executive Summary

The Capital Aid Fund for Employment of the Poor (CEP) is a poverty-focused Vietnamese microfinance institution that operates entirely within Ho Chi Minh City. In December 2005 CEP had 59,868 active loan clients making it the largest microfinance institution in Vietnam. This impact assessment was undertaken in December 2005 to quantify the impact of CEP on reducing the poverty level of its clients and to evaluate whether adjustments to the CEP program could be made to enhance this impact.

The assessment was based on a sample of 1,138 clients and 316 prospective clients taken in 3 rural and 4 urban districts of Ho Chi Minh City. The assessment was broken into two components: a longitudinal component that tracked the well-being of clients at three separate points in time over a 43 month period; and a cross-sectional component that sampled CEP's weekly client group, comparing the well-being of clients on the basis of the number of loan cycles that they had participated in the CEP program.

The longitudinal component provided an illustration of how the well-being of client households had changed over time in relation to the type of loan product that the client had received. A sample of clients was surveyed on entry into the CEP program, in November 2003 and again in December 2005. This sample was broken down into CEP's three principal client households: daily clients engaged largely in high turnover petty trading activities; weekly clients engaged in labouring or small hand production activities; and monthly clients engaged in salaried employment. The longitudinal component sampled 293 clients that remained with the CEP program in December 2005, and 195 clients that had departed from the CEP program between November 2003 and December 2005. On average the sampled clients had joined the CEP program in May 2002.

The cross-sectional component facilitated an assessment of the impact of the CEP program in relation to the number of loan cycles that the clients had received. The component's sample consisted of 329 clients currently in their 2nd loan cycle, 321 clients currently in their 5th loan cycle, and a comparison group consisting of 316 prospective clients that had yet to participate in the CEP program. All clients came from the same communities and shared similar socioeconomic attributes, and hence the difference between the three groups was solely the length of time that they had participated in the CEP program. Clients were further differentiated with respect to residing in either rural or urban areas. The client sample for the cross-sectional component consisted entirely of CEP's weekly loan clients, which are the poorest of CEP's clients.

The impact of the CEP program was assessed using both components over a range of impact domains, which are outlined directly beneath. The use of a methodology that utilised both a longitudinal and cross-sectional approach enabled the stronger attribution of the observed impacts to the CEP program.

Select Findings of the Impact Assessment – Longitudinal Component

The assessment found that the impact of the CEP microfinance program on the well-being of its clients was very strongly positive with CEP's clients having improved their well-being the longer that they remained in the program and dropout clients also having benefited from their participation. The assessment also pointed to a number of areas where the program's impact could be improved particularly in the coastal region of Can Gio. A selection of the findings are outlined below:

- **Poverty Movement:** Client households have improved their overall level of well-being, with 45% of daily clients, 37% of weekly clients, and 69% of monthly clients that have remained with the program for an average of 43 months now classified as moderately poor, this compared to 20%, 7.5% and 31% respectively on entry into the CEP program.
- **Household Income:** Client households have significantly increased their incomes since joining the CEP program. The average per capita household income among weekly clients after 43 months in the CEP program increased from USD 0.70 per day on entry to USD 1.53 per day in December 2005. For daily clients the average per capita income increased from USD 0.94 per day

on entry to USD 2.01 per day in December 2005, and the monthly client per capita household income increased from USD 0.98 to USD 1.74 per day over the same period.

- **Household Assets:** Client households have significantly increased their holdings of assets after 43 months of participation in the CEP program through the acquisition of labouring tools, a means of transportation and household appliances.
- **Housing Condition:** The overall housing condition of clients has improved since joining the CEP program. For daily and monthly clients, improvements were evident in the physical quality of housing, increased house size, and access to direct water and electricity supplies. For weekly clients, the improvements were observed in increased direct access to electricity and water, and improved housing quality.
- **Food Shortages:** Between 2003 and 2005 clients experienced a decline in the incidence of food shortages and the length of shortages over each of the three client types. The majority of clients were able to solve these difficulties when they occurred by borrowing food or money from friends or family without interest.
- **Employment Opportunities:** There was a marginal increase in the assistance that clients received from other members of their household in their enterprises after 43 months of participation in the CEP program. On average one additional household member assisted the client in their enterprise.
- **Diversification of Income Generating Activities:** The number of income generating activities undertaken by daily clients increased from 1.07 on joining CEP to 1.21 after 43 months, from 1.20 to 1.38 for weekly clients, and from 1.10 to 1.44 for monthly clients. The increase demonstrates that the provision of credit facilitates activity diversification and a reduction in the risks faced by clients as a consequence of fluctuations in income.
- **Empowerment of Female Clients:** Female clients that remained with the program for 43 months gained self-confidence and 52% felt that since joining the CEP program they participated more significantly in decision making within the household and community. Additionally 73% of female clients indicated that group and centre meetings provided them with the opportunity to share experiences and raise issues of concern.
- **Repayment Difficulties:** There was an increase in the number of clients experiencing repayment difficulties from 2003 to 2005 in both the daily and weekly clients groups. This was due largely to clients from Can Gio, which is the district of HCMC where clients face the greatest difficulties in generating a stable income due to its isolation. The primary causes for the repayment difficulties were enterprise underperformance and ill-health.
- **Client Likes:** The aspect of the CEP program that clients liked to the greatest extent in 2005 was the low interest rates, with the reliability of the program another popular aspect. This was similar to the ranking of client likes in 2003
- **Client Dislikes:** The majority of clients indicated they did not have any dislikes. From 2003 to 2005 the dislikes of clients of the CEP program did not change significantly, though there was an increase in the number of clients that indicated that the loan size was too small.
- **Client Dropout Profile:** Dropout clients shared a very similar profile to the continuing client group, with the key differences attributed to: daily dropout clients being not as reliant on CEP loans to generate their household income as the continuing clients; weekly dropout clients were not using their credit as successfully as the weekly clients that continued to participate in the program; and monthly dropout clients had received a much smaller loan size than continuing clients.
- **Causes of Client Dropout:** The principal cause of client dropout was that the client no longer required the loan and had reached a level of economic stability. There were also a proportion of clients, predominately weekly clients, for whom the CEP program was not assisting to generate sufficient employment or income to meet loan repayments. This group of clients was concentrated in Can Gio.
- **Dropout Client Satisfaction:** 97% of the dropout clients indicated that they had benefited in some way from participation in the CEP program. The benefits stated by dropout clients were mainly economic; income increases, assisting in enterprise development, housing improvements, and increased household assets. In addition 72% of all dropout clients indicated that they would rejoin the program if CEP had a product that was more appropriate to their needs.

Select Findings of the Impact Assessment – Cross-Sectional Component

The findings from the cross-sectional survey indicated that the greater the number of loan cycles that the client participated in the CEP program, the greater the level of their household well-being. The households of CEP clients that were in their 5th loan cycle had a higher level of well-being than clients in their 2nd loan cycle and both client groups had a higher level of well-being than prospective clients of the same socioeconomic background. A selection of findings are provided below (please note that these findings relate solely to weekly loan clients, which are the poorest of CEP's three client groups and make up 62% of all clients):

- **Poverty Movement:** Client households have improved their overall level of well-being since entry into the CEP program and also have a higher level of well-being than prospective clients. The movement of rural clients between poverty categories was a slightly stronger than the movement of urban clients.
- **Household Income:** Client households have significantly increased their incomes since joining the CEP program. Average per capita incomes for clients in their 5th loan cycle have increased by 86% in urban areas and 127% in rural areas, and by 35% in urban areas and 49% in rural areas for clients in their 2nd loan cycle. Clients also have a considerably higher level of income than the prospective client group.
- **Household Assets:** In both urban and rural environments, clients that have remained with the CEP program for a greater number of loan cycles are likely to have significantly increased their level of well-being with respect to assets. They are also more likely to have a higher level of well-being in terms of assets than prospective clients. Improvements have occurred for rural clients through the acquisition of labouring tools, a means of transportation and household appliances. In urban areas the improvement has been realised through the acquisition of appliances and furniture.
- **Housing Condition:** The overall housing condition of clients has improved since joining the CEP program. The clients in their 5th loan cycle are better off in this respect than clients in their 2nd loan cycle, who in turn are better off than the prospective client group. This is indicative of a significant portion of later loan cycles being used explicitly to improve housing conditions and redress issues such as housing quality, direct connection to utilities and house ownership.
- **Food Shortages:** The incidence of food shortages among clients was strongly correlated with the length of time that the client had participated in the CEP program. In urban and rural areas, clients in their 5th loan cycle were less likely than clients in their 2nd loan cycle and the prospective client group to suffer from food shortages. However they were not less likely to endure the shortages for a shorter period of time when they did occur.
- **Employment Opportunities:** The longer the clients remain with the CEP program the more likely they are to have an additional household member assist them in their enterprises, the impact was slightly stronger in rural areas when compared to urban areas.
- **Diversification of Income Generating Activities:** Clients that receive a greater number of loan cycles are more likely to use their credit to establish additional income generating activities.
- **School Attendance:** In urban areas the long-term receipt of credit may exacerbate the situation of school-aged children not attending school. 4.4% of the children of prospective urban clients did not attend school, in comparison 6.6% and 7.9% of children of clients in their 2nd and 5th loan cycles respectively did not attend school. In rural areas, the children of clients in their 2nd loan cycle have the highest rate of school non-attendance at 14.6%, compared to 10.2% of the children of prospective clients and 5.2% of children of clients in their 5th loan cycle.
- **Empowerment of Female Clients:** Female clients participated to a greater extent in the decisions made within the household and community since joining the CEP program. The level of participation was higher for clients in their 5th loan cycle than for clients in their 2nd loan cycle. Additionally 72% of clients indicated that the group and centre meetings provided them with an opportunity to share experiences and raise issues of concern and 56% indicated that they actively took part in the centre and group discussions. Moreover 57% of clients stated that their confidence in expressing their opinion in front of others had increased as a result of the meetings.
- **Repayment Difficulties:** Of the 650 clients sampled only 28 (4%) indicated that they had difficulties in making loan repayments. The low rates of client repayment difficulties are indicative of a loan product that is very well tailored to the repayment capacity of clients.

- **Client Likes:** The aspect of the program that clients liked to the greatest extent was the low interest rates, particularly for rural clients. The other aspects of the program that were liked by more than 20% of clients were the easily accessible services, reliability, clarity of procedures, and the absence of any collateral requirements.
- **Client Dislikes:** 82% of the clients sampled indicated that they did not dislike any aspect of the CEP program. Among the clients that expressed a dislike for an aspect of the program, the inadequate size of loans was the most common.

Implications for the CEP Program

The primary implication stemming from the impact assessment is that the CEP program is very effective at facilitating improvements in well-being for the vast majority of its clients. In this respect the program provides a solid basis for further reducing poverty in Ho Chi Minh City and the surrounding provinces. The core elements of the program are robust, well liked, and well suited to the requirements of clients. A small proportion of clients were not able to utilise their loans to the extent of other clients and this was attributed to the poor performance of their enterprises and ill-health within the client household.

All implications arising from the impact assessment relate to improving the impact of the program, with a focus on how to prevent client difficulties, increase client satisfaction, and make corrections to areas where the program may have unintended impacts. In this regard the changes that CEP may consider to its program are summarised in the points below:

- Further develop an enterprise development program focused on clients that are unable to utilise CEP credit to improve the well-being of their households.
- Expand the CEP health insurance program to a greater number of districts.
- Increase the size of loans to existing clients to prevent client dropout.
- Encourage greater participation in the group and centre meetings.
- Provide incentives to encourage school attendance for children in client households.

1. Overview and Objectives of the Impact Assessment

This impact assessment sought to evaluate the impact of the 5-year CEP Microfinance Expansion Project on the poverty levels and general well-being of CEP's clients. The impact assessment was undertaken from December 2005 to January 2006 and consisted of two components: a quantitative longitudinal component that followed the same sample and methodology employed in the mid-term CEP Impact Assessment conducted in November 2003; and a quantitative cross-sectional component that followed a methodology similar to that used in the impact assessment conducted by CEP in August 2005 in Ba Ria Vung Tau. The reason for this approach was to make the best use of the impact data previously collected by CEP and to also expand the breadth of the exercise to include other aspects of impact and CEP branches that were not included in the original exercise in 2003. (The reports referred to above can be sourced from the CEP website: www.cep.org.vn).

The longitudinal component of the exercise attempted to follow the 613 clients sampled by CEP in November 2003, who had on average entered the CEP program 18 months earlier, and provided a view of the socioeconomic situation of clients at three distinct moments in time. This sample originally included 408 weekly clients, 148 daily clients, and 57 monthly clients in the 5 districts of Binh Chanh, Can Gio, Go Vap, Quan 2 and Quan 8. A proportion of the clients within this sample that had dropped out of the CEP program were re-sampled to determine the reasons for their departure and levels of satisfaction with the program.

The cross-sectional survey sampled approximately 480 urban clients and 480 rural clients in the 4 districts of Binh Chanh, Go Vap, Hoc Mon and Thu Duc. Each sub-sample consisted of approximately 160 prospective clients, 160 clients that were in their 2nd loan cycle and 160 clients that were in their 5th loan cycle. All clients sampled were weekly loan product clients, who are the most vulnerable of CEP's three principal client groups and constitute 62% of all CEP clients. This survey permitted current clients in their 2nd and 5th loan cycles to be compared to members of the same communities that had not yet participated in CEP's program. This enabled an assessment of the impact of CEP's program at a single point in time, where the principal difference between the sampled clients was the length of time that they had participated in the CEP program.

The two components of the impact assessment covered a range of impact domains including employment, dependency, health, education, housing condition, household income, household assets, client satisfaction, empowerment, and client dropout.

The specific objectives of the exercise were: to assess the socioeconomic impact of CEP on its clients and hence the impact of the Expansion Project on poverty reduction in HCMC; and to attain meaningful feedback for CEP on areas where its program may be underperforming or having unintended negative impacts.

2. Brief Introduction to CEP and the Microfinance Expansion Project

CEP is a poverty-focused microfinance institution operating in Ho Chi Minh City, with a mission to provide credit to the poor for income generation and employment creation. CEP operates in all 24 districts of HCMC and pursues a policy of targeting the poorest in each of the communities in which it operates.

CEP's core microfinance program offers its clients two savings products and three loan products, which due to the high level of poverty among clients, are used for income-generation. The three loan products differ primarily with respect to the frequency of loan repayments and are hence designated as daily, weekly and monthly. The daily loan product is targeted at petty traders who operate a micro-enterprise that provides a daily income stream; the weekly loan product at unsalaried labourers with variable and infrequent incomes; and the monthly loan product at workers who receive a monthly salary, who are in need of capital to supplement their incomes. Each of these loan products provides clients with capital to invest in a micro-enterprise that in turn enables the client to improve their well-being by facilitating sustainable increases in household income.

