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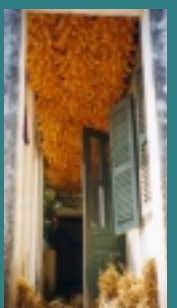
Insights from a local situation



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Pascale Le Roy, Mathias Robert, March 1999

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Contents

Introduction

In the world of micro-finance, Vietnam appears a peculiar case: that of a country which has managed to introduce on a very wide scale and in record time a State commercial bank, the Vietnam Bank for Agriculture (VBA), reaching more than 3 million peasant farmers (3.526 million in 1998).

To complement the VBA, the Vietnamese government has more recently set up the Vietnam Bank for the Poor (VBP). In a country where interest rates State controlled and maintained at a low level, the Bank for the Poor, which is said to be subsidised, crystallises all the issues surrounding micro-finance policy in Vietnam.

There are, however, other sources of micro-credit in the country: People's Credit Funds, informal credit, which as we will see still plays a very important role, the "peasant funds", the "veterans schemes" or even the women's unions. For their part, international NGOs, which generally play a dynamic role, providing references and sometimes setting up institutions, find it a struggle in Vietnam to move beyond small projects – which are moreover barely, if at all, replicable.

As part of its Red River Programme[1] (RRP), Gret has been conducting an experimental programme since 1992. Some thirty village Credit Associations have been set up in three regions of northern Vietnam. Since then, several studies have been carried out. Some relate to the permanent team's[2] monitoring and evaluation role. Other, longer studies have been conducted as part of external research. The publication today of this document follows on from one of these studies, carried out in 1998 by Mathias Robert, Nguyen Ba Sang and Hoang Vu Quang. Our aim is to shed light on micro-finance in Vietnam, by considering a local situation. Our study does naturally not claim to be representative of the Vietnamese context, one of the characteristics of which is precisely to be fairly diversified. Its contribution is to shed new light on key issues, taking demand, and therefore the client, as its starting point, since the client is anxious to make the most of the available credit sources.

Our study addresses two main subjects: what kind of clients use the various types of credit we found, and what micro-economic impact does credit have from the clients' point of view? Given that little information from field studies is available on the VBA and the VBP[3], as far as the second question is concerned we chose to focus our research on these two institutions, which are impossible to ignore when considering micro-finance in Vietnam.

It goes without saying that we make no judgement on the impact of the credit institutions themselves. Issues relating to the viability of the credit institutions or the relevance of the policies they serve are not addressed here.

An earlier Gret publication in 1997 described the same kind of work relating to the impact of micro-credit provided by Ennatien Moulethan Tchonnebat

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[1] *A bi-lateral Franco-Vietnamese programme of agricultural research and development.*

[2] *See Bibliography, page 65.*

[3] *See Acronyms and abbreviations, page 69.*

(EMT) in Cambodia[4]. This present publication is therefore part of Gret's ongoing efforts since 1995 to capitalise on the issue of the micro-credit impact. This will be the subject of a further document, a methodological synthesis, to be published during the year 2000, and intended as an operational guide for assessing external impact.

In this document we have attempted to go to the heart of the matter, which is why our first concern has been to report our findings, rather than to provide a detailed explanation of aspects of our method.

Before presenting our findings, we give some key factors vital for their understanding : the first chapter describes factors affecting family budgets in the areas of our study. The second repositions the background and the stakeholders of rural funding in Vietnam. The ways in which the formal and semi-formal sources of credit we studied operate are also summarised here. The final two chapters detail the findings of our research: Chapter 3 describes the nature of the various sources of credit through their client groups, while Chapter 4 presents a parallel analysis of the micro-economic impact of the VBA and the VBP.

In order to assess the micro-economic effects of credit systems, we studied some aspects identified as relevant in the course of our previous work on analysing impact[5]: where the poor fit in, access to credit, what borrowers and non-borrowers think of the system, the substitution role of credit, its effect on the activities financed, the involvement of women, etc. Data was collected from a survey of 175 families in a commune of the Nam Thanh District in the Red River delta (see map, p. 9). To situate the data obtained in relation to some socio-economic characteristics of the families surveyed, two classifications were drawn up: one by level of wealth and one by system of activity. Only the classification by level of wealth, drawn up using criteria identified as reflecting the current process of social differentiation in the area of our study, has been used to present our findings. A series of surveys of a restricted sample was then conducted to study family budgets[6] representative of each level of wealth.

We are aware that readers unfamiliar with impact studies may be surprised by some references, for example the notion of "very wealthy" peasants, which in this particular case must be taken as relative to the other socio-economic categories. The methodological aspects of this study are treated in the annexe. Other factors of a theoretical or conceptual nature specific to micro-credit (such as fungibility) are briefly explained at the beginning of certain sections, but we have chosen not to go into them in detail here. Readers specifically interested in impact issues can refer to the bibliography included at the end of the document[7].

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[4] The micro-economic impact of rural credit in Cambodia, *Pierre Daubert et al., Gret, Series: Etudes et Travaux, October 1997.*

[5] ◆ The micro-economic impact of rural credit in Cambodia, *Pierre Daubert et al., Gret, Series: Etudes et travaux, October 1997.* ◆ Mise au point d'une méthode d'évaluation de l'impact micro-économique d'un système financier décentralisé. Expérimentation sur le volet crédit du Programme Fleuve Rouge au Nord Vietnam, *Martin Parent, Christine Jallais, Enesad-Gret, June 1997.*

[6] *Monetary values are expressed in dongs, the national currency of Vietnam. An exchange rate of 1 US $ = 12 292 dongs can be used for comparison. Source: Multidevises Natexis, January 1998.*

[7] *Also available on "Pôle Microfinancement" website : Http://www.cirad.fr/mcredit/present.html*

Rural family economics in the Red River delta

This chapter indicates some key factors relevant to our understanding of rural family economics in the Red River delta of northern Vietnam. The overall data is illustrated by the presentation of the average annual budgets of "poor, average, and wealthy" families which were established for our sample.

Peasant families in the Red River delta and the economic transition

Since de-collectivisation, which started in 1981 and the launch of the renovation policy, *Doi Moi*, in 1986, Vietnam has undertaken major economic reforms in order to liberalise its economy. In less than twenty years, Vietnam has moved from a centralised, planned economy to a socialist market economy.

Vietnam today has 76.709 million inhabitants (1997 [8]), spread very unevenly across an area of 329,566 km² (i.e. 0.6 times the size of France). Demographic growth is rising by 1.8% per year, with more rapid growth in rural areas (4.2% versus 1.2% in urban areas). Vietnam's 80% rural population is concentrated in its two deltas, the Red River delta in the north and the Mekong delta in the south.

GNP per capita is equivalent to 325 US $ and is growing at an annual rate of 8.8% (1997). In 1997, the annual rate of inflation was 3.6%. Following a period of major growth, the agricultural sector is currently growing less rapidly than the industrial sector (4.5% p.a. compared with 13.3% p.a. for industry). The agricultural sector, however, employs the majority of the working population (69%).

