

Annual Report

THE DARIU FOUNDATION

2008



The Dariu Foundation

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The year 2008 witnessed a significant growth and great expansion by The Dariu Foundation in Vietnam, marking 18 months of its official operation in the country by its serving over 7,000 clients as of December 2008, an increase from 3,200 clients in 2007.

The foundation faced a number of challenges and difficulties, including competition, economic turbulences, and capital and clients growth.

Overcoming all of these challenges and difficulties, the team has driven the foundation to some successes. The Dariu Foundation is awarded with prize as winner of Citi Micro-entrepreneur Award 2008 as one of the three best microfinance providers in Vietnam in 2008.

BACKGROUND

Vision: To become one of the leading microfinance service providers for the poor and poorest, enabling them and their children with a brighter future

Mission: The mission of The Dariu Foundation is every households of low income can have access to affordable and readily available microfinance services, enabling them to improve their employment, income and financial management skills, and making them understand the importance of and realize investment in their children's education

Objectives:

- The foundation aims to promote and support the education and further training of children and young persons in need, and to promote projects for the improvement of living conditions of needy people in Vietnam. This is facilitated through the foundation's capital and earnings as well as through external donors, such as enterprises and associations.
- Support and assist the poor and poorest households in the community through voluntary groups of women.
- Contribute to improvement of knowledge and experience in doing small business, how to best use the loan, and of household income through the provision of micro-credits to the poor and poorest who are considered non-bankable.
- Improve and build a regular saving practice amongst the poor and poorest households by weekly compulsory saving practice.
- Improve – both directly and indirectly – education conditions for children of the poor and poorest households

Microfinance



Scholarship



School-building



Starting as a small project since 2003 - through Saigon Children's Charity (SCC) - in the mountainous district of Tan Phu, Dong Nai province, the microfinance project has recruited only 130 clients. It reaches 2,400 clients by the end of June 2007.

In order to increase the efficiency of all projects as well as level of activities by The Dariu Foundation in Vietnam, the official office was established in July 2007 in Ho Chi Minh city with a new structure, approach applied. As a result, the foundation extend its services to over 3,200 clients, with 15 credit officers as end of December 2007. Also in this year, the foundation is recognized as winner of Citi Micro-entrepreneur Award 2007 (as one of 11 best microfinance institutions in Vietnam), one clients and one credit officer awarded with Citi Micro-entrepreneur Award 2007.

The foundation expands geographically into two districts of Vinh Long province, a central province in the Mekong Delta River in early 2008. Today the foundation extends its microfinance services to 7,184 clients, an increase of 221% as compared to the year 2007, with a total of 39 credit officers working in three different branches.

Two schools were built by TDF in Vinh Long province. It also offers scholarships to nearly 1,000 students in Dong Nai and Vinh Long provinces.

With its achievement and significant contributions to Vietnam, The Dariu Foundation is recognized as one of the three best microfinance providers in Vietnam in 2008 by the Citi Micro-entrepreneur Award 2008.

MICROFINANCE PROGRAM

Currently The Dariu Foundation is operating in two provinces of Dong Nai and Vinh Long, north east and west of Ho Chi Minh city, respectively. Back to 2007, TDF has two separate branches in Dong Nai province. However, they were merged into a Tan Phu branch today. TDF has just expanded its operation into Vinh Long province since early 2008 by establishing two branches in two poorest districts of Vung Liem and Tra On. Table below refers to some key figures of branches.

	Dong Nai	Vung Liem	Tra On	Total
Established	July 2007	March 2008	May 2008	
Management staff	5	2	2	9
Loan officers	20	8	11	39
Clients	4,950	793	1,353	7,096
Outstanding loan	5,208,871,000	763,589,000	1,226,072,000	7,198,532,000

The number of loan members beginning period in January 2008 is 3,200. There are 3,896 new clients joining the foundation’s microfinance program. This number has been balanced with 473 retiring members in Dong Nai in 2008. The retired clients fall mostly in the fourth quarter of the year (223 members). This is attributed to the fact that our contract agreement with Dinh Quan partner is coming to end in 2009, while the partner is not sure about the extension of the agreement. Negotiations and discussions have been conducted to solve the situation but it remains unchanged. Therefore, the foundation decided to cancel loan disbursement in the two communes of Dinh Quan district, and allow members to gradually retire from the program. However, members in Tan Phu district are already recruited to compensate for the falling number of members in Dinh Quan district. Negotiations may be resumed when the district has new leaders in the early 2009, aimed at continuing TDF’s microfinance and other programs in the district. This year the number of members increases 221%, when compared to 12% in 2006 and 65% in 2007, fulfilling target of increasing loan members to 7,100 by the end of 2008 (though the initial plan is to increase members to 5000-5,500 as end 2008).