In July 2001, CEP together with the support of the Australian Agency for International Development (AusAID), embarked on a 5-year expansion project to add 7 branches, 15500 additional clients, and cover all 24 districts of HCMC. The overall goal of this project is to reduce poverty, through the expansion of the CEP microfinance program, and by developing a demonstration model for a financially sustainable Vietnamese microfinance institution that reaches and benefits the poor. Explicitly the three primary objectives of the project are:

- Institutional Capacity Building – to build the capacity of CEP to successfully manage the expansion project;
- Client Expansion – to support CEP in its expansion plan to reach more of HCMC’s rural and urban poor; and
- Demonstration Model – to assist CEP to become a demonstration model of a successful and sustainable Vietnamese microfinance institution, and to encourage replication of this model.

The Expansion Project finishes in June 2006, with the project having achieved its objectives with respect to client expansion and the capacity of CEP to sustainably manage expansion. The extent to which the project has met its goal of poverty reduction, and hence demonstrates a successful Vietnamese microfinance institution, is in part addressed by this impact assessment.

3. Context

CEP operates entirely within Ho Chi Minh City where there is widespread poverty among a sizeable proportion of the population. Information on the amount of people living in poverty in HCMC is scarce and the national poverty line is not really applicable in a city where the living costs are considerably higher than elsewhere in the country. With reference to the 2004 yearbook produced by the Statistical Office of Ho Chi Minh City the lowest quintile of the city’s residents had an average per capita income of USD 0.86 a day. This equates to 1.2 million people, which is a substantial number, but likely to be a conservative estimate after incorporating the quantity of undocumented poor immigrants in the city.

Over recent years the level of urban migration within Vietnam has increased markedly. Official estimates of the population of HCMC are in the vicinity of 6 million residents, however, unofficial estimates have the population as high as 10 million. The difference between the two figures being the quantity of immigrants in the city, many of who have migrated from the central provinces of Vietnam in search of employment opportunities and a means to support their families. These migrants are often among the poorest of HCMC society and hence the actual quantity and proportion of people living in HCMC on less than USD 1 a day may be much larger than officially acknowledged.

A great many of the residents of HCMC whether they are residents of long established communities or are newly arrived from outlying provinces live their lives in a state of tremendous instability and poverty. In terms of the living standards of residents of HCMC, they vary considerably depending on location, with rural areas having generally less access to basic utilities such as potable water and electricity than do urban areas. Residents of urban areas are also more likely than residents of rural areas to live in permanent housing.

It is in the context of a considerable number of people living in poverty that CEP implements its mission of poverty alleviation through the provision of saving and credit services. The geographical focus of CEP is Ho Chi Minh City, encompassing all 24 rural and urban districts. The high concentration of the poor and poorest in HCMC, undertaking economically marginal activities in order to sustain themselves and their families, taken together with the increasing urban migration of unskilled labour, adds to the growing demand for the services that CEP provides.

4. Impact Assessment Background

CEP conducted a large-scale impact assessment exercise in November 2003. This activity was the first such formal exercise undertaken by CEP and has provided the basis for subsequent smaller-scale impact assessments that have been performed by CEP. The original methodology was guided by the AIMS (Assessing the Impact of Microenterprise Services) framework and tailored to the specific

requirements and areas of interest of CEP. Over the last two years CEP has further refined its impact indicators in an effort to make them more robust but also to bring them into line with the Millennium Development Goals. However the procedures that CEP still employs to conduct an impact assessment remain consistent with those developed in the original exercise.

The focus of the 2003 impact assessment was the impact of CEP on its weekly clients. This was due to the greater vulnerability and disadvantage faced by clients in receipt of the weekly loan product, relative to both the monthly and daily loan product clients. The weekly loan product is provided to clients with the lowest incomes of CEP's three client groups, these are clients that by and large have income generating activities with irregular income streams. The weekly loan product is small in size with repayments made in small allotments over a 40-week interval so as not to exceed the client's repayment capacity. Weekly clients are the most likely to suffer from food shortages and other difficulties due to insufficient regular cash flows, they are also more likely to be migrants and hence unable to access free publicly provided education and healthcare. In contrast daily clients are engaged in small high turnover trading enterprises and monthly clients receive a regular monthly salary, albeit small, that provides a level of stability. This characterisation of CEP's three client groups has not changed and the welfare of weekly clients remains the principal concern of CEP and is the focus of the 2005 impact assessment.

A second area of concern for CEP is the cause of client dropouts, especially among weekly clients. The manner in which dropouts are defined (any client that completes one loan cycle and does not immediately receive an additional loan) may inflate the number of dropouts recorded, as it does not allow for 'resting' clients. Irrespectively the number of dropout clients is substantial, with 24,222 clients dropping out of the CEP program from January to December 2005. Over this period 21% of all dropouts were daily clients, 44% were weekly clients and 35% were monthly clients. As daily clients only receive loans of a 3-month duration, a high turnover of daily clients is expected, however it is of interest to CEP to revise the reasons as to why daily clients are leaving. It is of less interest to ascertain why monthly clients are departing as the majority remain with CEP for one to two loan cycles as many view the loans as a means to assist with short-term liquidity difficulties rather than a continued source of working capital. Weekly loan client dropouts are of the greatest concern to CEP. The causes of dropout for each client group are reviewed in the longitudinal component of the assessment.

The CEP Microfinance Expansion Project enabled CEP to create 7 new branches, which now have in excess of 25,000 clients, and increase its outreach in 3 pre-existing branches, providing a net increase of a further 5,000 clients. In addition the Expansion Project has facilitated an increased loan size for 10,000 clients in pre-existing branches. As CEP currently has approximately 59,900 clients, it is evident that the Expansion Project is responsible for over half of CEP's clients and has played a role in increasing the loan size for a significant proportion of others. Because of the size of the Expansion Project relative to CEP, it is impossible to treat separately CEP and the Expansion Project, especially in terms of the impact on CEP's clients. As a consequence CEP drew a sample for this impact assessment from 7 branches that reflected the diversity of CEP's operations, this included: 3 newly created branches under the Expansion Project; 2 pre-existing CEP branches that had received Project funding to increase outreach; and 2 branches where clients had received increased loan sizes under the Expansion Project. This provided a sample that was representative of CEP's branch network in urban and rural districts of HCMC with sufficient scope to cover the breadth of CEP's areas of operation under the Expansion Project.

Table 1: CEP Summary Information – 31 December 2005

| <i>Product</i> | <i>Product Description</i> | <i>Clients</i> | <i>Portfolio Size (VND)*</i> | <i>PAR > 4 weeks %</i> | <i>Dropout (2005)</i> |
|----------------|---|----------------|------------------------------|---------------------------|-----------------------|
| Daily loan | 60 to 90 day loan targeted at petty traders, flat 2.0 to 2.5% monthly interest rate, maximum VND 10 million loan size | 7,305 | 18.5 billion | 6.21 % | 5,158 |
| Weekly loan | 40 to 60 week loan targeted at labourers, flat 1% monthly interest rate, maximum VND 10 million loan size | 37,068 | 79.8 billion | 1.58 % | 10,578 |
| Monthly loan | 10 to 15 month loan targeted at salaried | 15,495 | 46.7 billion | 1.27 % | 8,486 |

| | | | | | |
|--|---|--|--|--|--|
| | workers, flat 0.7 to 0.8% monthly interest rate, maximum VND 10 million loan size | | | | |
|--|---|--|--|--|--|

* In December 2005, USD 1 = VND 15,900

5. Methodology

The impact assessment has two components: the first followed the 2003 sample and monitors the well-being of clients over an average of 3.5 years and is longitudinal in nature; and the second was based on a weekly client sample and compares the well-being of clients that have remained in the CEP program for a varying number of loan cycles and is hence cross-sectional in nature.

The methodology for the longitudinal component followed the same methodology employed in the CEP impact assessment exercise of 2003, where each of the 613 clients that have remained with the CEP program were re-surveyed (using the survey contained in Appendix 1) over the same core set of indicators to observe whether any changes have occurred. However as many of these clients have dropped out of the CEP program a second survey was provided to assess the reasons for their departure. The dropout survey (Appendix 2) focused on perceptions of the benefit of CEP rather than any specific changes in well-being, which was considered to be more appropriate for people that were no longer with the CEP program. The longitudinal component used dropouts and continuing clients to evaluate the impact of CEP, where analysis was based on the changes observed over the three periods of time.

The cross-sectional exercise used a quantitative survey (Appendix 3 – the survey is effectively the same as the survey contained in Appendix 1 though there are some superficial differences to avoid confusion with the longitudinal survey) through which data on each of the indicators is collected and impact assessed. A random sample of weekly labourer clients in 2 rural and 2 urban districts were sampled for the assessment. This sample consisted of clients that are in their 2nd and 5th loan cycles and compared them to a prospective client sample that acted as a comparison group. As the clients come from the same communities the differences observed between each group was attributed to the length of time that they had remained with CEP.

The respective survey tools were used to collect information for the indicators listed in section 5.1, which were used to measure differences and assess impact.

5.1 Indicators

Indicator 1: Client household poverty movement, as assessed by changes in CEP client poverty classification.

The CEP client poverty classification categorises clients into poorest, poor and moderately poor on the basis of *income, assets, housing condition, and dependency level* as defined below:

5.1.1 Dependency ratio

Calculated by dividing the number of members in the household by the number of income earning members.

| <i>Dependency Ratio</i> | <i>Assigned Points</i> | <i>Poverty Category of Dependency</i> |
|-------------------------|------------------------|---------------------------------------|
| Less than 2 | 3 points | Moderately Poor |
| From 2 to 2.99 | 2 points | Poor |
| 3 or more | 1 point | Poorest |

5.1.2 Average income

Calculated by dividing total monthly household income by the number of household members.

| <i>Average Income per Person in VND by District</i> | | <i>Assigned Points</i> | <i>Poverty Category by Income</i> |
|---|-------------------|------------------------|-----------------------------------|
| <i>Urban</i> | <i>Rural</i> | | |
| 400,000 or more | 300,000 or more | 3 points | Moderately Poor |
| 300,000 - 400,000 | 200,000 - 300,000 | 2 points | Poor |
| Below 300,000 | Below 200,000 | 1 point | Poorest |

5.1.3 Household assets

Points are allocated for household assets on the basis of:

| <i>Asset Category</i> | <i>Sub-Category</i> | <i>1 points</i> | <i>2 point</i> | <i>3 points</i> |
|-----------------------|---------------------|------------------|----------------------|----------------------|
| Arable land | Rice | None/rented | < 2000m ² | < 5000m ² |
| | Vegetable | | < 500m ² | < 1000m ² |
| | Fruit | | < 1000m ² | < 2000m ² |
| Animals | Poultry | None or < 15 | 15 to 100 | > 100 |
| | Swine | None or < 2 | 2 Animals | > 2 |
| | Cattle/Buffalo | None | 1 Animal | > 1 |
| | Aquatic | None | Small stock size | Medium stock size |
| Tools | | Rudimentary | Old/ rented | Owned/ valuable |
| Transport | | None/bicycle | Old motorbike/boat | New motorbike/boat |
| Appliances | | None | Old, damaged | Good quality |
| Furniture | | None/low quality | Medium quality | Good quality |

These points are then aggregated and classified as per the following table.

| <i>Household Asset Points Total</i> | <i>Assigned Points</i> | <i>Poverty Category by Assets</i> |
|-------------------------------------|------------------------|-----------------------------------|
| Greater than 15 points | 3 points | Moderately Poor |
| From 10 to 15 points | 2 points | Poor |
| Less than 10 points | 1 point | Poorest |

5.1.4 Housing index

Points are allocated to aspects of housing quality following the schedule below.

| <i>Housing Category</i> | <i>District Type</i> | <i>1 points</i> | <i>2 point</i> | <i>3 points</i> |
|-------------------------|----------------------|---------------------------|------------------------------|------------------------------|
| Ownership | | Rented/free | Free (family) | Owned |
| Location | | Alley < 2m | Alley 2 to 4m | Alley > 4m |
| Quality | | Temporary | Semi-Permanent | Permanent |
| House Size | Urban | < 4m ² /person | 4 to 6m ² /person | Over 6m ² /person |
| | Rural | < 6m ² /person | 6 to 8m ² /person | Over 8m ² /person |
| Water | | None | Indirect access | Direct access |
| Electricity | | None | Indirect access | Direct access |

The points accumulated from the above 6 categories are then reduced to the following poverty classification by housing quality

| <i>House Quality Points Total</i> | <i>Assigned Points</i> | <i>Poverty Category by Housing</i> |
|-----------------------------------|------------------------|------------------------------------|
| Greater than 15 points | 3 points | Moderately Poor |
| From 10 to 15 points | 2 points | Poor |
| Less than 10 points | 1 point | Poorest |

5.1.5 Overall poverty index

Calculated by adding the assigned point scores of the four indicators and dividing by 4 to get an average score.

| <i>Average Aggregate Poverty Level</i> | <i>Overall Poverty Classification</i> |
|--|---------------------------------------|
| 2.5 to 3 | Moderately Poor |
| 1.51 to 2.49 | Poor |
| 1 to 1.5 | Poorest |

Indicator 2: Food security as assessed by the number of weeks that a client experienced a shortage of food, or money to buy food, over a 12-month period (refer to question 22 of the attached quantitative survey).

Indicator 3: Increases in the number of self-employment opportunities in the household through the provision of credit. Assessed by the participation of other household members in the CEP client enterprises (questions 9 and 10 of the quantitative survey).

Indicator 4: Increases in new income generating activities undertaken by clients since joining the CEP program (questions 7 and 8 of the quantitative survey).

Indicator 5: Percentage and gender ratio of school-aged children of client households not attending school (refer to question 17 of the quantitative survey).

Indicator 6: Level of client household spending on children's education (refer to question 20 of the quantitative survey).

Indicator 7: Increases in the participation of women clients in making decisions within the family and the community (refer to questions 11, 12, 13, 14, 15, and 16 of the quantitative survey).

Indicator 8: Causes for client difficulties in meeting loan repayments (refer to question 23 of the quantitative survey and 8 of the dropout survey).

Indicator 9: Client likes (refer to question 24 of the quantitative survey and question 9 of the dropout survey)

Indicator 10: Client dislikes (refer to question 25 of the quantitative survey and question 10 of the dropout survey)

Indicator 11: Causes for client dropout (refer to question 11 of the dropout survey)

5.2 Client Sample and Sample Selection

The sample for the longitudinal survey was drawn from the 613 clients that were surveyed in November 2003. By December 2005, 293 of the original sample of clients remained with the CEP program and 320 had dropped out. The table below summarises the number of clients in both the continuing client and dropout samples by client and district type for this exercise. Each of the 613 clients were attempted to be re-surveyed, though 125 clients that departed the CEP program were unable to be located.