● The re-emergence of family farming

As far as agriculture is concerned, political, economic and social reforms have resulted in the *de facto* virtual disappearance of the former production co-operatives and the re-emergence of family farms.

In northern Vietnam, and above all in the Red River delta, agricultural collectivisation began in 1954 and was particularly intense. In 1986, 99.4% of the farmers of the delta were members of a production co-operative, within which each of them was allocated an often highly specialised task: the brigade for animal production, for protecting organic resources, or for pisciculture, for example. Since the early 1980s,

[8] *Source: Official data from GSO-UNDP Vietnam.*

the State has gradually withdrawn from production. In 1988, to enable the producers' initiative and to encourage the growth of a genuine market, land was redistributed amongst families. The other means of production of the co-operatives were also handed out to peasant farmers, notably buffaloes, pigs, draught cattle and small motorised equipment, if any (rotovators, small motorised pumps).

Three major reforms brought about changes in the way in which agricultural production, and ownership of the means of production, are organised:

Contract 100 (1981) *legalised land rent agreements between peasant farmers and co-operatives in exchange for a fixed contribution equivalent to a tenancy.*

Contract 10 (1988) *recognised the family farm as an autonomous unit of production and launched the process of de-collectivisation and equitable land redistribution.*

The Land law (1993) *gave peasant families long term users' rights over the land, including the right to sell, to rent and to inherit it.*

By 1992, the former production co-operatives served only as a framework for collecting State taxes and sometimes for providing services to producers: electricity, managing local hydraulic systems, providing tractors or supplies of agricultural inputs.

In northern Vietnam, agricultural de-collectivisation did not occur in the brutal manner which is often supposed and which marked other nearby experiences, such as China for example. Although in legal terms, the re-emergence of family farming dates from 1988, in reality, the process began in the early 80s. The reorganisation of hydraulic systems in the Red River delta, with a surge in the number of water management units on a more local scale than the large centralised units of the 70s, clearly reflects this early shift (Pillot, 1996).

Political and economic reforms have resulted in greater dynamism on the part of the producers. Overall, the economic situation of households undeniably improved, particularly once they had got through the period between 1988 and 1991 when they had to find the funding capacities needed to pre-finance their crops and which were vital to their already highly intensive production systems.

● The production systems of the peasant families of the Red River delta

The Red River delta (see map, p. 9), together with the Mekong delta, is one of Vietnam's main agricultural production areas. In 1993, it accounted for 22% of the agricultural population and produced 19% of the country's food[9], on only 5% of its land surface. The average population density is in the order of 1,000 inhab/km^2. Farms are consequently small in size; in 1992, the average size of a farm was estimated to be 0.28 hectare[10]. Thanks to hydraulic systems covering the entire area and providing irrigation in the dry season, the utilisation rate of the land exceeds two crop cycles per year.

Red River delta agricultural production is based on rice cultivation, with two cycles per year and outputs which today achieve 4.5 tons per hectare, per cycle. When the quality of the soil permits, a third "dry" cycle is used in the winter (October to January) to grow maize or sweet potato for the family's own consumption and for animal feed, or to grow a cash crop, essentially garlic and shallots. The house garden, which always remained for private use, varies in size[11] and provides fruit and vegetables. Pig raising (1 to 4 pigs fattened per family per year) plays a vital part in making use of agricultural by-products, in producing organic fertiliser for the crops (compost based on liquid manure and dung), and in accumulating easily realised savings.

The long-term right to use the land which families acquired in 1993 and market liberalisation have resulted in accelerated differentiation between pro-

[9] General Statistical Office, 1996, quoted by F. Jésus & Dao The Anh, 1997.

[10] General Statistical Office, 1994, quoted by F. Jésus & Dao The Anh, 1997.

[11] 200 to 3 600 m^2 in the Nam Tanh District ,according to Le Duc Thinh and J.-P. Fontenelle, 1998.

duction systems in recent years[12]. Some of the less productive rice cultivating areas have been reconverted into pisciculture lakes or orchards, particularly litchi orchards. This phenomenon, which has spread as a result of increased investment in rice cultivation, has enabled average outputs of rice to increase rapidly[13].

The average paddy ratio for the delta is now over 350 kg/head/year, ensuring food security. The economic growth of the cities has led to an increase in the price of pork, encouraging farmers to invest in pig feed (high protein cornmeal) and in some cases to considerably increase the number of pigs fattened each year (from 30 to 150 pigs). Commercial winter crops have also increased, but with geographical differences due to the quality of the land and variations from year to year due to fluctuating rates.

The existence of major urban centres in the area, particularly Hanoi and Haiphong, has led to the development of trade and services. The most remarkable change in the delta's production systems in recent years has thus been a diversification towards extra-agricultural activities[14]. This has occurred both among farmers with some capital, who have made productive investments (starting up a business, buying a threshing machine, transport, etc.) and among families in economic difficulty, who can find secondary activities in small craft industries or by hiring out their labour in service industries, either within the District or by migrating to the urban centres on a seasonal basis.

The site of our study was selected in the Nam Thanh District (see map, p. 9) which because of its high population density (1,030 inhab/km^2), the nature of its land, and its market accessibility – route n° 5 from Hanoi to Haiphong crosses the District, which is located 60 km from Hanoi – is typical of the most intensively farmed areas of the delta[15]. The paddy fields there are used on average for 2.4 cycles per year (compared with 2.1 for the delta as a whole), average rice outputs in 1996 were 5.1 tons/hectare (compared with 4.7) and the number of pigs per hectare was 5.1 (compared with 4.4)[16]. There has been considerable diversification of income-generating activities, both agricultural and extra-agricultural, within families.

Few families earn their living exclusively from extra-agricultural activities (12%), but the spread of households surveyed according to their main activity (see table 1, p. 11) shows that at least 30% of them have started to diversify outside agriculture (taking a secondary job as a mechanic, a builder, a carpenter, small-scale trading, etc.) and 17% receive regular income (a salary or a pension) from a non-agricultural activity. In all, 41% of the families interviewed earn their living from agriculture alone.

Generally speaking, household income depends mainly on a combination of animal husbandry and crop farming (for both food and sale). In 57% of cases, animal husbandry activities predominate and in 31%, crop farming. The varied nature of the combinations of activities which households have developed to adapt themselves to changes in their economic environment makes it complicated to study families' strategies vis-à-vis credit according to systems of activities. This aspect of the analysis will only be touched on in this study (see annexe, p. 73).