The foundation is serving 7,100 clients as of December 2008, increasing from 3,200 as of December 2007. Nearly 4,400 new clients have been recruited in 2008 alone. Loan has been disbursed to 5,702 applicants, totaling 12.74 billion VND.

Two new branches in Vinh Long province, thought officially operating in April and May 2008, contribute up to 2,146 new members for the foundation, with a current number of 1,467 active borrowers (or 68.35%), though the initial plan is to recruit 1,000 members by the two branches in 2008. The repayment rate by these two branches is reported at 100%. There are only two cases with overdue repayment in one week but the group members paid on her behalf, and she already resumed her weekly repayment.

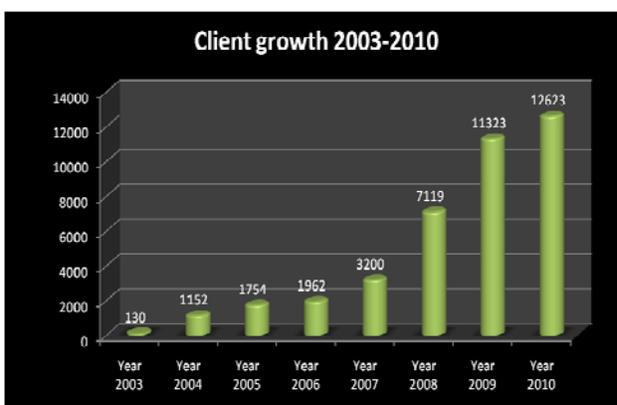
Key figures 2008

Indicators	Tan Phu	Vung Liem	Tra On	Total
Number of clients	4,950	793	1,353	7,096
Number of active clients	3,575	623	844	5,042
Total loan disbursement (VND)	9,766,500,000	1,285,000,000	1,688,000,000	12,739,500,000
Outstanding loan portfolio (VND)	5,208,871,000	763,589,000	1,226,072,000	7,198,532,000
Compulsory and voluntary savings (VND)	1,057,321,500	135,068,000	168,056,000	1,360,445,500
Operational self-sustainability ratio (%)	132	27	35	50
Number of credit officers	20	8	11	39
Active clients per Credit officer	179	78	77	129
Portfolio per Credit Officer (VND)	260,443,550	95,448,625	111,461,090	184,577,743
Cost per Unit of money lent (VND)	0.11	0.19	0.11	0.19
Average loan portfolio	1,457,026	1,225,664	1,452,691	1,427.713

A series of basic, follow-up and advanced trainings on microfinance were conducted with the participation of current loan officers, potential loan officers in the new district and local partners, including two basic trainings for two new branches to recruit staff. Tan Phu branch involved in on-the-job training for three new staffs from Vung Liem and Tra On branches by the local experienced staff. One experienced staff from Tan Phu branch in Dong Nai province has been allocated to Vung Liem district (Vinh Long province) to assist the branch in the first 9 months of operation.

In the third quarter, head office (the Director) organized 6 weeks (two days each) of training for the management staff from three branches on microfinance management, internal control, audit and monitoring, communication skills, customer services... It is chance for all staff to sharing their practical working experience with each others.

Human Resource Management Handbook and Logistics procedure Guideline have been developed and approved for better and effective management of the foundation in Vietnam.



Contrary to the above-said achievements, TDF has also faced a number of challenges and difficulties. First is the turbulence of overall economic environment, including high inflation rate, interest rate fluctuation. In period of increasing/reducing interest in the market, the foundation's microfinance

program is slow in adaptation. As a result, it incurred losses to both clients and the foundation. However, it is noted that any changes in interest rate for the microfinance program may be time-consuming and costly.

Secondly, competition is increasingly fierce because the Vietnam Bank for Social Policies is increasing its loan portfolio and simplifying the loan application procedures, enabling the poor to easier access of loan, and especially with preferential interest rate that no MIFs can compete with. In order to deal with this competition, the only way is to increase our service and care quality, offering new services and products as well as incentives for both clients and our staff. Management staff at all branches participated in trainings on related topics for service and care quality improvement. Last year the foundation had only 6 loan products which are increased to 23 in 2008. Clients have more choices and get a loan with a more suitable term and size.

Thirdly, we are in the period of great expansion, leading to high volume of expenditures as compared to the total loan portfolio, low average clients per credit officers (capacity) leading to expensive management in the year 2008. Meanwhile, the recruitment of clients is cancelled and we have to compensate some costs for branch staff in the third quarter. This can only be solved when the one million plan was approved. Tan Phu branch is 132% operation-sustainable while other two new are only 27% and 35%.