Table 2: Sample for the Longitudinal Component of the Impact Assessment

| <i>District Type</i> | Daily Client Sample | | | Weekly Client Sample | | | Monthly Client Sample | | |
|----------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
| | Original Sample (2003) | Current Clients (2005) | Dropout Sample | Original Sample (2003) | Current Clients (2005) | Dropout Sample | Original Sample (2003) | Current Clients (2005) | Dropout Sample |
| Rural | 62 | 25 | 14 | 184 | 85 | 61 | 36 | 18 | 13 |
| Urban | 86 | 26 | 25 | 224 | 128 | 77 | 21 | 11 | 5 |
| Total | 148 | 51 | 39 | 408 | 213 | 138 | 57 | 29 | 18 |

The sample for the cross-sectional survey was drawn from the weekly client group, consisting of approximately 5% of the weekly client population in 4 of CEP's branches; Binh Chanh and Hoc Mon as representative of rural branches, and Go Vap and Thu Duc as representative of urban branches. In each branch three groups of weekly clients were sampled; clients that were in their second loan cycle, clients that were in their fifth loan cycle, and a third group of prospective clients.

Specifically the sample will consist of:

- 158 urban weekly clients that are currently in their second loan cycle.
- 161 urban weekly clients that are currently in their fifth loan cycle.
- 156 urban prospective weekly clients, to act as a comparison group.
- 171 rural weekly clients that are currently in their second loan cycle.
- 160 rural weekly clients that are currently in their fifth loan cycle.
- 160 rural prospective weekly clients, to act as a comparison group.

In order to ensure a randomly selected sample a list of all clients fitting the above criteria in the focus branches was prepared by CEP's branches and each sample was selected randomly by CEP Field

Operations Department, who had no previous knowledge of individual clients. The prospective client sample consisted of clients that had been identified by the respective branches as potential weekly clients in the communities where CEP already had a presence.

5.3 Data Collection and Aggregation

In total 1,454 surveys were undertaken for the impact assessment consisting of 293 client surveys and 195 dropout surveys under the longitudinal component, and 650 client surveys and 316 prospective client surveys under the cross-sectional component.

CEP's Credit Officers, under the supervision of the Field Operations Department, carried out the surveys. Credit Officers from any of the branches targeted by the surveys were not permitted to participate in conducting the survey work in their respective branch, so as to mitigate any bias. The surveys were conducted in two waves, the first concentrating on the longitudinal component and the second on the cross-sectional component. The longitudinal surveys were conducted using ten two-person teams, responsible for undertaking approximately 25 surveys each over two days in the first week of December 2005. The cross-sectional surveys were conducted the following week, again using ten two-person teams, responsible for undertaking approximately 30 surveys each over three days.

The 1,454 surveys were transferred to CEP Head Office for data entry, analysis and report writing. CEP utilised a combination of excel and stata software to facilitate data entry, data aggregation and statistical analysis.

The assessment was carried out using processes developed in 2003 and refined in the subsequent two years. All new samples were randomly selected and all Credit Officers involved in the exercise participated in a workshop to promote greater objectivity in the delivery of the surveys and to ensure that each Credit Officer applied a consistent interpretation to each question and answer.

5.4 Impact Attribution

In the longitudinal component the well-being of clients was monitored at three points in time providing a picture of the poverty movement of clients participating in the CEP program. To ensure the attribution of observed impacts to the CEP program, in the cross-sectional component a prospective client group was used as a comparison group. In the cross-sectional component all samples were randomly selected and as such any significant difference observed between the client groups is attributed to the length of time the client has been in receipt of CEP's services rather than from the general development of HCMC over this period.

However it should be noted that CEP adheres to a client targeting policy whereby the poorest clients in any given community are prioritised for loans. This would imply that the comparison group consisting of prospective clients may have been marginally better off than the client sample at the clients' initial time of entry into the CEP program.

6. Impact Assessment Findings – Longitudinal Survey

An overview of the impact assessment's findings is provided in the sections below with respect to the indicators outlined in section 5.1. The findings have been divided into two, with section 6 containing the findings from the longitudinal survey and section 7 containing the findings from the cross-sectional survey.

The longitudinal survey attempted to follow the 613 clients that were sampled in CEP's November 2003 impact assessment. The sample was tracked with regard to CEP's three product lines, which correspond to three different client profiles: daily, weekly and monthly (a summary of the product lines and client profiles is contained in the table below). The sample was analysed on the basis of these three client types and further divided into the 293 clients that remained with the CEP program in December 2005 and the 320 clients that had dropped out, with 125 of the dropout clients unable to be

located and re-sampled. Sections 6.1 to 6.10 are concerned with the clients that have remained in the CEP program, with the dropout clients considered in section 6.11.

Table 3: Loan Product Summary

| Product | Product Description |
|-----------------|---|
| 1. Daily loan | <p>Terms of the Loan: 60 to 90 day loan, flat 2 to 2.5 % monthly interest rate, daily repayment schedule, loan size USD 65 to 650</p> <p>Client Description: The daily loan product is provided to petty trader clients who engage in daily trading activities usually in an informal marketplace. Clients are predominately women who come from a poor socioeconomic household and who live in marginal living conditions and support multiple dependents. Clients work very long hours usually from dawn until the evening and are often supported by family members in their enterprise. Client income is used to provide food and necessities for their households and to sustain their small enterprises. Clients of this loan product are less likely to suffer from food shortages than other CEP clients due to the higher turnover nature of their businesses.</p> <p>Use of Loan: This loan is intended primarily to purchase the stock of goods that the client trades in the marketplace. However a portion of loan money is often used to address non-enterprise related immediate needs such as school fees and medical attention for household members. The enterprises that clients engage in under this loan product are typically the selling of raw produce such as rice, fruit, vegetables etc., which are bought from producers.</p> <p>Business Outcomes: After 2 years it is expected that clients will be able to expand their businesses considerably and to begin trading in other related goods. The intention of the initial loan is to prevent the client from having to borrow the goods from the producer at a higher rate and hence receive a lower margin on the sale of goods. In general the higher turnover of their enterprises combined with access to credit provides the client with a greater capacity to set aside savings than the other two client groups and they are able to more rapidly reduce their level of poverty.</p> |
| 2. Weekly loan | <p>Terms of the Loan: 40 to 60 week loan, flat 1% monthly interest rate, weekly repayments, loan size USD 65 to 650.</p> <p>Client Description: The weekly loan product is provided to labourer clients engaged in the production of handmade goods or other production activities based on client labour. Recipients of this loan product are the poorest of CEP clients, predominately women, and their households are the most vulnerable to food shortages and health problems. Clients work long hours and often travel large distances to earn money, with the diversity of income generating activities within this client group the largest of the three client groups. Client houses often need new floors, roofs, walls, and lack proper sanitation systems. This client group is also the most likely to have migrated to HCMC from other parts of Vietnam and hence will not have permanent residency status thus making access to education and healthcare services more costly than is the case for residents.</p> <p>Use of Loan: The weekly loan product is intended for income generation and is used on a variety of enterprises, from the purchase of a bicycle to help the client in recycling paper and plastic, to materials for making baskets, incense, and brooms, and animal husbandry. As this client group is the poorest, a portion of funds is frequently used to pay for housing improvements, food and necessities and other large expenditure items. The loan cycle of this product is long and the amount smaller to account for the lower incomes of clients in this group and to ease the burden of repayments.</p> <p>Business Outcomes: The focus of this product is for clients to create, or build on, existing enterprises that generate incomes for the household to attain a measure of economic stability. Typically, after 2 years with CEP, clients increase their incomes and have improved several aspects of their living condition, usually this relates to improved food security and the paving of a floor or repair of ceilings and walls in their households.</p> |
| 3. Monthly loan | <p>Terms of the Loan: 40 to 60 week loan, flat 0.8% monthly interest rate, monthly repayments, loan size USD 130 to 650</p> <p>Client Description: The monthly loan product is provided to low salaried workers in factories and industrial estates, and recipients are both male and female. The salary that the client receives is often supplemented by the client working a second job, which places an additional burden on the client and their household. Client housing is often located near to the factories in which they work and is usually non-permanent. However due to the stability of receiving a monthly income, clients are less likely than weekly clients to suffer from food shortages and more often have access to education and healthcare services.</p> <p>Use of Loan: The monthly loan product is intended to provide working capital for small enterprises that are undertaken by the client or by a household member. Clients are free to use</p> |

| | |
|--|---|
| | <p>a portion of their loans for other activities, particularly for housing repairs and improvements. Clients of this loan product use their loans for activities such as animal husbandry and the establishments of small shopfronts selling small consumption goods such as sweets and cigarettes.</p> <p>Business Outcomes: The intention of the initial loan is to provide working capital to create an enterprise that will supplement household income with the secondary activity usually undertaken with the assistance of a household member. After two years the establishment of the enterprise leads to the client's household having much greater income generating capacity and the ability to fund housing repairs and improvements.</p> |
|--|---|

As indicated in section 5.2, 51 daily clients, 213 weekly clients, and 29 monthly clients, were sampled at three points in time: on entry into the program, which was on average in May 2002; in November 2003; and in December 2005. The age and marital status of the three client types was very similar with 80% of clients married and an average age in 2005 of 41 for the daily and monthly clients and 43 for the weekly clients. Where the samples differed was in the proportion of female clients where 82% of daily and 88% of weekly clients were female, compared to 48% of monthly clients. Another difference that was evident was in the size of the loans received, which is tabled below. This reflects that the average loan size was larger for the daily and monthly clients however the proportional increase from 2003 to 2005 was much greater for the weekly clients. Other differences such as the use and terms of loans are related directly to the conditions of the three loan products.

Table 4: Average Loan Size for 293 Existing Clients Sampled in the Longitudinal Survey

| <i>Average Loan Size</i> | <i>November 2003</i> | <i>December 2004</i> | <i>% Increase</i> |
|--------------------------|----------------------|----------------------|-------------------|
| Daily Client | 4,402,000 | 5,314,000 | 20.7 % |
| Weekly Client | 2,988,000 | 4,256,000 | 42.4 % |
| Monthly Client | 4,448,000 | 5,362,000 | 20.5 % |

6.1 Client Household Poverty Movement

Client poverty levels, and hence client poverty movement, are assessed by CEP using a composite indicator made up of client household income, household assets, housing condition and dependency level, which classifies a client's household into three categories; poorest, poor and moderately poor. The income measure is based on that of the Vietnamese Government's Hunger Eradication and Poverty Reduction program. As each client that joins the CEP program is assessed in this manner this enables the classification to be utilised as a comparative tool between clients of different loan duration and over time. The table below summarises some key points from each classification.

Table 5: CEP Poverty Classification Summary

| <i>Household Classification</i> | <i>Dependency Ratio</i> | <i>Income (USD per day)*</i> | <i>Assets</i> | <i>Housing</i> |
|---------------------------------|-------------------------|--|-------------------------------------|---|
| <i>Poorest</i> | 3 or more | Less than 0.65 (U) Less than 0.43 (R) | None to minimal, and of low quality | Low quality, non-permanent housing, lacking access to water and electricity |
| <i>Poor</i> | Between 2 and 3 | 0.65 - 0.86 (U) 0.43 - 0.65 (R) | Old and of low quality | Low quality, semi-permanent, but with access to electricity and water |
| <i>Moderately Poor</i> | Less than 2 | More than 0.86 (U) More than 0.65 (R) | Low to medium quality | Permanent, owned outright with direct access to electricity and water |

* (U) refers to clients in urban areas and (R) to clients in rural areas.

Table 6, and the subsequent graph, provide a summary of findings on the poverty movement of clients. It is apparent from this poverty movement that for each of the three client types that have remained with the CEP program over a 43-month period there has been a significant improvement in the overall well-being of their households. It is also apparent that there was a greater level of improvement in the clients' poverty status towards the beginning of their participation in the CEP program. Within the three client types the percentage of clients that have remained poorest after 43 months has reduced to 2% for daily clients, 8% for weekly clients, and 0% for monthly clients. This is

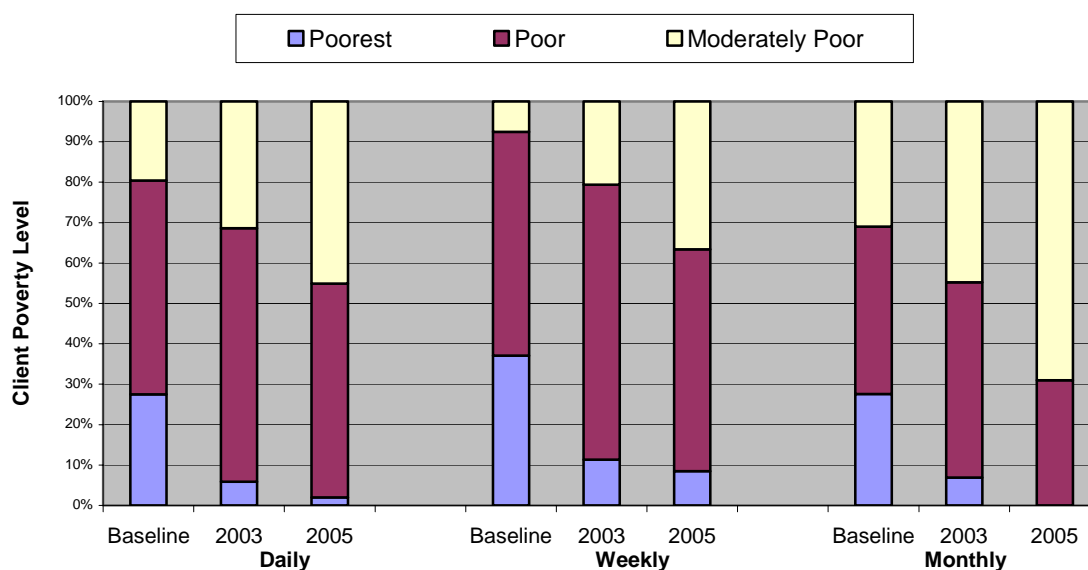
a significant decrease in the number of poorest clients when compared to the number on entry into the program irrespective of the loan type.

Table 6: Client Household Poverty Movement – Percentage of Clients in Each Poverty Category – Daily, Weekly and Monthly Clients (Baseline - Classification on entry into the CEP Program)

| Client Classification | Overall Poverty Classification | | |
|-----------------------------|--------------------------------|--------|-----------------|
| | Poorest | Poor | Moderately Poor |
| Daily | | | |
| Baseline (average May 2002) | 27.5 % | 52.9 % | 19.6 % |
| November 2003 | 5.9 % | 62.7 % | 31.4 % |
| December 2005 | 2.0 % | 52.9 % | 45.1 % |
| Weekly | | | |
| Baseline (average May 2002) | 37.1 % | 55.4 % | 7.5 % |
| November 2003 | 11.3 % | 68.1 % | 20.6 % |
| December 2005 | 8.5 % | 54.9 % | 36.6 % |
| Monthly | | | |
| Baseline (average May 2002) | 27.6 % | 41.4 % | 31.0 % |
| November 2003 | 6.9 % | 48.3 % | 44.8 % |
| December 2005 | 0.0 % | 31.0 % | 69.0 % |

At the other end of the poverty classification the number of clients moving out of the poor and poorest categories and into the moderately poor category is also very significant. In this respect 45% of daily clients, 37% of weekly clients, and 69% of monthly clients that have remained with the program for an average of 43 months are above the CEP poverty line.