● Differentiated family economics

As might be expected, the overall improvement following the reforms passed has occurred at the cost of greater social differentiation. This differentiation is based not on land ownership, at least not in the delta, where land distribution has been carried out on an egalitarian basis. Rather families' financing capacities have proved to be a discriminatory factor. Financing capacities are particularly relevant, indeed vital, in pig raising activities, and above all in the non-agricultural activities which might be introduced. Households' capacities to diversify or to intensify their activities is both the cause and the result of the process of differentiation currently underway. There is in fact a positive correlation between the extent of intensive farming (primarily of animal husbandry activities) or of diversification (notably outside agriculture) and the living standard of the household.

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[12] *Le Duc Thinh & J.-P. Fontenelle, 1998.*
[13] *Le Duc Thinh & J.-P. Fontenelle, 1998.*
[14] *Dao The Anh & al., 1997.*
[15] *F. Jésus & Dao The Anh, 1997.*
[16] *Le Duc Thinh & J.-P. Fontenelle, 1998.*

Table 1: Spread of households in the sample by main income generating activity

Agricultural households **88%**	Agricultural households with mainly animal husbandry activities **57%**	Farmer with **predominantly animal husbandry activities**	**21%** Solely agricultural households
		Farmer with **predominantly animal husbandry activities** and a **salaried activity or pension** 15%	
		Farmer with **predominantly animal husbandry activities** and a **secondary job** 21%	Farmers who have diversified their activity outside agriculture **30%**
	Agricultural households with mainly crop farming activities **31%**	Farmer with **predominantly crop farming activities** and a **secondary job** 9%	
		Farmer with **predominantly crop farming activities** and a **salaried activity or pension** 2%	
		Farmer with **predominantly crop farming activities**	**20%** Solely agricultural households
Non-agricultural households **12%**	**Non-agricultural** household with a salaried activity or pension **7%**		
	Non-agricultural household with a pension and a secondary job **2%**		
	Non-agricultural household **2%**		
	Non-agricultural household with an advanced **commercial activity** **1%**		

N.B. : The percentages shown are calculated on the whole sample.

Table 2: The various categories of wealth, key characteristics

	Very poor 11%	**Poor 18%**	**Average 24%**	**Wealthy 33%**	**Very wealthy 14%**
Chayanov family structure	*Young couple* with small children	*Young couple* with small children	Family with children of working age	Family with children of working age	Family with children of working age
Number of activities	3	3	4	5	5
Predominant system of activity	Agricultural only	Agricultural only	Agricultural and extra-agricultural (11/42)	Agricultural and **extra-agricultural**	Agricultural and **extra-agricultural**
Family expenses (current and exceptional expenses) ★	130,444 d/month (11 US $/month)	226,190 d/month (18 US $/month)	326,477 d/month (27 US $/month)	459,343 d/month (37 US $/month)	644,138 d/month (52 US $/month)
Working capital for agric. & extra-agric. activities ★	84,611 d/month (7 US $/month)	143,321 d/month (12 US $/month)	221,416 d/month (18 US $/month)	273,770 d/month (22 US $/month)	451,180 d/month (37 US $/month)
Production for own consumption ★	53,333 d/month (4 US $/month)	130,000 d/month (11 US $/month)	141,472 d/month (12 US $/month)	160,650 d/month (13 US $/month)	173,500 d/month (14 US $/month)
☛ **Regular income**	No income for 4 to 6 months per year	No income for 0 to 4 months per year	YES from 0 à 100,000 d/month (8 US $/month)	YES > 300,000 d/month (24 US $/month)	YES > 300,000 d/month (24 US $/month)
☛ **Pisciculture activities**	NO	NO	NO/yes (7/42)	YES	YES
☛ **Secondary job**	NO	NO	NO/yes (11/42)	YES	YES
☛ **Intensification level of pig raising practices**	Purchase at 10 kg - Sale at 30 kg - Once/year	Purchase at 10 kg - Sale at 100 kg - Once/year	Purchase at 10 kg - Sale at 100 kg - Twice/year	Purchase at 30 kg - Sale at 100 kg + breeding sow - Twice/year	Purchase at 30 kg - Sale at 100 kg + breeding sow - Twice/year
☛ **Savings**	NO	NO	NO/yes (8/42)	YES	YES
☛ **Pre-harvest shortfall**	From 4 to 6 months/year	2 months/year	NO	NO	NO
☛ **Consumer goods**	TV or radio or ventilator	TV or radio or ventilator	TV + radio or ventilator	TV + radio + ventilator	TV + radio + ventilator + motorbike (6/25)

★ Averages obtained from budget surveys. ☛ Discriminatory wealth criteria.

Table 3

The spread of households surveyed within the classes of wealth established, 1997

Very poor	Poor	Average	Wealthy	Very wealthy
11%	18%	24%	33%	14%

According to the classification of wealth which we established for this study, 11% of rural households can be qualified as "very poor" and 18% as "poor" (see table 3 above).

Table 2 (p. 12) summarises the main findings of the classification of households in the light of indicators of wealth established beforehand as having a discriminatory effect in terms of socio-economic differentiation (see annexe, p. 73).

Main averages obtained from budget surveys are also presented for each category of wealth. This classification does not use the official classification of wealth (from very poor to wealthy) carried out by the commune authorities for fiscal purposes. A comparison of these two classifications revealed a high degree of overlap, but with the "poor" category under-represented and the "very rich", over-represented in our classification.

Generally speaking, the production systems of poor category families are only slightly diversified and depend mainly on food crops most of which are for their own consumption. Being unable to save, these families are trapped in a subsistence situation. By contrast, families with a capacity to finance their activities from earlier savings or "unearned income", such as a war or retirement pension, seem to be able to take part in the current trend towards market integration more easily.

Family budgets

Locally, an average rural family, generally consisting of 3 to 4 persons, has an average annual budget of 9 million dongs, i.e. 730 US $. For an average family, production for own consumption is equivalent to 19% of the annual family budget.

The rural economy is widely monetarised with levels of production for own consumption which can, however, be equivalent to 1/3 of the total budget of the poorest families.

See table 4, next page.