Fourthly, current operation of microfinance program seems time-, human resources- and finance-consuming. Book and file keeping is sometimes creating problems for both clients and credit staff. Data errors are common, especially among the clients at older age and/or poor education background. Group leaders often complain that they are not paid for their huge homework of book-keeping while they have to take responsibility for the whole groups in all matters. Measures are being discussed to solve the situation by application of revised procedures to reduce workload for the group leaders so that they will only focus on collection of savings, repayment by their group members on behalf of credit staff. TDF will print out ready-prepared collection (voluntary and compulsory) sheet for the credit staff, showing the specific amount to be collected in the week. This will save time for both credit staff and clients, so they can have time on other requirements.

Also from 2009, Tan Phu branch will no longer use Loan Book among clients. Loan Sheets will be used instead, which has been piloted with two credit officers in January 2009. Once this solution helps to improve the situation and performance, it will be applied to all branches in Vinh Long province. This can be considered as one of the most important change for improvement in 2009.

As mentioned earlier, this year TDF is recognized as a winner of Citi Micro-entrepreneur Award 2008 as one of the three best microfinance providers in Vietnam in 2008, and one client is also winner of Citi Micro-entrepreneur Award 2008 as one of the three best microfinance providers in Vietnam in 2008 with a \$500 prize.

Currently, TDF is operating in 13 communes of Tan Phu district and 2 communes of Dinh Quan district, Dong Nai province, 6 communes in Vung Liem district and 6 communes in Tra On district, in Vinh Long province.

SCHOLARSHIP PROGRAM

A significant number of students from poor households in Vietnam in general and in the project sites, where The Dariu Foundation is working, in particular have dropped out school due to the fact the education expenses are increasing along the way with their poverty. Some children have to drop out school and help parents to earn incomes for the families while they should stay at school at their age. Worse are for families without land for agriculture cultivation, whose incomes are unstable, and/or with many children.

In such context, The Dariu Foundation develops scholarship project, aimed at enabling children from the poorest families to enroll school secure in the knowledge that their scholarship will last for as long as they remain at school. 50 % of scholarships will go to girls due to the general bias on the part of parents and society in favor of boys. TDF will monitor the progress of all children who receive scholarship. Children in receipt of a scholarship will be provided with: 10 kg of rice every month in nine months of a school year they attend school, all text and exercise books, notebooks and pens they require at the start of the school year, and one set of school uniform. In exceptional circumstances, additional support will be given to children in very difficult circumstances.

Since January 2008, TDF has taken over complete management of scholarship program from Saigon Children's Charity (SCC) who has been its partners for several years, with 868 students enjoying the program. TDF has been prepared for the role of scholarship distribution to students, though at time of taking over the management, the second semester is approaching, meaning that TDF has to prepare notebooks, pens, uniform and rice for the listed students.

The Dariu Foundation continues distribution of scholarship gifts to 868 poor students in Dong Nai province, after the handover by Saigon Children's Charity since January 2008. And the foundation distributes scholarships to around 800 poor students in provinces of Dong Nai and Vinh Long, from June to December 2008. The total net value of scholarship gifts is around &62,000 for the year 2008.

TDF uses its credit officers under the supervision by a scholarship program officer and branch management staff to distribute gifts to students in a timely manner. The table below lists details of items for the scholarship program in the second half of 2008 when TDF fully resumes its distribution role.

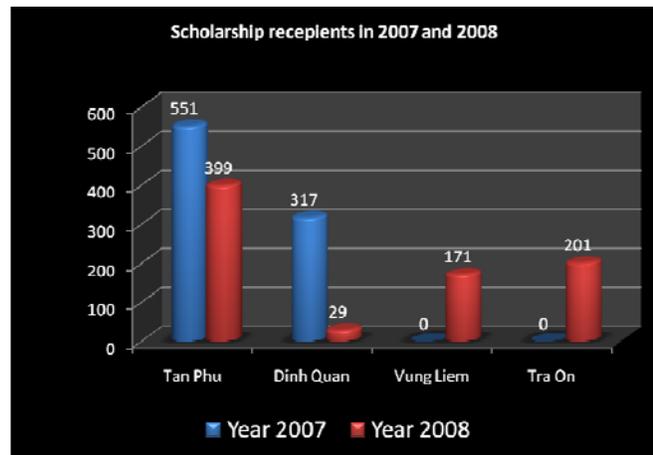
	Textbooks	Notebooks	Pens	Uniform (m)	Rice (kg)
Contract	868	45,000	7,000	2,208	46,060
Distribution	807	24,278	3,752	2,018	46,060
Balance	61	20,722	3,248	190	0
	(VND)	(VND)	(VND)	(VND)	(VND)
Contract	84,204,600	126,630,000	11,900,000	36,303,200	332,344,000
Distribution	78,493,200	68,318,292	6,378,400	32,700,800	332,344,000
Balance	5,711,400	58,311,708	5,521,600	3,602,400	0