CEP Client Poverty Movement



Underlying the movement in the overall poverty indicator are the 4 components of this indicator; dependency, assets, income, and housing condition. The changes in these indicators are briefly described below.

6.1.1 Dependency

The level of household dependency, as defined by the total number of household members divided by the number of working household members, is not markedly different between the three client types. However among all three types of clients there is an observed increase in both the number of household members and the number of working household members between joining the program and when surveyed in 2003. This increase resulted in very little movement in the overall dependency ratio over this period. However between 2003 and 2005 the three clients groups have seen a reduction in

the number of household members (but not to their pre-CEP level), which has led to the level of dependency in the household reducing. What is causing this movement in the three client groups is uncertain, however as a large number of clients are migrants, the initial increase of household numbers may have been caused by the arrival of extended family in search of employment opportunities. In which case, the provision of CEP capital to the household may have provided the impetus for the family member to migrate.

From November 2003 to December 2005 the number of income earners has remained stable in client households though the dependency level has slightly fallen indicating that there has been a departure of dependents in some households. This appears to be caused by the combination of the departure of a young adult from the household and a small number of relatives to either their province of origin or elsewhere.

Table 7: Client Household Dependency Ratios

| | Daily Clients | | | Weekly Clients | | | Monthly Clients | | |
|----------------------------|---------------|------|------|----------------|------|------|-----------------|------|------|
| | Base | 2003 | 2005 | Base | 2003 | 2005 | Base | 2003 | 2005 |
| <i>Dependency Ratio</i> | 2.00 | 2.02 | 1.93 | 2.06 | 2.09 | 1.91 | 1.82 | 1.80 | 1.70 |
| <i>Number in Household</i> | 3.84 | 4.33 | 4.27 | 4.25 | 4.93 | 4.68 | 3.72 | 4.62 | 4.45 |

* Base refers to clients on entry into the CEP program.

6.1.2 Income

Client households have significantly increased their incomes in each of the three periods. The greater percentage increase in per capita household income occurred during the first 18-month period, however in absolute terms the increase in income was greater in the second 25-month period. While the increase in income is large this is relative to the very low starting income of many clients and is offset to a certain extent by the increases in living costs (it is estimated by the HCMC Statistical Office that the price of rice in HCMC increased by 25% in the four years from 2000 to 2004). In terms of US dollars, the average per capita household income among weekly clients after 43 months in the CEP program increased from USD 0.70 per day on entry to USD 1.53 per day in December 2005. For daily clients the average per capita income increased from USD 0.94 per day on entry to USD 2.01 per day in December 2005, and the monthly client per capita household income increased from USD 0.98 to USD 1.74 per day over the same period.

Table 8: Percentage Increase in Average Household Per Capita Income in Domestic Currency

| | <i>Increase in income on joining CEP to Nov. 2003 (18 months)</i> | <i>Increase in income Nov. 2003 to Dec. 2005 (25 months)</i> | <i>Increase in income on joining CEP to Dec. 2005 (43 months)</i> |
|-----------------|---|--|---|
| Daily Clients | 57.5 % | 41.9 % | 123.6 % |
| Weekly Clients | 62.6 % | 39.7 % | 127.2 % |
| Monthly Clients | 41.1 % | 31.6 % | 85.7 % |

With respect to the clients' poverty classification by income, the significant movement occurs in the first 18 months after joining the CEP program and very little difference is observed between 2003 and 2005, this is due to the majority of clients moving into the moderately poor income category during this first 18-month period and the indicator does not capture any movement within this category. The lack of any significant difference between 2003 and 2005 indicates that there are a proportion of clients that have not benefited in terms of increased income from participation in the program. Moreover if the clients don't benefit within the initial 18-month period then they are unlikely to benefit by increasing their incomes further into the program. This points to a group of clients that require further assistance in order to enhance the impact of credit and facilitate increased incomes.

Table 9: Client Household Poverty Status by Income – Percentage of Clients in Each Poverty Category

| Poverty Classification | Daily Clients | | | Weekly Clients | | | Monthly Clients | | |
|------------------------|---------------|-------|-------|----------------|-------|--------|-----------------|-------|-------|
| | Base | 2003 | 2005 | Base | 2003 | 2005 | Base | 2003 | 2005 |
| <i>Poorest</i> | 35.3 % | 0.0 % | 3.9 % | 39.0 % | 5.2 % | 11.2 % | 27.6 % | 0.0 % | 0.0 % |

| | | | | | | | | | |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <i>Poor</i> | 11.8 % | 19.6 % | 19.6 % | 24.9 % | 22.1 % | 12.7 % | 20.7 % | 13.8 % | 10.3 % |
| <i>Moderately Poor</i> | 52.9 % | 80.4 % | 76.5 % | 36.1 % | 72.8 % | 76.1 % | 51.7 % | 86.2 % | 89.7 % |

6.1.3 Household Assets

Clients that have remained with the CEP program for 43 months are likely to have significantly reduced their level of poverty in terms of assets, with improvements occurring fairly evenly between the two periods. However while improvements have occurred in each of the 6 asset classes, the improvement is underpinned principally by the acquisition of labouring tools, a means of transportation and household appliances. This is true for all three of the client types.

Note that because of the weighting of this indicator on arable land and animal holdings it is very unlikely that an urban client will be classified as moderately poor using this indicator, as they will be unlikely to have either of these two types of assets. Conversely rural clients that hold these asset types are unlikely to hold the tools and appliance assets of the urban clients, and are hence also unlikely to be classified as moderately poor. Though this measure has been consistently used by CEP for many years and it is the movement of clients from poorest to poor that is of the greatest interest.

Table 10: Client Household Poverty Status by Assets – Percentage of Clients in Each Poverty Category

| Poverty Classification | Daily Clients | | | Weekly Clients | | | Monthly Clients | | |
|------------------------|---------------|-------------|-------------|----------------|-------------|-------------|-----------------|-------------|-------------|
| | <i>Base</i> | <i>2003</i> | <i>2005</i> | <i>Base</i> | <i>2003</i> | <i>2005</i> | <i>Base</i> | <i>2003</i> | <i>2005</i> |
| <i>Poorest</i> | 74.5 % | 51.0 % | 27.4 % | 83.1 % | 64.3 % | 50.2 % | 65.5 % | 41.4 % | 10.3 % |
| <i>Poor</i> | 25.5 % | 49.0 % | 72.6 % | 16.9 % | 35.2 % | 49.8 % | 34.5 % | 55.2 % | 82.8 % |
| <i>Moderately Poor</i> | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.5 % | 0.0 % | 0.0 % | 3.5 % | 6.9 % |

6.1.4 Housing Condition

The overall condition of client households has improved since joining the CEP program, with very few clients remaining classified as poorest after 43 months. Improvement has occurred fairly evenly over the two sample periods and was observed in each of the 6 components of the housing classification: housing ownership, house location, house quality, house size, and access to electricity and water.

For daily and monthly clients, improvements in the overall housing classification were driven by improvements in the physical quality of housing, increased house size, and access to direct water and electricity supplies. For weekly clients, the changes were caused by direct electricity and water access, and improved housing quality.

It should be noted that in the baseline survey, access to water and electricity were consolidated into one indicator, where to be poorest meant that the client did not have access to either. However in the quantitative surveys in 2003 and 2005 access to water and electricity were measured separately. For the purposes of calculating an overall housing indicator the baseline water and electricity poverty assessment was retained and given a double weighting to be consistent with the inclusion of separate electricity and water indicators in the quantitative survey. Though as improvement is observed relative to both indicators as well as between the two periods from 2003 to 2005 it is evident that a greater number of clients have direct access to both water and electricity, which is directly attributable to the ability to pay for a direct connection (refer to the dataset contained in Appendix 4 for details).

Table 11: Client Household Poverty Status by Housing – Percentage of Clients in Each Poverty Category

| Poverty Classification | Daily Clients | | | Weekly Clients | | | Monthly Clients | | |
|------------------------|---------------|-------------|-------------|----------------|-------------|-------------|-----------------|-------------|-------------|
| | <i>Base</i> | <i>2003</i> | <i>2005</i> | <i>Base</i> | <i>2003</i> | <i>2005</i> | <i>Base</i> | <i>2003</i> | <i>2005</i> |
| <i>Poorest</i> | 13.7 % | 5.9 % | 2.0 % | 23.5 % | 5.6 % | 0.9 % | 27.6 % | 3.5 % | 3.4 % |
| <i>Poor</i> | 66.7 % | 66.7 % | 52.9 % | 68.1 % | 80.3 % | 72.3 % | 37.9 % | 51.7 % | 41.4 % |
| <i>Moderately Poor</i> | 19.6 % | 27.4 % | 45.1 % | 8.4 % | 14.1 % | 26.8 % | 34.5 % | 44.8 % | 55.2 % |

6.2 Food Security

Food security is one of the impact domains of greatest significance to the well-being of client households. Access to credit provides the client with the capacity to establish and maintain a small enterprise, provide a regular income stream, and hence reduce the household's vulnerability to food shortages. In November 2003 and December 2005 clients were asked questions on the incidence and duration of food shortages as defined by insufficient rice to provide for daily household meals. The impact of CEP on food security between 2003 and 2005 was positive with a decline in the incidence of food shortages and the length of shortages over each of the three client types. The complete extent of the impact over their participation in the CEP program is difficult to assess, as baseline data on this indicator had not been recorded. It is apparent that weekly and daily clients were more likely than monthly clients to suffer from food shortages. This is due to the stability that receiving a salary brings to the monthly client households, which reduces the likelihood of food shortages.

Most clients were able to solve these difficulties by borrowing food or money from friends or family without interest. The clients that did not have recourse to friends and family, borrowed money or food with interest, and a total of 10.2% of clients experiencing food shortages in 2003 and 8.9% of clients in 2005 resolved this situation by accessing their savings held with CEP.

The percentage of clients experiencing food shortages at sometime during the year was sizeable, and hence it is an issue for CEP to reduce the vulnerability of clients to food shortages. The intention of the savings product is to permit clients a source of funds to overcome difficulties and this product should be easily accessed by clients for such purposes. It is likely that the clients' preferred way of addressing any food shortages is informally, however long-term clients such as those sampled here should be encouraged to access their savings before borrowing food or money to purchase food with interest.

Table 12: Percentage of Clients that Suffered from Food Shortages over the Preceding 12 months and the length of Food Shortages

| | Daily Clients | | Weekly Clients | | Monthly Clients | |
|--------------------------------|---------------|-----------|----------------|-----------|-----------------|---------|
| | 2003 | 2005 | 2003 | 2005 | 2003 | 2005 |
| <i>% Experiencing Shortage</i> | 11.8 % | 9.8 % | 19.7 % | 14.1 % | 3.5 % | 0.0 % |
| <i>Duration of Shortages</i> | 4.5 weeks | 2.2 weeks | 3.4 weeks | 2.6 weeks | 4.0 weeks | 0 weeks |

6.3 Increase in Employment Opportunities

Over the course of their participation in the CEP program there has been an increase in the assistance that clients have received in their enterprise from other members of their household. The number of household members assisting daily clients in their enterprise increased from 0.57, before receiving credit, to 0.73 after 43 months, from 0.74 to 0.86 for weekly clients, and from 0.69 to 0.76 for monthly clients. The increase is not sufficient to state anything meaningful in regard to increases in employment opportunities, however it is clear that for an average client enterprise the client is assisted by 1 additional household member.

6.4 Increase in New Income Generating Activities

Additional loan cycles provide capital for the client to invest in a secondary small enterprise that offsets the risk of the underperformance of the client's principal income generating activity. From the sample of clients surveyed it is evident that clients that take multiple loan cycles are more likely to use their credit to create additional income generating activities. The number of income generating activities undertaken by daily clients increased from 1.07 on joining CEP to 1.21 after 43 months, from 1.20 to 1.38 for weekly clients, and from 1.10 to 1.44 for monthly clients. This increase demonstrates that the provision of credit facilitates activity diversification, which may lead to a decrease in the risks faced by clients as a consequence of fluctuations in income. This is particularly beneficial for daily and weekly clients who are more reliant on non-salaried income generating

activities. The largest increase occurs among monthly clients, which is to be expected as a primary purpose of the loans are to assist in establishing a secondary enterprise.

6.5 Children’s Attendance at School

Table 13: Percentage of School-Age Children (Aged 6 to 15) in Client Households Not Attending School

| | Daily Clients | | Weekly Clients | | Monthly Clients | |
|---|---------------|-------|----------------|--------|-----------------|-------|
| | 2003 | 2005 | 2003 | 2005 | 2003 | 2005 |
| <i>% of Children Not Attending School</i> | 4.8 % | 7.9 % | 6.5 % | 10.6 % | 0.0 % | 0.0 % |

If the provision of credit facilitates higher household incomes, then this may provide less economic necessity for children to leave school before the age of 15. From the sample of CEP clients it appears that among weekly clients the percentage of clients with children not attending school has increased. While the daily client sample is too small to be significant (it is included here as a guide), the weekly client group has seen a significant increase in non-attendance. However this may be due more to demographic factors rather than the CEP program.

The average age of clients is 44 and their families are aging, with the number of children in these households falling from 215 in November 2003 to 188 in December 2005. As many of the clients’ children approach the age of 15 it is to be expected that the likelihood of school dropout will increase. It is hence more satisfactory to compare clients against non-clients to observe whether there is an impact created by the CEP program on this indicator; this is done in section 7.

6.6 Household Education Expenditure

This is an indicator that wasn’t captured in 2003 but it provides a guide as to whether clients from the three client groups spend differing sums of money on their children’s education. The sums are fairly similar with the marginally lower fees paid by monthly clients possibly a consequence of their formal residency status and access to relatively cheaper education. In contrast the other two groups are more likely to contain a large number of migrant clients, who have greater difficulty accessing relatively free publicly provided education services. The impact of CEP on this indicator will be considered in section 7 using the cross-sectional client sample.