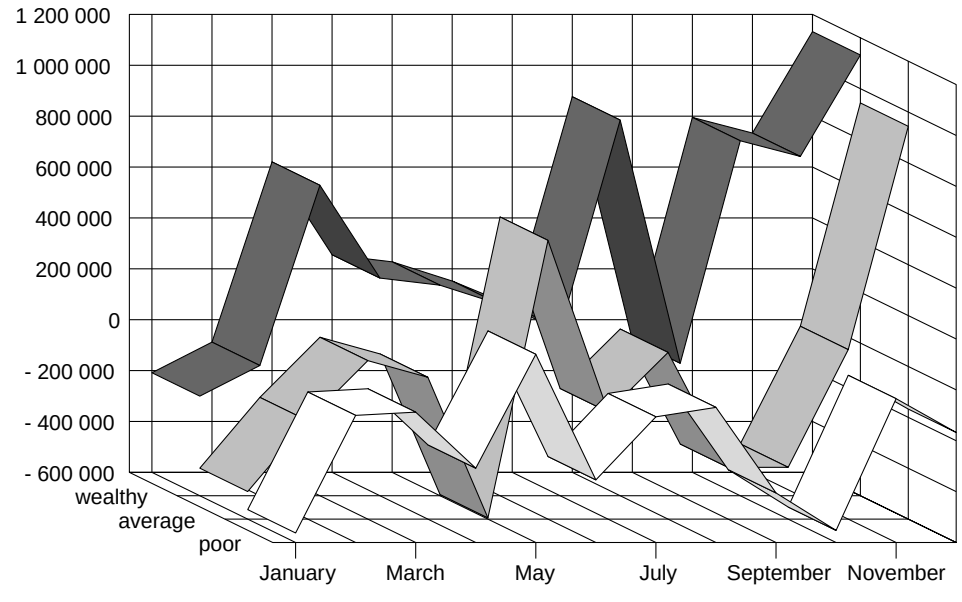
Table 4
Annual average family budgets of the "wealthy, average and poor" categories of our sample, 1997

		① Monetary income	Monetary expenses	② Own consumption	① + ②	% of ② in total income
Wealthy	Dongs	12,670,750	8,797,366	1,929,000	14,599,750	
	US $	1 030	715	157	1 187	13%
Average	Dongs	7,332,545	6,574,727	1,697,666	9,030,211	
	US $	596	535	138	734	19%
Poor	Dongs	3,177,142	4,434,142	1,560,000	4,737,142	
	US $	258	360	127	385	33%

Cash flow variations throughout the year

The graph below shows how the average monthly cash flow balance (average monetary income less average monetary expenses) of households by category of wealth changes. We can see that for these three categories of families, there are periods of major cash flow variations, reflecting annual expenses in May and in October to pay taxes and in January for the New Year (Têt) holiday, and income at harvest times.

Graph 1
Changes in average monthly cash flow balance by category of wealth, 1997



This graph 1 (p. 14) illustrates the difficulties poor families have in maintaining a positive cash flow position.

The income of these households tends to be sporadic; based essentially on agricultural activities which are not highly intensified, it follows the rhythm of their harvests and the amounts of money earned are small. This lack of regular income forces most households to earn money in other ways, notably by hiring out their labour to better-off neighbours. But this secondary income is generally not enough and does not enable them to cover their costs.

Over the year, the average annual cash flow position of a poor family is negative (-1,257,000 dongs – 102 US $). Our reconstruction of family budgets did not reveal all of the strategies that the most impoverished families use to cope with this monetary deficit.

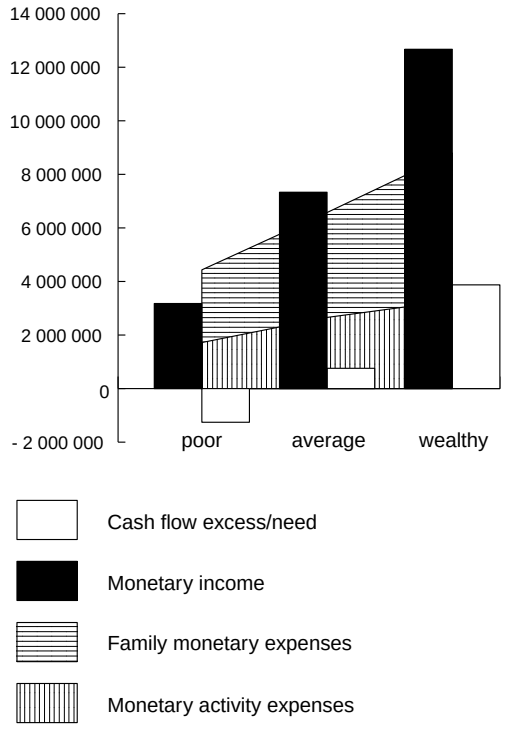
It is clear that poor households remain particularly vulnerable faced with any unforeseen expense relating to illness, a ceremonial event or a bad harvest. For the better-off categories, there are much greater variations in the cash flow position. These variations correspond to expenses and income which are proportional to their level of wealth, which becomes clear if we compare the graph showing how cash flow positions change with the following one.

Graph 2 shows the incremental nature of family expenses, both current and exceptional (a ceremonial event, illness etc.) by level of wealth.

This incremental pattern is the result mainly of the amount spent on ceremonial events, on the *Têt* holiday and on education. Taxes do not contribute significantly to this pattern, since they are principally based on the amount of land owned (land taxes, water taxes and other local taxes) and land distribution is based on the number of mouths to feed.

As we can see from graph 1, although taxes and ceremonial costs make major inroads into their cash flow position, average and wealthy families have no difficulty in paying them.

Graph 2
Average annual monetary expenses and income of households by level of wealth, 1997



All in all, better-off families have cash flow surpluses totalling on average 3,873,384 dongs (315 US $) for wealthy families, and 757,818 dongs (61 US $) for an average family. They draw on diversified and generally more intensified activities than those of the poorer categories. This also explains why working capital grows with increasing levels of wealth.

Main household expenses

The opposite table shows the relative part of normal expenses on households income by level of wealth. This enables us to estimate the proportion of income which can be used for productive purposes. By normal expenses here we refer to food, education, health and ceremonial expenses.

Logically, we can see that the more modest the level of income, the greater the burden of normal expenses, which are such that they cannot be reduced.

Nearly 86% of the income of poor households goes on non-productive expenses. Hence the small margin for manoeuvre that poor households have in adding to or maintaining their working capital, let alone in setting savings aside.

Table 5
Average normal annual expenses
of "wealthy, average and poor" households, 1997

		Normal expenses
Wealthy	Dongs	5,512,116
	US $	448
	% of total monetary income	43%
Average	Dongs	3,917,727
	US $	319
	% of total monetary income	54%
Poor	Dongs	2,714,285
	US $	220
	% of total monetary income	86%

Savings

Several kinds of savings practices co-exist in Vietnam's rural areas: savings in cash or in gold and kept in the home, savings in the form of livestock (small-scale animal raising, such as piglets), or "deposits" in informal circuits (private loans, cash advances to family and friends, Rotating savings and credit associations – ROSCAs) or in official circuits, such as the VBA and the People's Credit Funds set up by the State.

The use of **official savings products** remains very limited. Savers' confidence, which was badly shaken by the collapse of the credit co-operatives in 1990-1991 (see Chapter Two), has not yet been restored and the interest rates on deposits are also not very attractive. For its part, the VBA pays little attention to developing its savings products in rural areas and the low rate of savings actually collected also reflects the fact that the loan officers' commissions are calculated on the loans awarded and not on the deposits collected.

Families use virtually no financial savings products. They generally keep dongs at home to meet the families normal needs. These are **contingency savings**, mostly of small amounts and short term. Cash savings in the household are also invested in family solidarity links, in the form of interest free advances. Households with greater liquidity may also provide private loans. The rates applied for such loans (between 2 and 6% per month) represent what such households can earn from their savings.