Scholarship program has been an effective stimulant to promote and strengthen microfinance services by TDF in 2008. It is highly appreciated by clients and the local partners. It helps to prevent hundreds of students from the poor households from dropping out schools. Without this practical and effective support by TDF, the students may not fulfill their education, some even at primary level.

The Dariu Foundation Vietnam has been established since July 2007 and taken over the program from its partner in December 2007. However, 12 months of scholarship program management under the foundation witness a number of difficulties and weaknesses that needs to be and will be addresses right in the year 2009.

Difficulties include there is only one program officer responsible for direct management of program while a large of number of students on the lists. The tasks are varied - conducting surveys on each proposed student from each commune in conjunction with credit officers in two provinces; contracting with suppliers; monitoring – in some cases directly delivering scholarship gifts – the process of scholarship distributions, and progresses by scholarship recipients.

Weaknesses: firstly, most of the staff involving in this process is new to this area. In the past SCC used its own staff to process distributions of scholarships without connecting to microfinance staff in the project sites. Therefore, even the branch staff has little experience in the area, leading to some complaints by local partners, parents' scholarship recipients and among clients. Secondly, the scholarship offers gifts to the poorest students whose parents are not members of microfinance program, making credit officers' job harder. They have to manage an increasing number of clients, and growing tasks for microfinance project, and now they have to cover the tasks of scholarship. That's why they are a bit reluctant to participate into the distribution process in some cases and at sometimes. Thirdly, the foundation has not been able to utilize chances available to advertise its all projects through the scholarship program. By far, no brochures on the program have been printed for promotion and advertisement.



Solution: Based on the experience, there are some solutions proposed for improvement of the program. Firstly, the program established new and well-structured monitoring systems from logistics to quality. It means that all inputs and outputs must be fully and accordingly controlled and recorded for transparency and accountability. School records by students will also be recorded and evaluated in a timely manner. Secondly, all scholarships will be distributed to only poorest students whose mothers are members of the microfinance program. Thirdly, tasks at different levels (head office, branch office, and credit officer) will be clarified for effective implementation and supervision. Fourthly, a concern of scholarship gifts will be well organized, including sample bottles of rice, pens, books, clothes distributed (and/or as quotations) at the head office as well as branch offices for reference, visitors and/or donors. Fifth is printing of brochures which will be used for distribution to clients, potential donors and for transparency with even our clients. Last but not least is provision of timely reporting to private donors in any, and provision of package to sell to potential donors on the new website.

SCHOOL-BUILDING PROGRAM

The Dariu Foundation works in the poorest districts of Dong Nai and Vinh Long provinces where children have to study in dilapidated classrooms in many hamlets, and in many cases, no facilities exist. In the mountainous district of Tan Phu (Dong Nai province – four hours drive from Ho Chi Minh city), it is reported that some children in the remote villages have to take a walk from five to seven km to schools, which discourages them to attend schools regularly, then dropping them out of schools at the primary education level.

In other cases, quite a few parents in the age of work have to stay at home to look after their children because there exist no kindergartens in the villages. This forces them to be unemployed in a unwilling way, preventing them from employment and income generation for the families. Should there exist a kindergarten, the mothers could send their kids to classes where two or three teachers could look after twenty or thirty kids, liberating the same number of mothers for work. While mothers can spend the whole day for working, earning income for the families, kids will be looked after and provided with adequate nutrition.



The Dariu Foundation invested in construction of two schools in two districts of Vinh Long province, with a total investment of \$ 60,000 in 2008. The schools, under operation since December 2008 - provide space for more than 400 kids in two communes.

In such context, The Dariu Foundation devises a plan for building schools in such villages of the project communes where its microfinance project is being implemented. Each school will be funded with 30,000 USD by The Dariu Foundation while the remaining requested funding will be contributed by the local partners. In general, each school may cost from 45,000 USD to 55,000 USD for construction, excluding equipment, teaching aids, toys (all contributed by the local partners).