Table 14: Amount Spent on School Fees in VND, and as a Proportion of Annual Household Income

| | Daily Clients | Weekly Clients | Monthly Clients |
|---|---------------|----------------|-----------------|
| <i>Annual amount spent on school fees</i> | 2,752,083 | 2,514,758 | 2,109,091 |
| <i>Amount spent on school fees as a proportion of annual household income</i> | 6.0 % | 6.3 % | 5.0 % |

6.7 Empowerment of Female Clients – Increase in the Participation of Women in Making Decisions within the Family and the Community

The empowerment of women is a significant objective of CEP’s operations. CEP addresses this issue by providing loans predominately to women and promoting greater community interaction. The provision of credit to a largely female clientele empowers women by providing them with the capacity to generate their own source of income and to allocate this income to the areas that she prioritises. This financial empowerment also may lead to greater equality in other social aspects, and general decision-making within the household. Supplementing this is the close relationships that clients maintain with other clients due to the group-based lending methodology. The formation of client groups enable a social network to develop where issues can be discussed and support can be found.

Female clients were asked whether, since joining the CEP program, they participated to a greater extent in the decisions made within the household and community. Table 15 depicts the findings, which imply that women that stay within the program for 43 months grow in confidence and feel that they are participating more significantly in the decisions within the household and community.

In addition clients were asked whether the group and centre meetings provided them with the opportunity to share experiences and raise issues of concern, to which 62% of daily clients, 75% of weekly clients, and 79% of monthly clients, indicated that it had. However, 43% of daily clients, 59% of weekly clients, and 71% of monthly clients stated that they actively took part in the centre and group discussions. Consequently, a significant proportion of clients do not actively take part in these forums. While this is normal in any group, if clients that otherwise would not actively participate could be encouraged to do so then the empowerment agenda of CEP would become even more effective.

Table 15: Percentage of Female Clients that Since Joining CEP Participate to a Greater Extent in the making of Community and Household Decisions

| | Daily Clients | Weekly Clients | Monthly Clients |
|--------------------------------------|---------------|----------------|-----------------|
| <i>Household General Decisions</i> | 50.0 % | 55.1 % | 64.3 % |
| <i>Household Financial Decisions</i> | 57.1 % | 60.4 % | 78.6 % |
| <i>Community Decisions</i> | 40.5 % | 38.0 % | 85.7 % |

6.8 Client Repayment Difficulties

The percentage of clients that experienced repayment difficulties during the last loan cycle was significantly greater in 2005 than for the same clients in 2003. This applies to the daily and weekly client groups, in contrast the monthly clients group experienced the same very low rate of repayment difficulties in both periods and consequently this group is not considered here.

The increase in repayment difficulties observed for both daily clients (from 2% to 22% of the clients sampled) and weekly clients (from 9% to 23%) from 2003 to 2005 is due largely to the clients sampled in Can Gio, which is the district in HCMC where clients face the greatest difficulties in generating a stable income. The people of Can Gio live in very poor isolated communities, with limited infrastructure and a local economy that is concentrated on fishing and harvesting products from the surrounding mangrove forests. The soil is unsuitable for agriculture, there is a very limited amount of fresh water available, and the area is susceptible to flooding during the wet season. There is also a high prevalence of families that have children with physical disabilities and learning difficulties, due to a combination of malnutrition and the large amount of dioxin that was dropped on the area during the Vietnamese-American war. In December 2005 CEP had 2,050 clients living in Can Gio and repayment arrears were 6 times higher than in CEP's average client communities.

The substantial increase in client repayment difficulties in Can Gio is due to the depressed local economy as a result of two consecutive low-yield fishing seasons, which is the principal industry in Can Gio. However it is doubtful whether this completely explains the observed increase in the level of repayments difficulties. Many of the clients surveyed in 2003 had only recently joined the CEP program and the community economy would have still been buoyed by the initial flow of CEP funds coming into the community. It is likely that the 2003 survey captured Can Gio clients at a point in time when the program was still strongly expanding outreach and that this may have permitted clients to engage in enterprises targeted at local consumption that may not have been viable in the long-term. The Can Gio branch was established in November 2001 under the AusAID Microfinance Expansion Project and the average Can Gio client sampled in 2003 was in their second loan cycle. Two years later the CEP program in Can Gio had stopped growing and in several communities additional loans had not been issued for several months.

The causes of client repayment difficulty, as nominated by the client, are detailed in table 16 below. In both client groups there are very few causes of difficulty that are likely to subside without intervention. There is considerable difficulty in assisting clients with addressing the high incidence of ill-health in Can Gio because of the lack of medical facilities. However CEP may be able to implement a program to assist in building the capacity of clients to generate income, perhaps through a structured community development or livelihood development program.

Table 16: Percentage of Clients Experiencing Repayment Difficulties and Causes of Difficulty

| | Daily Clients | | Weekly Clients | |
|--|---------------|--------|----------------|--------|
| | 2003 | 2005 | 2003 | 2005 |
| % of clients experiencing repayment difficulties | 2.0 % | 21.6 % | 9.4 % | 23.5 % |
| Causes of Difficulty (>1 response per client) | | | | |
| <i>Illness of the client or another household member</i> | - | 27 % | 25 % | 38 % |
| <i>Client enterprises not generating sufficient income</i> | - | 45 % | 30 % | 28 % |
| <i>Used loan money for food or other household items</i> | - | 27 % | - | 30 % |
| <i>Sold products but was not paid in time</i> | 100 % | 18 % | 30 % | 24 % |
| <i>Needed to pay other debts beside CEP</i> | - | 9 % | 15 % | 14 % |

6.9 Client Likes

The aspects of the CEP program that the clients indicated that they liked are listed in table 17 below. In 2005 the aspect that daily and weekly clients liked to the greatest extent was the low interest rates with the reliability of credit rated more highly by monthly clients. The main aspects that clients like about the CEP program have not altered to any significant extent between 2003 and 2005. In 2005 a larger proportion of daily clients indicated that they liked CEP's clear procedures, the reliability of credit and no collateral requirements. The elements that weekly clients liked remained unchanged, with slightly more clients indicating a liking for CEP's other financial services though this is still a small percentage. Monthly clients have a liking for CEP's reliability, whereas the low interest rates and repayment methodology are not as widely liked as in 2003.

Overall the likes of clients indicate that interest rates and reliability are the most popular aspects of the CEP program. The likes of clients also indicate that clients mainly see CEP as a source of credit rather than for its savings and insurance products.

Table 17: Summary of Client Likes (% of Clients that indicated they liked an aspect of the CEP program)

| Client Likes (<i>More than 1 response per client</i>) | Daily Clients | | Weekly Clients | | Monthly Clients | |
|---|---------------|------|----------------|------|-----------------|------|
| | 2003 | 2005 | 2003 | 2005 | 2003 | 2005 |
| <i>Low interest rates</i> | 65 % | 67 % | 73 % | 74 % | 66 % | 41 % |
| <i>Clear procedures</i> | 24 % | 49 % | 26 % | 25 % | 24 % | 17 % |
| <i>Reliable source of credit</i> | 29 % | 47 % | 31 % | 32 % | 28 % | 62 % |
| <i>Other financial products such as savings</i> | 8 % | 2 % | 9 % | 15 % | 3 % | 0 % |
| <i>No collateral or loan guarantees required</i> | 14 % | 33 % | 28 % | 28 % | 34 % | 21 % |
| <i>Appropriate repayment methodology</i> | 49 % | 8 % | 46 % | 24 % | 62 % | 28 % |

6.10 Client Dislikes

From 2003 to 2005 the dislikes of the CEP program of the 293 sampled clients did not change significantly. There were a larger number of clients in 2005 that indicated at least one dislike for the CEP program when compared to 2003, with the proportional dislikes of clients in 2005 largely remaining consistent with 2003. There was an increase in the number of clients that indicated that the loan size was too small, which is expected the longer the clients remain with the program. While the greater the number of loan cycles that the client remains with the CEP program, the larger the loan size that the client will receive, a point will be reached where CEP cannot provide the client with an increase in loan size that meets the client's demand. This is due to the commitment that CEP has to a large number of clients and limited on-lending funds, and hence dissatisfaction will result.

Overall there are not any trends in the dislikes of clients that indicate any new or serious flaws in the CEP model. However a small number of daily and weekly clients have expressed that they have to wait too long between loan cycles, which may indicate an issue with the efficiency of CEP's liquidity management. A summary of the principal dislikes of clients is contained in table 18 below.

Table 18: Summary of Client Dislikes (% of clients that indicated a dislike for the CEP program)

| Client Dislike (<i>More than 1 response per client</i>) | Daily Clients | | Weekly Clients | | Monthly Clients | |
|---|---------------|------|----------------|------|-----------------|------|
| | 2003 | 2005 | 2003 | 2005 | 2003 | 2005 |
| <i>No Dislikes</i> | 69 % | 47 % | 75 % | 53 % | 69 % | 45 % |

| | | | | | | |
|--|------|------|-----|------|------|------|
| <i>Loan size is too small</i> | 16 % | 22 % | 9 % | 18 % | 21 % | 34 % |
| <i>Loan cycle is too short or too long</i> | 2 % | 2 % | 5 % | 7 % | 10 % | 7 % |
| <i>Having to wait too long between loan cycles</i> | 12 % | 8 % | 3 % | 7 % | 0 % | 0 % |
| <i>High interest rates or cost of loan</i> | 8 % | 10 % | 2 % | 2 % | 7 % | 3 % |

6.11 Causes for Client Dropout

The number of CEP dropout clients in 2005 was substantial, with 24,222 clients dropping out of the CEP program from January to December 2005. Over this period, 21% of all dropouts were daily clients, 44% were weekly clients and 35% were monthly clients. In terms of the yearly client turnover per client type, 71% of daily clients, 29% of weekly clients, and 55% of monthly clients departed the program during 2005. However as daily clients receive loans of a 3-month duration, a high turnover of daily clients within one year, or 4 loan cycles, is expected. The high rate of monthly dropouts is also expected as a large proportion of CEP's monthly clients remain with CEP for only one to two loan cycles as many view CEP's loans as a means to assist with liquidity problems and large expenditure items rather than a continued source of working capital. It is the causes for departure of weekly clients that is the greatest concern to CEP. Weekly clients are the focus clients for CEP consisting of 62% of all CEP's clients, they are poorest, and the most in need of continued access to credit to sustain any improvements in the well-being of their households. The causes of dropout for each client group are reviewed below.

The causes for client dropout were assessed by way of a sample of 195 ex-clients that had departed from the CEP program between November 2003 and December 2005. This sample was taken from clients that had been surveyed in November 2003 who derived from the same urban and rural communities as the existing clients analysed in sections 6 to 6.10.

In order to ascertain whether there were any distinctive attributes among the clients that had dropped out of the CEP program between 2003 and 2005 and those that had remained, a brief review of the survey data collected in 2003 was undertaken. Breaking this information into the two groups of dropout and existing clients revealed very few distinctive features to set the samples apart. Overall the dropout client sample was not significantly different from the existing client sample in terms of background attributes such as age, household size and poverty status. The use of loans of dropout clients was also very similar to the existing client sample. Though across the three clients types the areas where the dropout client differed were that they were more likely to be married and more likely to be female. Table 19 contains a summary of these differences.

Table 19: Summary Client Profile from November 2003 – Clients that remained with the CEP program in December 2005 versus clients that dropped out of the CEP program between 2003 and 2005.

| | Daily Clients | | Weekly Clients | | Monthly Clients | |
|--|---------------|-----------|----------------|-----------|-----------------|-----------|
| | Existing | Dropout | Existing | Dropout | Existing | Dropout |
| <i>Average Age</i> | 41.3 | 44.8 | 44.0 | 44.0 | 41.4 | 37.5 |
| <i>Percentage married</i> | 78.4 % | 89.7 % | 82.2 % | 84.1 % | 79.3 % | 83.3 % |
| <i>Percentage female</i> | 82.3 % | 94.9 % | 87.8 % | 92.0 % | 48.3 % | 88.9 % |
| <i>Average Loan size</i> | 4,401,961 | 4,692,308 | 2,988,263 | 2,663,043 | 4,448,276 | 3,861,111 |
| <i>Household dependency ratio</i> | 2.02 | 2.02 | 2.09 | 2.05 | 1.80 | 1.86 |
| <i>Monthly per capita income</i> | 675,757 | 729,016 | 521,990 | 479,037 | 631,537 | 639,730 |
| <i>Poverty status – overall index</i> | 2.20 | 2.31 | 2.10 | 2.05 | 2.35 | 2.31 |
| <i>% Experiencing a shortage of food over the preceding year</i> | 11.8 % | 7.7 % | 19.7 % | 18.8 % | 3.5 % | 11.1 % |
| <i>% With repayment difficulties</i> | 2.0 % | 10.3 % | 9.4 % | 10.9 % | 6.9 % | 0 % |

Daily Clients

In the daily client group the average age of dropout clients was considerably older than the existing clients, with a higher proportion of dropout clients married and female. In 2003 the households of dropout clients had a higher monthly income and a higher level of household well-being, though they had also experienced greater repayment difficulties in 2003 than existing clients. In general the background information of daily dropout clients indicates that they were not as reliant on CEP loans

to generate their household income as the existing clients, which may have been a factor in their decision to dropout of the program. It should be noted that the dropout daily clients with repayment difficulties came from the area of Can Gio where the daily product is not that well suited to the nature of client enterprises due to the mismatch of high frequency loan repayments with the low cash turnover businesses that are common in Can Gio.

Weekly Clients

Weekly dropout clients had a marginally lower level of overall well-being, lower incomes and were in receipt of lower average loan sizes in 2003 than the clients that continued in the CEP program from 2003 to 2005. Dropout clients experienced the same level of repayment difficulties and food shortages as the existing client group and there is very little between the two profiles that indicates any significant difference or is suggestive of a weekly client type that was more likely to dropout. The one area where the two groups differ slightly is in their size of their improvements in income and general well-being over the period since joining the CEP program and November 2003. Among dropout clients their incomes grew by 48% and their poverty status index improved by 10% over this period, whereas for existing clients their incomes grew by 63% and their poverty status index improved by 17%. During this period the dropout client group went from having a slightly higher income and level of overall well-being to a slightly lower income and overall level of well-being when compared to the existing client group. This suggest that the weekly clients that dropped out of the program between 2003 and 2005 were not on average using their credit as successfully as the weekly clients that continued to participate in the program.

Monthly Clients

Monthly dropout clients were far more likely to be female and on average 4 years younger than the monthly clients that continues to participate in the CEP program. However with a sample size of 18 clients this information is unreliable and should only act as a rough guide to the general causes of monthly client dropouts. This is the client group that CEP is least concerned about as to the level of client dropout. This is due to the relative stability that clients have as a result of their monthly incomes and their ability to meet loan repayments as the repayments are aligned with the payment of salaries. However the clients that have dropped out, were the ones with much smaller loan size than existing clients in 2003. The dropout clients had households with the same number of dependents and the same income levels as the existing client group and they had no repayment difficulties. It is likely that the CEP loans may not have been necessary to assist the client improve their well-being, given the small size of loans relative to the size of their household incomes, and therefore the clients were indifferent in regard to continuing with the CEP program.