More rarely, large amounts can also be converted into gold which has a stable value (in the form of jewellery for example). This might be a form of saving made when a large amount of money comes in (such as from the sale of litchis).

These are long-term savings, set aside against future major investments such as building a house, or improving agricultural land. Such savings can be quickly converted into cash and can serve as emergency funds in the event of unforeseen expenses. In the course of our surveys, 27% of households stated that they had savings in gold.

Savings in the form of livestock is very widespread in the Red River delta.

By buying a piglet to fatten up, the peasant farmer sees a way of using his cash and at the same time making a profit if there are no unforeseen expenses or porcine illnesses too early in the pig fattening cycle. He can at any moment resell the pig and obtain cash.

Credit needs

The shift to a market economy has resulted in greater financing needs for farmers. The trend towards diversification (within or outside agriculture) currently occurring in the delta region of northern Vietnam further intensifies these needs.

More than half the families we met in our surveys (1997) had a loan outstanding, from either formal or informal sources of credit. Our study also showed that in 56% of the households with a loan outstanding, the amount borrowed was below 1 million dongs, i.e. small loans of under 81 US $.

Three major categories of needs can be identified: cash flow needs, investment needs and working capital needs for trading.

Our study shows that 66% of loans were to meet **cash flow needs**. The amounts borrowed vary greatly, ranging from 14 US $ to 538 US $ in our sample. They are used for various purposes, but the end result is to regulate the household's cash flow position. They cover irregular needs in pre-harvest shortfall periods, in the event of unforeseen expenses due to health problems, to meet social obligations such as expenses relating to ceremonial events (births, weddings, deaths, etc.) or to meet more structural needs resulting from the fragility of the household budget when this fails to meet their everyday consumption needs.

Investment needs are lower but still represent 32% of the loans borrowed. Like cash flow loans, they are for fairly heterogeneous amounts, ranging from 15 to 615 US $, and pay for purchasing livestock and equipment or land improvements at the plot level.

Loans for **working capital for trading** are very rarely found in our sample of borrowers. Only 2% use their loan to sustain a working capital. But this kind of loan corresponds to the largest amounts borrowed, notably if we consider the average amounts used, i.e. 137 US $, regardless of the credit source. Such loans are used for buying stocks of raw materials (purchase of rice or wood) or finished products (purchase of groceries) intended for resale, and either first processed or not.

Although credit needs are high, fear of getting too far into debt is widespread and 80% of non-borrowers state that they would prefer not to borrow rather than face the risk of insolvency.

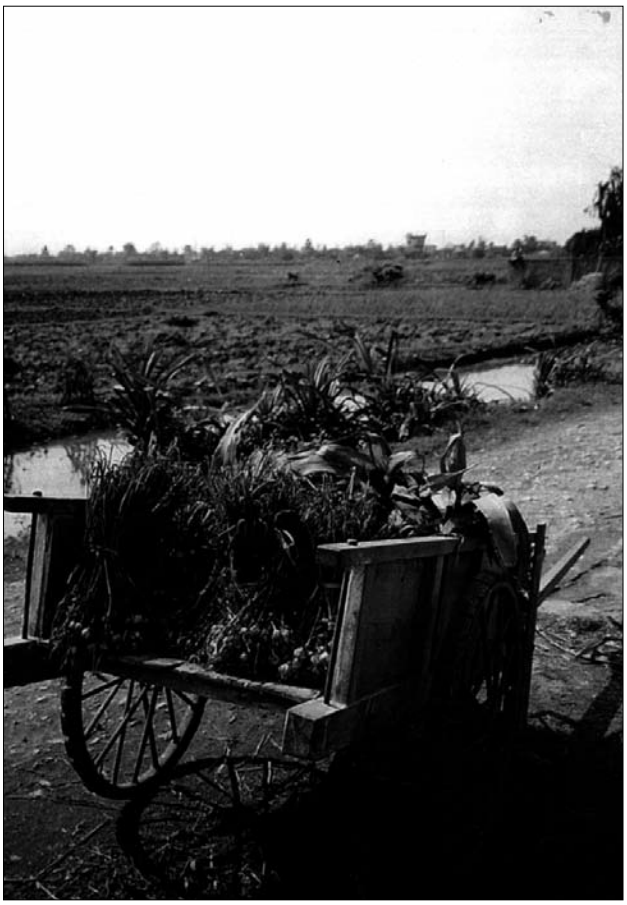
N. D. Câm's family

Wealth level: *"average"*
System of activity: *"farmer with a predominantly animal husbandry activity and a salaried activity or pension"*

N. D. Câm is 68 years old and retired a few years ago. He is married to C. L. Hoàn and has one grown-up son, Thang. He comes from a poor family (his father was classed as "ban nong" – poor peasant – in the 1954 census). On the whole he has only a small network of contacts.

N. D. Câm's wife teaches at the primary school. As for him, he continues to manage the family budget: he is the one to decide what needs to be bought and to take care of the agricultural timetable. He is passing on his skills and knowledge to his son and guiding him. Thus it is Thang who actually works on the farm on a full-time basis. The family owns 5 saos* on which they grow rice, maize and shallots and raise pigs.

Under his father's guidance, Thang buys phosphate in January and February (100,000 dongs x 2) for the rice which they grow for their own consumption, and in September (200,000 dongs – 16 US $) for the crop intended for sale. The dry crops earn 400,000 dongs (32 US $) in February; the pig raising activity is now fairly intensive (purchase at 30 kg, sale at 100 kg, two cycles per year) and provides the household with 1,000,000 dongs (81 US $) in June (income from the second cycle is not known, as this was not yet complete at the time of our survey). Thang has taken the precaution of vaccinating his herd.



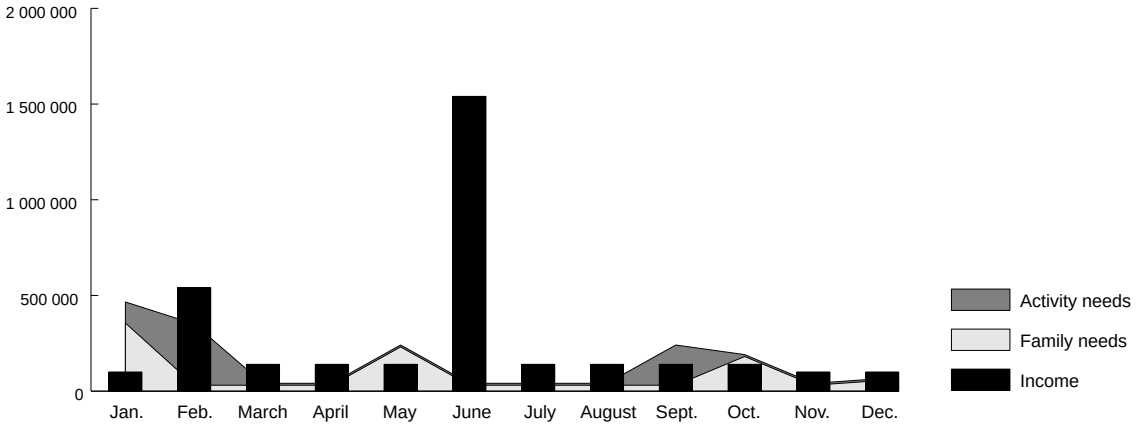
Mathias Robert

In addition, C. L. Hoàn's external job provides the household with a regular income of 100,000 dongs (8 US $) per month which partly helps it to avoid cash flow constraints, prevents it from going through a pre-harvest shortfall at any time of the year, and enables the family to avoid hiring out its labour.