Each school must have at least three rooms, toilets, kitchen and playground, facilities for kids to learn and play. In other words, it must meet the requirements for a school either a primary school or a kindergarten. In order for the village/commune to be funded by TDF in the school building project, it has to make available land for construction and in-kind contributions. Fund delivery will be processed to the partner's account based on the construction progresses.

Since its official establishment in Vietnam in July 2007, TDF funded construction of two schools in Vinh Long province. The schools have been under operation since December 2008, bringing deep happiness to so many kids and parents in the community. In the project sites The Dariu Foundation is

currently working, tens of schools are needed in the immediate term to improve school conditions and education quality.

The reason for TDF investing two schools this year in the province of Vinh Long is due to the fact that we first expand our operation, especially microfinance project, to the province. Therefore, the construction of school is considered as a step for the microfinance project to be expanded and established here, aimed at strengthening our commitment as well as credibility to the partners.

As of December 2008, TDF has completed the transfer of 95% of total funding worth \$ 60,000 to the recipients of Vinh Xuan commune (Vung Liem district) and Trung Thanh commune (Tra On district).

OTHER ACHIVEMENTS AND ACTIVITIES

Mutual Assistance Fund

The year 2008 is marked with the introduction of Mutual Assistance Fund by TDF to the clients. The execution of the fund is based on the principle of 50-50 contribution. It means that TDF contribute 50% and clients 50% to the fund. Each client will contribute 20,000 VND per year, and TDF pays for the same amount (only in the first two years of 2008-2009). The table below details payment versus collection at each branch in 2008.

Branch	# clients paid	Collection & TDF contribution (VND)	Payment (VND)	Balance (VND)
Tan Phu	286	167,453,632	95,910,000	71,543,632
Vung Liem	36	27,502,996	5,800,000	21,702,996
Tra On	26	41,873,633	6,050,000	35,823,633
TOTAL	348	236,830,261	107,760,000	129,070,261

If such a fund has not been established and contributed by clients, then this year TDF has to pay more than the year’s contribution. More important is, however, the foundation establish and develop new product as an additional service for clients of microfinance project and the fund can be sustainable in the future without requiring TDF’s continued contribution after 2009.

Mutual Assistance Fund is used for compensation in cases of client’s death, injuries, accidents, serious illness, surgeries, fire, disaster; deaths of husband, children under 18 of clients... TDF will only contribute to this fund till December 2009 with 20,000 VND for each client.



Mid-Autumn festival for poor kids

TDF organize a festival day full of game for the very poor kids in the remote area of Tan Phu district. With most of the kids this is the very first time in their life they have ever known what mid-august festival is, though this is an annual traditional festival for kids in Vietnam.

The event is highly appreciated by the local authorities and people, especially kids parents who most of them are TDF’s clients. Staff’s kids also involve in the events and participating into the games with village kids, creating a friendly relationship among kids, parents, especially TDF’s staff and clients and local partners.

Citi Microentrepreneur Award 2008

With its achievement and significant contributions to the microfinance sector in particular and to Vietnam in general, The Dariu Foundation is awarded as one of the three best microfinance providers in Vietnam in 2008 by the Citi Micro-



entrepreneur Award 2008, one TDF's client in Dong Nai province is award with prize of best Microentrepreneur 2008. This is the second consecutive year TDF is awarded with this honor. Last year TDF was recognized as one of 11 best microfinance institutions in Vietnam, one clients and one credit officer awarded with Citi Micro-entrepreneur Award 2007.

Fund raising and partnership

In 2008, TDF is funded by Microcredit for Mother to provide additional capital of \$ 22,000 to microfinance program. This is non-return fund, and TDF will use for loan distribution in Tra On district. This fund was transferred to TDF in August 2008. As of December 2008, 239 clients are benefited from this source of investment, with a total accumulated loan disbursement of 480 million VND. (MFM representative visiting a client's house in a monitoring mission in September 2008 in Tra On district).



The Dariu Foundation also sent a proposal to Citi Foundation to fund for the project of water and sanitation improvement in 2008. The program aims to establish a sustainable revolving sanitation credit fund in the selected communes in order to meet the credit needs of poor households to build water tank systems and/or toilets. Loan members of the microfinance program funded by TDF will be able to apply for microcredit with a suitable installment plan and at a reasonable interest rate to invest in such projects. Access to clean water and improved hygiene and sanitation behavior will decrease the incidence of water-borne diseases, such as trachoma, diarrhea, and cholera, and improve overall community and family health, with associated improvement in health-related socioeconomic indicators. To-date the proposal has been approved and the money transfer under procession. The total funding by Citi Foundation for this project is worth \$ 35.000 USD. This fund will come in January 2009./.