Table 20: Causes for Client Dropout of the CEP Program

| Cause of Client Dropout (>1 response per client) | Daily Client | Weekly Client | Monthly Client |
|--|---------------------|----------------------|-----------------------|
| 1. CEP credit is no longer useful to assist clients to further improve their well-being | | | |
| <i>Economically stable, no longer required loan</i> | 30.8 % | 30.4 % | 44.4 % |
| <i>Loan size is too small</i> | 15.4 % | 4.4 % | - |
| <i>Loan not generating more income</i> | 5.1 % | 15.9 % | 5.6 % |
| <i>Received credit from another source</i> | 5.1 % | 3.6 % | - |
| 2. Dissatisfaction or problems with CEP's processes | | | |
| <i>Relocated to another area</i> | - | 2.2 % | 11.1 % |
| <i>Too long to wait to received another loan</i> | - | 0.7 % | 5.6 % |
| <i>Repayment methodology not suited to the client</i> | 15.4 % | 12.3 % | 5.6 % |
| <i>Don't like CEP staff behaviour</i> | - | 1.5 % | - |
| <i>Violation or dislike of credit regulations</i> | 7.7 % | 6.5 % | 16.7 % |
| <i>Irreconcilable difference with clients or CEP</i> | - | 2.9 % | - |
| <i>CEP stopped issuing loans to consolidate centre</i> | 20.5 % | 1.5 % | - |
| <i>Employer unable to guarantee repayments</i> | - | - | 28.8 % |
| 3. Client's inability to meet repayments | | | |
| <i>Unstable employment</i> | 10.3 % | 16.7 % | 5.6 % |
| <i>Cannot repay</i> | 2.6 % | 4.4 % | 5.6 % |
| <i>Poor health</i> | 5.1 % | 10.9 % | - |

The causes for client dropout, as indicated by the dropout clients, are contained in table 20, which have been divided into three groups. The first group indicates causes for client dropout that are related to the clients' perception that the credit provided by CEP is no longer of any benefit to their enterprises and in improving the well-being of their households. The second group indicates causes for dropout that are related to dissatisfaction or problems with CEP's processes. The third group of causes for dropout are connected to the clients' inability to meet repayments.

As is evident from the table the principal cause for dropout among all clients was simply that the client no longer required the loan and had reached a level of economic stability. The responses within this first group of causes for dropout are the most common, which indicate that the clients do not think that the CEP's program will be of any further benefit to them. The loan size is only explicitly mentioned by a relatively small percentage of dropout clients as being a contributing cause, though it is likely that the reasons given for client dropout that fall within this first group are strongly tied to this factor. This is simply because the demand for credit among dropout clients is high, with 72% of clients indicating that they would take another CEP loan if offered a product more appropriate to their needs.

Within the second group of causes for client dropout; causes that are related to dissatisfaction or problems with CEP's processes, the only concern to CEP is where clients dropped out because the repayment methodologies were not suited to their requirements. As far as possible all products should be aligned with client repayment capacity and account for the business cycle of the client's income generating activities, however in the case of daily and weekly clients it may be the case that a proportion of clients have been inappropriately matched to loan products. The other causes of difficulty in this group relate to procedural problems or personal conflict that are unavoidable in a large institution. The issue relating to clients dropping out because of the reconsolidation of a centre relates to clients from Can Gio where there was a significant issue with repayment difficulties that resulted in CEP halting the disbursements of loans in certain communities for a period of time. The other significant issue relates to monthly clients and where the relationship between an employer and CEP has broken down. In this situation the employer was unwilling to guarantee loan repayments implying that CEP can no longer collect loans directly from within the workplace of the monthly client, making the product line too costly and inefficient to continue.

The third group of causes for dropout are areas where the CEP program has not assisted clients to generate sufficient employment or income to meet loan repayments. Again this group of clients is concentrated in Can Gio and this provides further support for a new approach for CEP in Can Gio, with a strong emphasis on building the capacity of clients to be able to utilise CEP's credit more effectively to generate higher income streams.

Table 21: Benefits Nominated by Dropout Clients due to Participation in the CEP Program

| Benefits of Participation | Daily Client | Weekly Client | Monthly Client |
|--|---------------------|----------------------|-----------------------|
| <i>% of dropout clients that indicated that they had benefited from participation in the CEP Program</i> | 94.9 % | 97.1 % | 100 % |
| How clients benefited (more than 1 response per client) | | | |
| <i>Increased household income</i> | 61.5 % | 70.3 % | 61.1 % |
| <i>Supported enterprise development</i> | 51.3 % | 42.8 % | 16.7 % |
| <i>Housing improvement</i> | 12.8 % | 7.2 % | 16.7 % |
| <i>Increased household assets</i> | 12.8 % | 8.7 % | 22.2 % |

97% of the dropout clients surveyed indicated that they had benefited in some way from participation in the CEP program. The benefits stated by dropout clients were mainly economic, such as income increases, assisting in enterprise development, housing improvements, and increased household assets. In addition 72% of all dropout clients added that they would rejoin the program if CEP had a product that was more appropriate to their needs. This indicates strongly that there remains a demand for credit among this group.

Table 22: Circumstances Under Which Dropout Clients Would Rejoin the CEP Program

| | Daily Client | Weekly Client | Monthly Client |
|--|--------------|---------------|----------------|
| <i>% of dropout clients that indicated they would rejoin CEP if offered a more appropriate product</i> | 64.1 % | 71.8 % | 88.9 % |
| Circumstances under which they would rejoin (principal responses only) | | | |
| <i>If lacking capital</i> | 20.0 % | 40.4 % | 25.0 % |
| <i>If the size of loans increased</i> | 16.0 % | 9.1 % | 18.8 % |
| <i>If repayment methodology was more suitable</i> | 20.0 % | 18.2 % | 12.5 % |
| <i>If found stable income generating activity</i> | - | 9.1 % | - |
| <i>If CEP re-disbursed loans in the community</i> | 24.0 % | 2.0 % | - |
| <i>If employer guaranteed loans</i> | - | - | 18.8 % |

Almost all dropout clients have perceived a benefit from participating in the CEP program, but they have left the program while still having a demand for credit that could not be met by the program. The principal reasons for this is that CEP loans are too small for the moderately poor clients, and for the lowest income clients CEP loans are not able to sufficiently increase their incomes to facilitate loan repayments and significant improvements in well-being. Client dropouts may be reduced if these two areas are targeted, with the latter holding greater priority. In this respect CEP could look to introduce a program to support clients to develop enterprises that better utilise CEP's credit. There are also some issues with the efficiency of CEP's processes and the suitability of loan repayment frequencies that may also cause a proportion of client dropouts. CEP's processes should continue to be efficient and transparent with loans matching the repayment capacity and business cycle of the clients, particularly in areas where client businesses are strongly seasonal such as in Can Gio.

7. Impact Assessment Findings – Cross-Sectional Survey

The longitudinal survey sampled each of CEP's three client types, whereas the cross sectional survey solely sampled clients in receipt of the weekly loan product. Clients of the weekly loan product are the group of greatest interest and concern to CEP due their greater poverty levels. They also make up 62% of all CEP's clients.

Under the cross-sectional survey a total of 966 clients and prospective clients were sampled. This sample was differentiated by the number of loan cycles that the clients had participated in the CEP program and by whether the clients resided in an urban or rural district. Two groups of weekly clients were randomly sampled; clients that were undertaking their second loan cycle, and clients undertaking their fifth loan cycle. A third group of prospective clients, who had not participated in the CEP program, was also sampled to provide a comparison group. As all three of these groups reside in the same communities, have similar socioeconomic backgrounds, and undertake similar income generating activities, the principal difference between the clients lies in the length of time that they have been in receipt of credit from CEP. It should be noted that the prospective clients were slightly younger than the two client groups in rural areas and consisted of a higher proportion of males in urban areas. An overview of some background attributes is provided in table 23 below.

Table 23: Client Cross-Sectional Sample – Background Attributes

| Attribute | Urban Clients | | | Rural Clients | | |
|--|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| <i>Sample Number</i> | 156 | 158 | 161 | 160 | 171 | 160 |
| <i>Average Age</i> | 42.9 | 42.0 | 42.3 | 37.8 | 41.8 | 44.3 |
| <i>% Female</i> | 88 % | 94 % | 96 % | 85 % | 84 % | 87 % |
| <i>% Married</i> | 81 % | 84 % | 83 % | 87 % | 86 % | 83 % |
| <i>Number Living in Client Household</i> | 4.3 | 4.4 | 4.6 | 4.2 | 4.2 | 4.6 |

In the CEP program the size of the loan given to the client gradually increases at each subsequent loan cycle, in line with the client becoming better able to use the credit and manage their repayment responsibility. Given that the principal difference between the clients sampled is the number of loan cycles that they have received, it is implied that this relates to both the length of time that clients have

participated in the program and the size of the loans that clients receive. The extent of this difference in loan size between client in the 2nd and 5th loan cycles is illustrated in table 24.

Table 24. Average Size of the Last Loan Received by Clients Sampled in the Cross-Sectional Survey

| <i>Average Loan Size (VND)</i> | <i>2 Loan Cycle Clients</i> | <i>5 Loan Cycle Clients</i> | <i>% Difference</i> |
|--------------------------------|-----------------------------|-----------------------------|---------------------|
| Rural Areas | 3,354,000 | 4,200,000 | 25 % |
| Urban Areas | 3,187,000 | 4,121,000 | 29 % |

7.1 Client Household Poverty Movement

Client poverty levels are assessed by CEP using a composite indicator made up of client household income, household assets, housing condition and dependency level, which classifies a client's household into three categories; poorest, poor and moderately poor. On the basis of the classification the movement of clients across categories can be assessed. Table 25, and the subsequent graph, provide a summary of the poverty movement of clients. A description of the poverty classification is contained in sections 5.1 and 6.1.

It is apparent from the poverty movement that a client remaining with the program for a greater number of loan cycles does benefit in terms of improvements in their overall poverty status. This is evident from a quick observation of the moderately poor category across each client group; 52% of urban clients that have entered into their 5th loan cycle are classified as moderately poor, this compares to 9% on entry into the program, and 35% of clients in their 2nd loan cycle. Likewise 56% of clients that have entered into their 5th loan cycle in rural areas are classified as moderately poor, this compares to 11% on entry into the program, and 47% of clients in their 2nd loan cycle.

Of the prospective client group, 22% and 35% are classified as moderately poor in urban and rural areas respectively, which is considerably less than the percentage of moderately poor clients in their 5th loan cycle.

Table 25: Client Household Poverty Movement – Percentage of Clients in Each Poverty Category – Prospective Clients, 2 and 5 Loan Cycle Clients

| Client Classification | Overall Poverty Classification | | |
|----------------------------------|---------------------------------------|-------------|------------------------|
| | <i>Poorest</i> | <i>Poor</i> | <i>Moderately Poor</i> |
| Urban | | | |
| Baseline of 5 Loan Cycle Clients | 7.5 % | 83.2 % | 9.3 % |
| 5 Loan Cycle Clients | 3.1 % | 45.3 % | 51.6 % |
| Baseline of 2 Loan Cycle Clients | 12.0 % | 69.6 % | 18.4 % |
| 2 Loan Cycle Clients | 8.2 % | 57.0 % | 34.8 % |
| Prospective Clients | 10.9 % | 67.3 % | 21.8 % |
| Rural | | | |
| Baseline of 5 Loan Cycle Clients | 9.4 % | 79.4 % | 11.2 % |
| 5 Loan Cycle Clients | 0.6 % | 43.1 % | 56.3 % |
| Baseline of 2 Loan Cycle Clients | 18.1 % | 64.9 % | 17.0 % |
| 2 Loan Cycle Clients | 4.1 % | 49.1 % | 46.8 % |
| Prospective Clients | 6.9 % | 58.1 % | 35.0 % |

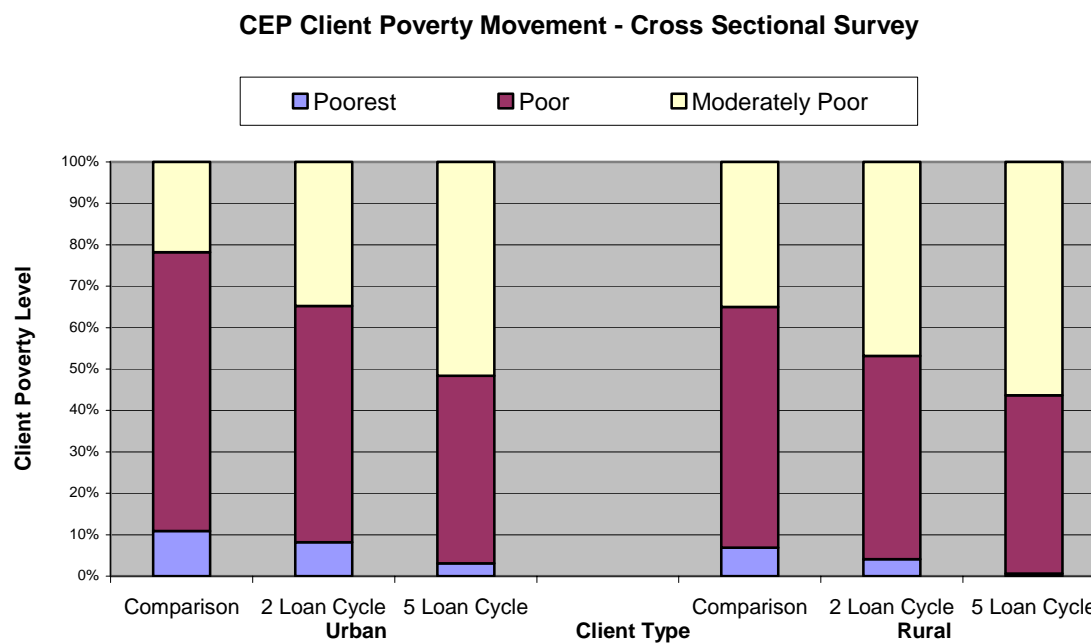
(Baseline - Classification upon entry into the CEP program)

While the 5th loan cycle clients have experienced significant improvements in terms of their overall poverty classification, when compared to their poverty classification on entry into the CEP program, it should be noted that there is also an improving trend with respect to the poverty levels of clients on entry into the program and the prospective client group. This suggests that there has been an underlying improvement in the level of well-being of the general community over the past 3 to 4 years. From this information, it is highly likely that the provision of credit has permitted clients to take advantage of the overall strengthening of economic conditions within their communities to further improve their well-being.