N. D. Câm explains that to begin with he had to constantly take care to avoid getting into a debit situation and that subsequently he had been able to adopt more intensive farming practices. Thus the few surpluses achieved were immediately absorbed into his farming activities. All through his active life, N. D. Câm has been keen to increase his assets and he has been unable simultaneously to build up any savings. Today, all the profits from his agricultural and pig raising activities are being invested in building an abattoir, which N. D. Câm decided on. This is heavy investment, with delayed profitability. This risk-taking testifies to the enterprising stance the family demonstrates as it continues to invest.

** One sao = 360 m^2.*

Monetary expenses and income throughout the year

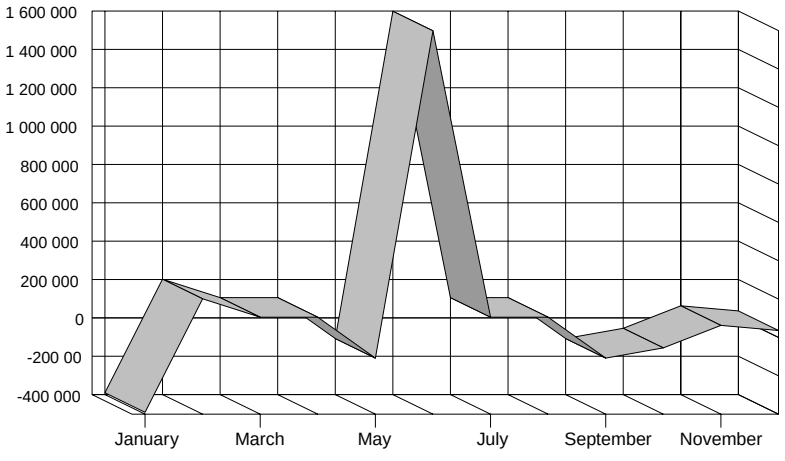


Family needs . . . . . 1,654,700 d/year (134 US $/year)
Activity needs (working capital) . . . . . 730,000 d/year (59 US $/year)
Income . . . . . 3,360,000 d/year (273 US $/year)
Production for own consumption . . . . . 1,800,000 d/year (146 US $/year)

As we can see from the two graphs, although the taxes due in May and October and the Têt holiday in January affect the family budget, these expenses do not cause the household any real problems. The income from raising pigs in the month of June (1,000,000 dongs – 81 US $) and C. L. Hoàn's monthly salary provide the family unit with a good capacity for self-financing their activities.

The monthly income used to cover day-to-day expenses, prevents the family having any cash flow problems. It also enables them to use income from agricultural and animal husbandry activities for major, profit-generating investment, which is similar to accruing capital. The household is no longer struggling to survive, but rather maximising its profits, i.e. accumulating and making best use of capital.

Cash flow variations throughout the year



Funding in rural areas, background and stakeholders

How the financial system has evolved

● Pre Doi Moi, the State monopoly

Until the period of renovation known as Doi Moi, the State exercised an absolute monopoly over banking transactions through the State Bank of Vietnam, which acted both as a central bank and as a commercial bank.

Two specialised public banks assisted the State Bank: the Bank for Foreign Trade of Vietnam (Vietcombank) and the Bank for Investment and Development of Vietnam. Their role was essentially restricted to allocating financial resources to enterprises, in the light of the directions defined by the government.

Market change was dependent on the needs of public companies and the State budget. The financial system was then characterised by negative real rates of interest and an inverted rates spread (interest rates on deposits higher than interest rates on loans). In rural areas, the national bank, as the official source of funding, delivered credit to communes, co-operatives and State farms, regardless of the funding needs of the informal sector, which was growing outside the collective system.

Credit co-operatives, which have existed in North Vietnam since 1956 and in South Vietnam since 1983 (Fallavier, 1998), provided a channel for financial mediation. These were autonomously managed by local people's committees in liaison with the national bank.

● The first opening in the system

The financial sector was the first to be liberalised as part of the process of economic reform, Doi Moi, launched in 1986. By 1987, there were early signs of monetary and commercial liberalisation. In 1989, however, the State, faced with three-figure rates of inflation, took various measures to combat this: interest rates, which were still under State control, were raised; the official exchange rate was devalued; and credit "rationing" was introduced. One year before, the way the banking system was organised had also been reformed.

In 1988, the government had abandoned a single-bank type organisation and set up two new, specialised public banks, which took over the commercial responsibilities of the State Bank: the Agricultural Development Bank and the Industrial and Commercial Bank of Vietnam (ICBV).

Although the introduction of the Agricultural Development Bank was a step in the direction of recognising the existence of the private sector in rural areas and taking account of its funding needs, these two public commercial banks continued in effect to serve only state-owned enterprises.

● The rise and fall of credit co-operatives

The public banks' failure to address the private sector resulted particularly in a resurgence in the growth of savings and credit co-operatives. Thus in the mid-80s, 2,000 credit co-operatives were set up, and they numbered 7,180 by the end of the decade. As the sole local source of funding, these co-operatives attracted savings principally from small investors by offering favourable rates (up to four times the rates on offer from other financial establishments – Fallavier, 1998). They rapidly went bankrupt.

Several reasons have been put forward for the collapse of the system of credit co-operatives:

– the closure of agricultural co-operatives, resulting in defaults in repayments of loans obtained from the credit co-operatives;

– increasingly less dependable refinancing on the part of the State Bank (Wolz, 1997);

– insufficient monitoring on the part of the central bank which allowed pyramidal schemes and sometimes fraudulent local management to spread (Fallavier, 1998).

Over 7,000 credit co-operatives went bankrupt. By the end of 1990, only 160 were still active. Vietnamese families' savings were decimated and their confidence badly shaken. In 1990, the Vietnamese government reacted by modifying the rules governing the management of financial institutions as a whole.

In a series of decrees, it strengthened the monitoring role of the central bank, notably over co-operatives (to operate, the latter now had to obtain the approval of the central bank and no longer merely the agreement of the People's Committees). It also gave greater autonomy to the State commercial banks to enable them to tap non-government capital and to create a competitive environment.