The observed improvement in the clients' baseline poverty level may not be fully attributable to a general community improvement, as it is offset to a certain extent by CEP's poverty targeting policy,

which prioritises the poorest members of the community. Hence the longer-serving clients are more likely to have been marginally poorer than the more recent clients at the time that they joined the program several years ago.

Most importantly however is the reduction in the number of poorest clients. Only 3% of urban clients and 1% of rural clients in their 5th loan cycle remain in the poorest classification, when compared to 8% and 9% respectively on entry into the program, and 11% and 7% among prospective clients. Among clients in their 2nd loan cycle the number of clients classified as poorest has decreased from 12% in urban areas and 18% in rural areas to 8% and 4% respectively.



It is evident from table 25 that there is a slightly stronger movement of rural clients between poverty categories than when compared to urban clients, particularly among clients that are currently in their 2nd loan cycle. This may be attributed to the greater ease with which rural clients are able to quickly improve their well-being in areas such as the acquisition of assets or housing improvements because of their relatively low cost in rural areas when compared to urban areas. Rural clients also have a greater diversity of income generating options available to them, whereas the urban clients are more likely to undertake small trading activities in highly competitive areas. Irrespectively, the improvement in the poverty classification of all client groups is strong.

Underlying the movement in the overall poverty indicator are the four components of this indicator; dependency, assets, income, and housing condition. The changes in these indicators are briefly described below.

7.1.1 Dependency

The level of household dependency, as defined by the total number of household members divided by the number of working household members, is not markedly different between prospective clients, and 2nd and 5th loan cycle clients. However both the number of household members and the number of working household members have increased over time among the client groups, such that on average within these groups the addition of dependents has been offset by the addition of working household members in order to slightly decrease the dependency ratio.

Table 26: Client Household Dependency Ratios

| | Urban Clients | | | Rural Clients | | |
|-------------------------|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| Dependency Ratio | 1.92 | 1.86 (1.91) | 1.83 (2.03) | 1.85 | 1.72 (1.70) | 1.63 (1.70) |

| | | | | | | |
|--------------------------------------|-----|-----------|-----------|-----|-----------|-----------|
| <i>Number of People in Household</i> | 4.3 | 4.4 (4.3) | 4.6 (4.4) | 4.2 | 4.2 (3.6) | 4.6 (4.4) |
|--------------------------------------|-----|-----------|-----------|-----|-----------|-----------|

(Baseline figures included in brackets).

7.1.2 Income

Client households have significantly increased their incomes since joining the CEP program. Average per capita incomes for clients in their 5th loan cycle have increased by 86% in urban areas and 127% in rural areas, and by 35% in urban areas and 49% in rural areas for clients in their 2nd loan cycle. Clients also have a considerably higher level of income than the prospective client group. This suggests that the provision of CEP credit has a significant impact on household income, which is the primary objective of the income generating loans provided to clients.

Table 27: Percentage Increase in Average Household Per Capita Income in Domestic Currency

| | <i>Urban Clients</i> | <i>Rural Clients</i> |
|---|----------------------|----------------------|
| <i>Increase in income since joining CEP (5 Loan Cycle Clients)</i> | 85.5 % | 127.4 % |
| <i>Increase in income since joining CEP (2 Loan Cycle Clients)</i> | 34.6 % | 48.6 % |
| <i>5 Loan Cycle Client Income as a % of Prospective Client Income</i> | 118.0 % | 143.4 % |
| <i>2 Loan Cycle Client Income as a % of Prospective Client Income</i> | 112.0 % | 114.5 % |

It is evident from table 28 that the number of households in each group that earn an income lower than the income-based poverty line for HCMC, is correlated to the number of loan cycles that the group has remained with the CEP program. Of the clients that are in their 5th loan cycle, only 14% of urban clients and 8% of rural clients fall under the income based poverty line, this compares to 18% of urban clients and 25% of rural clients in their 2nd loan cycle, and 30% of prospective clients in both rural and urban areas.

Table 28: Client Household Poverty Status by Income – Percentage of Clients in Each Poverty Category

| <i>Poverty Classification</i> | <i>Urban Clients</i> | | | <i>Rural Clients</i> | | |
|-------------------------------|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| <i>Poorest</i> | 16.0 % | 8.2 % | 4.4 % | 12.5 % | 7.6 % | 1.2 % |
| <i>Poor</i> | 13.5 % | 10.1 % | 9.9 % | 17.5 % | 17.6 % | 6.9 % |
| <i>Moderately Poor</i> | 70.5 % | 81.7 % | 85.7 % | 70.0 % | 74.8 % | 91.9 % |

7.1.3 Household Assets

As is the case with income, in both urban and rural environments, clients that have remained with the CEP program for a greater number of loan cycles, are likely to have significantly reduced their level of poverty with respect to assets. They are also more likely to have a higher level of well-being in terms of assets than prospective clients. However while improvements have occurred in each of the 6 asset classes, the movement in rural clients is underpinned principally by the acquisition of labouring tools, a means of transportation and household appliances. In urban areas the improvement has been caused by the acquisition of household appliances and furniture.

Table 29: Client Household Poverty Status by Assets – Percentage of Clients in Each Poverty Category

| <i>Poverty Classification</i> | <i>Urban Clients</i> | | | <i>Rural Clients</i> | | |
|-------------------------------|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| <i>Poorest</i> | 58.3 % | 46.8 % | 26.7 % | 55.6 % | 32.8 % | 33.8 % |
| <i>Poor</i> | 41.7 % | 53.2 % | 72.7 % | 43.1 % | 67.2 % | 65.6 % |
| <i>Moderately Poor</i> | 0.0 % | 0.0 % | 0.6 % | 1.3 % | 0.0 % | 0.6 % |

7.1.4 Housing Condition

The overall housing condition of clients in both their 2nd and 5th loan cycle client households has improved since joining the CEP program. The clients in their 5th loan cycle are better off in this respect than clients in their 2nd loan cycle, who in turn are better off than the prospective client group.

This is indicative of a significant portion of later loan cycles being used explicitly to improve housing conditions and redress issues such as housing quality, direct connection to utilities and house ownership.

In rural areas, the difference between the three groups is evident in the areas of house ownership, improvements in the physical quality of housing, and increased electricity access. The greater level of housing condition among clients that have remained with the CEP program for a larger number of loans cycle can be attributed to a greater capacity to pay for connection to utilities, housing improvements, and official certificates of house ownership.

In urban areas, while the improvement in housing condition has been significant for clients in both their 2nd and 5th loan cycles when compared to their housing condition on entry into the CEP program, there is not a considerable difference between the three client groups over each individual category of housing condition. Though across all categories of housing condition the 2nd and 5th loan cycle clients have a slightly higher level of housing condition than the prospective client group. The greatest difference being with respect to access to water, which is related the clients' ability to pay for the connection.

Table 30: Client Household Poverty Status by Housing – Percentage of Clients in Each Poverty Category

| Poverty Classification | Urban Clients | | | Rural Clients | | |
|------------------------|---------------------|--------------|--------------|---------------------|--------------|--------------|
| | Prospective Clients | 2 Loan Cycle | 5 Loan Cycle | Prospective Clients | 2 Loan Cycle | 5 Loan Cycle |
| <i>Poorest</i> | 1.3 % | 2.5 % | 0.6 % | 1.9 % | 1.2 % | 0.0 % |
| <i>Poor</i> | 83.3 % | 77.2 % | 70.8 % | 71.2 % | 55.0 % | 53.8 % |
| <i>Moderately Poor</i> | 15.4 % | 20.3 % | 28.6 % | 26.9 % | 43.8 % | 46.2 % |

7.2 Food Security

Prospective clients and clients in their 2nd and 5th loan cycles were asked questions on the incidence and duration of food shortages as defined by insufficient rice to provide for daily household meals. As illustrated in table 31 the incidence of food shortages among clients was strongly correlated with the length of time that the client had participated in the CEP program. In urban and rural areas, clients in their 5th loan cycle were less likely than clients in their 2nd loan cycle and the prospective client group to suffer from food shortages. However they were not less likely to endure the shortages for a shorter period of time when they did occur.

The majority of clients were able to overcome their food shortages by borrowing food or money from friends or family without interest. Though 28% of all clients who experienced food shortages accessed either emergency credit or their savings held with CEP to overcome their difficulties.

This suggests that the on-going provision of credit provides greater support to the client in building a stable income-generating activity that minimises the incidence of food shortage. Though when the activity or the client run into difficulties the longer-term client takes longer to overcome the situation as they are already considerably indebt and will need to service a higher debt burden in the short-term to extricate themselves from their difficulties.

Table 31: Percentage of Clients that Suffered from Food Shortages over the Preceding 12 months and the length of Food Shortages

| | Urban Clients | | | Rural Clients | | |
|--------------------------------|---------------------|--------------|--------------|---------------------|--------------|--------------|
| | Prospective Clients | 2 Loan Cycle | 5 Loan Cycle | Prospective Clients | 2 Loan Cycle | 5 Loan Cycle |
| <i>% Experiencing Shortage</i> | 11.5 % | 7.6 % | 6.2 % | 18.7 % | 12.9 % | 8.7 % |
| <i>Duration of Shortages</i> | 4.7 weeks | 1.7 weeks | 2.3 weeks | 2.4 weeks | 2.5 weeks | 3.1 weeks |

7.3 Increase in Employment Opportunities

There has been a marginal increase in the assistance that clients have received from other members of their household in their enterprise over multiple loan cycles. For clients in their 2nd loan cycle the number of household members assisting them in their enterprise increased from 0.57, before receiving credit, to 0.62 in urban areas, and from 0.89 to 0.96 in rural areas. For clients in their 5th loan cycle the number of household members assisting them in their enterprise increased from 0.67, before receiving credit, to 0.78 in urban areas, and from 0.87 to 1.09 in rural areas. The increase indicates that the longer the clients remain with the CEP program the more likely they are to have an additional household member assist them in their enterprises.

7.4 Increase in New Income Generating Activities

Clients that receive a greater number of loan cycles are more likely to use their credit to create additional income generating activities. For clients in their 2nd loan cycle the number of income generating activities undertaken increased from 1.08, before receiving credit, to 1.14 in urban areas, and from 1.21 to 1.36 in rural areas. For clients in their 5th loan cycle the number of income generating activities undertaken increased from 1.07, before receiving credit, to 1.24 in urban areas, and from 1.16 to 1.37 in rural areas. This increase demonstrates that the provision of credit facilitates activity diversification, which may lead to a decrease in the risks faced by clients as a consequence of fluctuations in income.

7.5 Children's Attendance at School

Table 32: Percentage of School-Age Children (Aged 6 to 15) in Client Households Not Attending School

| | Urban Clients | | | Rural Clients | | |
|---|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| <i>% of Children Not Attending School</i> | 4.4 % | 6.6 % | 7.9 % | 10.2 % | 14.6 % | 5.2 % |
| <i>% of Female Children</i> | 20 % | 33 % | 50 % | 46 % | 56 % | 33 % |

As the provision of credit facilitates higher household incomes, there should be less economic necessity for children to leave school before the age of 16. From the sample of CEP clients in urban areas it appears that the long-term receipt of credit may exacerbate the situation of school-aged children not attending school. This may be due to the provision of greater amounts of working capital and the expansion of the household enterprise, which provides the child with the opportunity to assist to a greater extent in the enterprise. 4.4% of the children of prospective urban clients do not attend school, if we assume this to be indicative of the general community among this socioeconomic group then the 6.6% and 7.9% of clients in their 2nd and 5th loan cycles respectively are considerably higher rates.

In rural areas, it is the children of clients in their 2nd loan cycle that have the highest rate of school non-attendance at 14.6%, which compares to 10.2% of the children of prospective clients and 5.2% of children of clients in their 5th loan cycle. This pattern in the rate of school non-attendance may be due to the need for the clients to receive additional help from their children when they first begin to receive credit and expand their enterprises that is not required when the enterprise becomes further established. Irrespectively, the impact of CEP on school attendance may not be positive. CEP will need to further support clients to encourage their children to complete their secondary education, though the quality and relevance of the education may be an issue for many of the children of clients.

There were a total of 61 children not attending school among the households surveyed. The number of children not attending school was insufficiently large to state anything conclusive in regard to the gender ratio of the children not attending school, and it is emphasised that the following comments are simply conjecture based on the small number of observations.

Among the prospective client households 39% of children not attending school were female, this compared to a rate 47% female among clients households. The difference in the proportion of females among school-leavers may be indicative of the nature of the income generating activity established or expanded on by access to the CEP program. With the provision of credit, usually to a woman within the household, an income generating activity is pursued that is more strongly in line with traditional professions of women. This induces a change in the work orientation of the household and may provide an opportunity for the female child of poorer households to assist in the activity rather than continue at school.

However, if these figures reflect the overall gender proportion of school leavers, it is still the male that is more likely to leave school earlier than the female. There appears not to be a negative bias in the access to secondary education for female children, and they are provided with equal education opportunities to male children. The provision of CEP credit appears to have little impact in this respect, though it is stressed that the numbers are too small to adequately assess this.

7.6 Household Education Expenditure

Clients that are in their 5th loan cycle spend a greater amount on school fees than clients in their 2nd loan cycle and prospective clients. However education expenditure among clients in their 5th loan cycle amounts to a smaller proportion of the client's total household income when compared to 2nd loan cycle and prospective clients. In this regard there is not any additional emphasis given by clients to education as a consequence of participation in the program, but rather the benefit stems directly from the increases in income that have been facilitated by participation in the program.

Table 33: Amount Spent on School Fees in VND, and as a Proportion of Annual Household Income

| | Urban Clients | | | Rural Clients | | |
|---|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> | <i>Prospective Clients</i> | <i>2 Loan Cycle</i> | <i>5 Loan Cycle</i> |
| <i>Annual amount spent on school fees</i> | 3,215,000 | 3,182,000 | 3,556,000 | 1,906,000 | 2,204,000 | 2,250,000 |
| <i>Amount spent on school fees as a % of household income</i> | 8.8 % | 7.7 % | 8.0 % | 7.0 % | 6.9 % | 5.1 % |

7.7 Empowerment of Female Clients – Increase in the Participation of Women in Making Decisions within the Family and the Community

Female clients indicated that since they had joined the CEP program they had participated to a greater extent in the decisions made within the household and community. The proportion of female clients that participated to a greater extent was higher for clients in their 5th loan cycle than for clients in their 2nd loan cycle. This suggests that the longer that clients remain with the CEP program the more that they grow in confidence and feel that they are more significantly participating in the decisions of the household and community.

Table 34: Percentage of Clients that Since Joining CEP Participate to a Greater Extent in the making of Community and Household Decisions

| | 2 Loan Cycle Clients | | 5 Loan Cycle Clients | |
|--------------------------------------|----------------------|--------------|----------------------|--------------|
| | <i>Urban</i> | <i>Rural</i> | <i>Urban</i> | <i>Rural</i> |
| <i>Household General Decisions</i> | 35.8 % | 45.5 % | 50.0 % | 53.2 % |
| <i>Household Financial Decisions</i> | 40.5 % | 46.2 % | 50.7 % | 54.0 % |
| <i>Community Decisions</i> | 30.4 % | 37.1 % | 43.5 % | 39.6 % |

In addition 72% of clients indicated that the group and centre meetings provided them with the opportunity to share experiences and raise issues of concern and 56% indicated that they actively took part in the centre and group discussions. Moreover 57% of clients stated that their confidence in expressing their opinion in front of others had increased as a result of the group and centre meetings.

7.8 Client Repayment Difficulties

The number of clients sampled in their 2nd and 5th loan cycles that experienced repayment difficulties during their last loan cycle was very small. This is consistent with the very low rates of loan arrears that occur throughout the CEP network. Of the 650 clients sampled only 28 (4%) indicated that they had difficulties in making loan repayments. This contrasts considerably to the weekly clients sampled in the longitudinal survey (section 6.8) where 50 out of the 213 weekly clients sampled (23%) indicated that they had experienced repayments difficulties. This is largely due to the inclusion of clients in the Can Gio district in the longitudinal survey, a district that was not sampled in the cross-sectional survey.

The incidence of repayment difficulties among clients in their 2nd and 5th loan cycles occurred equally over both rural and urban areas, 4.2% of clients in rural areas and 4.4% of clients in urban areas experienced difficulties. In rural areas clients in their 5th loan cycle had a marginally lower incidence of difficulties than clients in their 2nd loan cycle, though in both groups the principal reason for the difficulties was attributed to the client having sold products but not receiving payment. In urban areas the 5th loan cycle clients had a marginally higher incidence of repayment difficulties than clients in their 2nd loan cycle. The central reasons for the difficulties among urban clients in their 5th loan cycle were attributed to ill-health and enterprises generating insufficient income, and for clients in their 2nd loan cycle was attributed to the use of loan money for non-productive purposes.

The causes of client repayment difficulties, as nominated by the client, are detailed in table 35 below. In this respect only a small proportion of rural clients responded in a manner suggesting that their difficulties may have the potential to impact negatively on the well-being of their household (where their difficulties were created by the underperformance of the enterprise, the need to service additional debts, and the illness of a member of the household). The repayment difficulties of urban clients were of greater significance to client well-being (the difficulties created by enterprise underperformance, illness, and the use of loans for non-productive purposes, all have the potential to negate any gains in well-being that clients make under the CEP program).

The low rates of client repayment difficulties are indicative of a loan product that is very well tailored to the repayment capacity of clients. Furthermore there have been attempts by CEP to introduce products into the CEP program to mitigate the principal causes of client difficulties. A health insurance product was piloted by CEP in two districts of HCMC from September 2004 to September 2005, which has been expanded to 6 districts in December 2005 through the funding of AusAID. CEP also has established an enterprise development program that provides skills in basic business planning to clients and intensive assistance in enterprise development in selected isolated areas where clients are unable to generate stable incomes. Thus the key areas of client difficulties have been addressed in a structured way by CEP.

Table 35: Percentage of Clients Experiencing Repayment Difficulties and Causes of Difficulty

| | 2 Loan Clients | | 5 Loan Clients | |
|--|----------------|--------------|----------------|--------------|
| | <i>Urban</i> | <i>Rural</i> | <i>Urban</i> | <i>Rural</i> |
| % of Clients Experiencing Repayment Difficulties | 3.2 % | 4.7 % | 5.6 % | 3.7 % |
| Causes of Difficulty (<i>more than 1 response per client</i>) | | | | |
| <i>Illness of the client or another household member</i> | 20 % | 12 % | 44 % | 33 % |
| <i>Client enterprises not generating sufficient income</i> | 40 % | - | 44 % | 17 % |
| <i>Used loan money for food and or other household items</i> | 80 % | - | 22 % | - |
| <i>Sold products but was not paid in time</i> | - | 88 % | 11 % | 50 % |
| <i>Needed to pay other debts beside CEP</i> | - | 12 % | - | 17 % |

7.9 Client Likes

The aspects of the CEP program that the clients indicated that they liked are listed in table 36 below. The aspect that clients liked to the greatest extent was the low interest rates, which was particularly the case for rural clients. The other aspects of the program that were liked by more than 20% of

clients were the easily accessible services, reliability, clarity of procedures, and the absence of any collateral requirements.

Many of the aspects of the program liked by clients related to accessing credit and the method of delivery. In general there was very little difference between clients in their 2nd and 5th loan cycles in terms of their likes. One notable difference was that 20% of rural clients in their 2nd loan cycle indicated a like for the group solidarity and dynamics of CEP's credit management structure, whereas very few of the other three groups mentioned this as an explicit aspect that they liked about the program. This indicates that the opportunity to come together as a group and discuss issues is not only an important aspect of CEP's credit management and empowerment agenda, but it is an appreciated part of CEP's program for clients in rural areas.

Table 36: Summary of Client Likes (% of Clients that indicated that they liked a specific aspect of the CEP program)

| Client Likes (<i>More than 1 response per client</i>) | 2 Loan Clients | | 5 Loan Clients | |
|---|----------------|--------------|----------------|--------------|
| | <i>Urban</i> | <i>Rural</i> | <i>Urban</i> | <i>Rural</i> |
| <i>Low interest rates</i> | 59 % | 66 % | 60 % | 84 % |
| <i>Easily accessible services</i> | 42 % | 51 % | 46 % | 39 % |
| <i>Clear procedures</i> | 43 % | 39 % | 46 % | 22 % |
| <i>Reliable source of credit</i> | 33 % | 36 % | 38 % | 31 % |
| <i>No collateral or loan guarantees required</i> | 15 % | 26 % | 25 % | 25 % |
| <i>Other financial products such as savings</i> | 10 % | 11 % | 6 % | 15 % |
| <i>Group solidarity and dynamics</i> | 5 % | 20 % | 5 % | 2 % |
| <i>Appropriate repayment methodology</i> | 5 % | 9 % | 6 % | 14 % |

7.10 Client Dislikes

82% of the clients sampled indicated that they did not dislike any aspect of the CEP program. Among the clients that expressed a dislike for an aspect of the program, the inadequate size of loans was the most common. The length of the loan cycle, size of interest rates, and the comfort of the meeting room were also areas of client dislike.

The length of the loan cycle and comfort of the meeting room can be adjusted to a certain extent to be better suited to the requirements of the clients, however the size of loans is a very difficult area for CEP to reconcile as it has a limited amount of funds and places a higher priority on extending outreach to greater number of the poor rather than increasing loan sizes.

Overall the client dislikes do not indicate any serious flaws in the CEP model, a summary of the dislikes are contained in table 37 below.

Table 37: Summary of Client Dislikes (% of Clients that indicated that they disliked a specific aspect of the CEP program)

| Client Dislikes | 2 Loan Clients | | 5 Loan Clients | |
|---|----------------|--------------|----------------|--------------|
| | <i>Urban</i> | <i>Rural</i> | <i>Urban</i> | <i>Rural</i> |
| <i>No Dislikes</i> | 87 % | 75 % | 75 % | 92 % |
| <i>Loan size is too small</i> | 9 % | 17 % | 9 % | 2 % |
| <i>Loan cycle is too short or too long</i> | 1 % | 5 % | 4 % | - |
| <i>High interest rates or cost of loan</i> | - | 2 % | 7 % | - |
| <i>Weekly repayment frequency is unsuitable</i> | - | 1 % | 3 % | - |
| <i>Meeting place is uncomfortable</i> | 3 % | - | 1 % | 4 % |
| <i>Group solidarity and dynamics</i> | - | - | 1 % | 1 % |
| <i>Meeting too frequent and too long</i> | - | - | - | 1 % |

8. Conclusions and Implications of the Impact Assessment

On the basis of the findings of this impact assessment exercise, the impact of the CEP microfinance program on the well-being of its clients is very strongly positive. Specifically this has been demonstrated by: CEP's clients having progressively improved their well-being the longer that they

have remained in the program; clients that have dropped out of the program having benefited from their participation; and clients having a considerably higher level of well-being than prospective clients of the same socioeconomic group residing in the same communities.

Overall the findings from both the longitudinal and cross-sectional surveys provided valuable information by which to demonstrate impact and feed back into the CEP program. The clearest indicators of a positive impact were the indicators addressing poverty movement, income, household assets, housing condition, food security and the participation of women in household and community decision-making. The indicators on client dislikes and school attendance, highlighted areas where CEP may have a mixed impact. However all indicators provided information that could improve the CEP program. In this respect the implications for the CEP program, which are drawn from the analysis contained in sections 6 and 7, are listed below.

8.1 Continuation of the Core CEP Program

The CEP program benefits the vast majority of its clients, with clients experiencing significant improvements in terms of poverty movement and well-being after participating in the program for as little as two loan cycles. Clients have indicated that they are very satisfied with the CEP program and the low rates of repayment difficulties are indicative of a loan product that is very well tailored to the repayment capacity of clients. In terms of CEP's credit delivery, the current structure and procedures in place are appropriate for the majority of clients and by and large work well, with clients satisfied with this aspect of the program. However the principal area of concern for the program appear to be in isolated communities, particularly in the district of Can Gio, where the greatest numbers of clients experiencing difficulties and unable to increase their well-being were concentrated.

The implication for the overall direction of the CEP program is that the core program is strong and should be maintained as it is. The CEP program demonstrates that through the provision of credit, for as short a period as two loan cycles, a significant impact on client poverty can be made in both rural and urban areas of Ho Chi Minh City.

8.2 Expansion of the Enterprise Development Program and Health Insurance Program

In several of the indicators there was evidence that a very small proportion of clients were unable to effectively utilise their credit to firstly increase their incomes, and to secondly improve other areas of household well-being. This suggests that extra support was required to overcome any barrier to the clients' use of credit or to extricate the client from the difficulties in which they found themselves. In the longitudinal survey the majority of clients in this group were from the coastal area of Can Gio, an area that experiences considerable economic hardship. However there were also a very small number of clients in the cross-sectional survey that experienced similar difficulties. This points to the existence of a small group of clients experiencing entrenched difficulties that are unable to be overcome by CEP's standard credit program and where the clients require additional support.

The causes of the entrenched difficulties lay principally in the lack of profitability of the client enterprise and to a lesser extent health related problems in the client household. The extent of the difficulties for this group of clients was evident in the longitudinal survey where there was a proportion of clients that did not benefit at all in terms of increased income from participation in the program. It also seemed likely that if a client had not benefited from participation within the first 18 months then they were unlikely to benefit further into the program.

CEP has introduced products into the CEP program to mitigate the principal causes of entrenched client difficulties, though not focused to any significant extent on developing client livelihoods or enterprises. CEP has established a health insurance product that serves 3,500 weekly clients over 6 districts of HCMC. CEP also has a small enterprise development program that provides skills in basic business planning and intensive assistance in enterprise development in selected isolated areas where clients are unable to generate stable incomes. Thus while the key areas of client difficulties have been addressed in a structured way by CEP, the enterprise development program in particular needs to become a core part of the CEP program in districts such as Can Gio where many client enterprises are

not viable in the current economic context of the area. A greater emphasis on the development of client skills, product identification, and access to markets may be required.

8.3 Reducing Client Dislikes and Dropouts - Increasing Loan Sizes

The principal dislike that clients had of the CEP program, and a significant cause of client dropout, was related to the small size of loans. This is an area of great difficulty for CEP to address as it is constrained by the size of the total loan portfolio and the future availability of funds for on-lending.

It is a key part of the CEP program to increase the loan size in each subsequent loan cycle, in order to provide higher levels of working capital to further increase household income. However the increase in loan size for each of CEP's three client types, both in absolute terms, and as a percentage of the initial loan size, is larger for weekly clients. This emphasises the priority that CEP gives to its weekly clients and also suggests why dropout rates among daily and monthly clients are high.

By providing a larger loan size to the clients that have remained with the program for several loan cycles, client dropout would be prevented to a certain extent, greater client satisfaction would occur, and an increase in operational efficiency would result. However CEP have a mission to increase the outreach of their program to greater numbers of the poor without access to credit and obviously there is a trade off between increasing loan sizes and increasing outreach.

The small loan sizes are a significant source of client dislike and CEP will need to ensure that it remains relevant to the requirements of its clients. The key question that should be addressed by CEP is whether it is worth increasing loan sizes to appease existing clients that have by and large moved away from the poorest and poor poverty classifications, or should greater priority be given to new clients in new communities. This question should be considered in light of both CEP's social mission and the efficiency of its operations.

8.4 Encouragement of Female Client Participation

The provision of credit to a largely female clientele together with their participation in group and centre meetings, is a significant component in building the confidence of female clients leading to increasing participation in decision making within the household and community.

A little more than half of all female clients surveyed indicated that they actively participated in group and centre discussions. While passive participation in these meetings still holds a great deal of value, CEP's Credit Officers should encourage all female clients to contribute their viewpoints to the issues being discussed. This should be done in gradual steps in a manner that does not make the clients uncomfortable but permits the clients to grow in confidence in front of the group.

8.5 Increasing the Rate of School Attendance

The number of children from rural client households not attending school is too high when compared to the prospective client sample. In addition the number of children not attending school among households that have remained in the CEP program for 43 months has increased when compared to 25 months earlier. While the perceived relevance of the education may be an issue for clients and their children, Credit Officers should encourage clients to keep their children in school with emphasis given to the importance of ensuring that their children finish their high school education. This issue should be addressed through the group and centre meetings. An additional tool that CEP could use to encourage school attendance are scholarships targeted at children at risk of dropping out of school because of the poverty level of their families. A small number of scholarships could be provided from a CEP community development fund to support the family with school fees and materials.

9. Endnote

CEP is a microfinance institution that has a social mission of serving the poor, which it does effectively and with considerable impact on the well-being of clients. CEP cannot be expected to

address all social welfare issues with its program, particularly those that result from the lack of access to social services among its clients, however it should do all that it can to maximise the impact of its program on the well-being of its clients and target communities. Each modification that is made to improve its program should be implemented in a way that is appropriate to the operations of CEP and that does not undermine the sustainability of the program.

Appendices

Please find attached to this report the following six appendices:

Appendix 1: CEP Quantitative Survey – Longitudinal Survey (pages 37 to 41)

Appendix 2: CEP Dropout Survey (pages 42 to 43)

Appendix 3: CEP Quantitative Survey – Cross Sectional Survey (pages 44 to 48)

Appendix 4: Dataset Derived from the Longitudinal Survey (pages 49 to 60)

Appendix 5: Dataset Derived from the Dropout Survey (pages 61 to 70)

Appendix 6: Dataset Derived from the Cross Sectional Survey (pages 71 to 81)