● The government's determination to organise access to rural credit

At the same time, in parallel with the restructuring of the agricultural world which had started with de-collectivisation, the Vietnamese State was revising its approach to rural credit. In 1991, it strengthened the role of the Agricultural Development Bank, which from November 1991 became the Vietnam Bank for Agriculture (VBA). The latter was given the new task of lending directly to peasant families (decree n° 202 of August 6, 1991).

From 1993 onwards, the Vietnamese government also set up a network of People's Credit Funds, on the Canadian Desjardins model. This system was to be managed by the central bank, with assistance from the Développement International Desjardins (DID) company. The aim of the State was to fill the void in the financial market sector following the collapse of credit co-operatives.

Of the 80 credit co-operatives which had received a licence from the central bank after 1990, 78 were transformed into People's Credit Funds (Wolz, 1997). The final initiative on the part of the authorities dates back to 1995. In line with its commercial objectives, the VBA was neglecting a high risk, small loan client group and focusing on higher level credit needs. The Vietnamese authorities therefore set up a complementary funding institution with the objective of providing loans to the poor families which the VBA failed to reach.

A cornerstone in the State's "Hunger Eradication and Poverty Reduction" (HEPR) programme, 1996-2000, the Vietnam Bank for the Poor is a non-profit bank, providing loans at a subsidised rate, i.e. 0,8% per month.

● An inconsistent interest rate policy

Alive to the financial needs of rural areas, the Vietnamese authorities have adopted a policy of encouraging investment by regulating interest rates. The government is, however, currently confronting an inherent contradiction: it wishes to make its financial institutions sustainable, but the upper limit it sets on interest rates[17] is preventing or delaying their financial autonomy.

[17] In 1996, the State set an upper limit of 1.75% per month on interest rates for short-term loans (previously set at 2.1% per month) and of 1.25% on income from short term deposits (Fallavier, 1998). Adjustments enabled the People's Credit Funds to apply a savings rate of 1.8%. Since then interest rates regularly decreased. In 1998, the VBP charged 0.8% per month and the VBA 1.2% per month.

Funding sources in rural areas

The informal sector plays an important role in funding Vietnam's rural areas. According to surveys on living standards in Vietnam carried out in 1994[18] among 4,800 households, 77% of households which had taken out a loan had done so from the informal sector and only 17.5% from State banks (in Abiad, 1995).

● Informal credit

The informal sector is well developed and diversified. Four main sources can be identified:

– family and close friends;

– private moneylenders or usurers;

– traders;

– Rotating savings and credit associations – ROSCAs (hui).

Amongst these informal sources of credit, family credit is generally the source of funding most used in rural areas, accounting for one third of informal loans (UNDP/SIDA in CGAP, 1996). Within our sample, the spread of informal sources is as follows: 36% of informal loans are from family or close friends, 32% are obtained from moneylenders and 32% from traders.

There are two main types of informal credit:

Cash loans

These are obtained mainly from family or close friends, or from private moneylenders. No interest is charged on loans from family or close friends. Loans from moneylenders are subject to interest at rates which vary according to the region, the presumed financial solvency of the borrower, and the term of the loan. They fall between 1 and 8% per month in the area covered by our survey.

Studies[19] on the informal sector in Vietnam have revealed maximum rates of 10%, with rates averaging 3 to 4% per month. Moneylenders require no guarantees. The time-scale for obtaining funds is very short and repayments are made in cash with flexible terms.

Loans in kind

This is a classic loan system in the rural areas of developing countries. Vietnamese peasants can buy agricultural inputs from traders on credit and reimburse them in kind.

A peasant producing tai onions buys 500,000 dongs (40 US $) worth of agricultural inputs on credit. He makes this purchase while preparing his land at the beginning of the dry farming season and undertakes to reimburse the trader in kind, in this case in tai onions. The calculation used to reach the number of onions needed to reimburse the purchase is based on 100 kg of onions = 200,000 dongs (16 US $). After the harvest, the peasant will therefore have to provide the trader with 250 kg of onions to reimburse his debt.

The trader and the borrower agree at the time on credit purchase on the rate of interest which must be paid in addition, in kind. If the rate is 4%, the peasant will have to provide 250 kg to reimburse the capital and 40 kg to pay the interest (500,000 x 0.04 = 80,000 dongs = 40 kg).

The real interest rate borne by the borrower is therefore equivalent to the differential between the price of the product set when the loan is taken out and the price at which the peasant could have sold his harvest, in addition to the payment of the interest rate negotiated at the outset. In order not to have to bear the cost of the price differential, some farmers (excluding the very poor), negotiate a cash payment. In our example, the peasant would have to reimburse 580,000 dongs (47 US $).

The studies quoted above show that the cost to peasants is equivalent to interest rates of 2 to 4%, or even 6% per month in the case of payments in kind.

[18] Vietnam Living Standard Survey funded by UNDP/SIDA.

[19] ◆ Analysis of the informal credit sector in Vietnam, Tran Tho Dat (VLM web-site). ◆ Offre et demande de crédit en milieu rural : cas de la commune de Kimxa- Vinh Tuong -Vin Phuc, Nguyen Ba Sang, Hanoi, 1997, Gret-RRP.

● Formal and semi-formal credit

Several credit organisations and institutions provide funding for Vietnam's rural areas:

◆ The **Vietnam Bank for Agriculture**[20] (VBA) which reached 3,526 million Vietnamese families in 1998, i.e. 20 to 30% of rural families[21].

◆ The **Vietnam Bank for the Poor** (VBP), which within three years had distributed credit to a total of 3.78 million households and had 2.1 million active borrowers in March 1999[22].

◆ The **People's Credit Funds** (PCFs) which had 625,000 clients in September 1998[23].

◆ **Private banks** with share capital or **rural banks** which numbered 16 in 1996, essentially located in southern Vietnam.

◆ **Mass organisations and voluntary non-profit associations** which form the link between the central authorities and the main socio-economic groups (women, peasants, war veterans, etc.). They play an important role of intermediaries for the VBA and the VBP and are virtually inevitable partners for funding systems introduced with external assistance.

◆ **Semi-formal credit and savings systems** introduced with the assistance of international NGOs. In 1996[24], at least sixty or so savings and credit schemes could be identified in Vietnam.

Three of these formal and semi-formal credit sources are represented in our survey area and were the object of this impact study: the VBA, the VBP, and the RRP credit schemes introduced by Gret. Each of these three sources of credit – as well as the People's Credit Funds which we also considered – is presented below. The ways in which each of these systems is organised and operates, as described below, reflects the situation as we found it in the course of our survey.

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[20] Since 1998, the official name is the Vietnamese Agriculture and Rural Development Bank (VARDB).

[21] Paper by Mr Nguyen Viet Hung, VBA Credit Officer, at the seminar on "Strategy of Belgian cooperation for projects with a credit component in South-East Asia", Hanoi, 9-10 June 1998.

[22] RRP, Gret Hanoi, Micro-credit staff, March 1999.

[23] Pierre Fallavier's contribution to DevFinance discussion list, January 1999.

[24] Microfinance in Vietnam: a collaborative study based upon the experiences of NGO's, UN agencies and bilateral donors, Hanoi (Vietnam), CGAP-Pnud, 1996, 21 p. + annexes.

The Vietnam Bank for Agriculture

Objectives

The Vietnam Bank for Agriculture is a commercial bank set up by the Vietnamese government in 1990 to meet the funding needs of rural families. Its loan capital is made up of funds provided by the State Bank of Vietnam and loans agreed by various international funding organisations (including the World Bank and the International Monetary Fund) and its clients' savings.

Structure

The VBA is represented throughout Vietnam, with over 500 branches at District and Sub-District level. The District branches employ loan officers who travel around the villages. They agree loans and collect repayments either directly from the villagers, or through the intermediary of one of the mass village organisations (the women's or the peasants' organisation).
In the village we surveyed, the VBA, located in the Nam Thanh District, does not use an intermediary. Loans are delivered by the loan officer.

Target population

The VBA is open to all who are economically active in rural areas. It therefore has no target clients other than rural families.

Loan conditions and procedures

Loans are granted for agricultural investments. A material collateral equivalent to 70% of the requested capital is required for loans in excess of 500,000 dongs (40 US $). Below that amount, it is no longer necessary to present material guarantees.
The borrower must make a loan request from the loan officer. The latter checks that the stated object of the loan and the guarantees possessed exist in reality. Once this is checked and agreed, he fills out a loan pass-book in the borrower's name. To complete the loan procedure, the borrower must also obtain the signature of the People's committee of the commune to which he belongs.
Once the official request has been received by the loan officer, the time taken to obtain the loan varies between one week and four months, but is mostly between one week and one month.

Nature of the loans awarded and repayment terms

Loans are awarded for terms of one to three years at a rate of interest of 1.2% per month for short term loans and 1.25 % for middle and long term loans. The maximum loan is 10 million dongs (813 US $). Interest is paid monthly and the capital is repaid at the end of the term.

Difficulties and changes

One of VBA's difficulties is that it has insufficient capital to meet all loan requests. In addition, the State's low interest rates policy forces the loan officers to maintain or develop a large loan portfolio. This notably results in encouraging them to grant large loans and to neglect lower credit needs.

Some key figures

The VBA has been operating in the Nam Thanh District since 1996.
Loan activities within the village we studied began in 1993 and involve 145 households (1997).
Its penetration ratio[25] in our sample is 11%. Compared to penetration ratios observed elsewhere, this is fairly low in the area covered by our survey. The average loan size is 2.5 million dongs (203 US $).

[25] The penetration ratio represents the number of VBA's borrowers on the whole sample.

The Vietnam Bank for the Poor

Objectives

The creation of the Vietnam Bank for the Poor (VBP) in 1995 reflected the State's determination to combat poverty. The objective was notably to introduce a system complementary to the VBA.

Structure

Except for its headquarters in Hanoi and two regional offices in the south and the centre of Vietnam, the VBP has no infrastructure of its own to carry out its loan activities.
It uses the VBA's distribution network at province, district and commune level and the VBA's loan officers' skills.

Target population

The aim of the Vietnam Bank for the Poor is to provide credit to Vietnam's poorest families.

Loan conditions and procedures

The VBP selects its clients amongst the poor households identified by the local authorities who have drawn up a socio-economic classification of households for fiscal purposes. Households which have had a VBA loan and poor households whose repayment capacity is judged to be too low are in principle excluded.
The loan officer draws up a list of that eligible and advises them. The selected borrowers, if they wish to take out a loan, must make a loan request to the (VBA) loan officer and obtain the signature of the head of the neighbourhood and the president of the commune. No material collateral is required. The loan officer checks the wealth profile and the repayment capacities of the borrower, and that the object of the loan is productive. Requests are then transmitted to the District agency which decides on the loans awarded. The date on which the loan is obtained is announced in the village and only the selected persons receive a loan on that date.

Nature of the loans awarded and repayment terms

Loans are granted for a period of one to three years, depending on the borrower's production cycle, to a maximum of 1 million dongs – 81 US $ (theoretically 2.5 million dongs – 203 US $). The interest rate is 0.8% per month. The borrower must pay the interest monthly and pay back the capital at the end of the term.

Difficulties and changes

The low rates of interest applied handicap the VBP in its objective of financial sustainability and autonomy (article 3, chapter 1 of the VBP's Charter, 1996). The lack of local infrastructure and of own staff is also a constraint for the VBP.
VBA's loan officers are particularly concerned with maintaining the value of the "VBA" loan portfolio, and focus even less on distributing VBP loans to the extent that they receive no commission on these loans. This probably results in an hazardous selection of borrowers and problems in collecting interest and loan repayments.

Some key figures

The VBP began its activities in the village we studied in 1996 and reaches 161 families (1997). Its penetration ratio in our sample is 17%. The average loan size is 742,000 dongs (60 US $).

The RRP credit scheme

Objectives

From 1989 onwards, it emerged from Gret's work in the context of a Franco-Vietnamese programme of agronomic research, the Red River Programme (RRP) in northern Vietnam, that access to capital was a major constraint for most northern Vietnamese farmers struggling to overcome the effects of de-collectivisation.
At a time when the VBA had scarcely started up, the RRP launched an experimental project in 1992. The objective was to remove funding constraints from a majority of the population who could not gain access to the existing formal system, in the absence notably of any collateral.

Structure

RRP's credit system consists in some thirty village credit associations spread across four provinces of northern Vietnam with different agro-ecological characteristics. In 1998, six were autonomously managed.
The system is decentralised[26]: loans are managed directly within the village by a "secretary-cashier". The latter is appointed by a credit committee elected by the borrowers. He or she keeps the credit association safe in his home and is helped in his work by a RRP loan officer until the village credit association becomes autonomous.
The structure of the RRP village credit associations relies on joint-liability groups, generally consisting in five individuals who choose each other to form a group. The representatives of the various groups form the management committee which elects the credit committee. The credit committee consists of three members: a president who is generally a member of the local authorities, a vice-president and a secretary-cashier. A consultative committee includes representatives of local authorities; this committee can arbitrate in the event of any conflict between the credit association and borrowers, and can comment on the joint-liability groups formed.

Target population

The credit associations target poor population groups as a priority and generally speaking persons with no access to official sources.

Loan conditions and procedures

Loans are granted only if the individuals have formed a joint-liability group of five people. The loan may be spent as they choose. The borrower must, however, submit his project to the credit committee.

Nature of the loans awarded and repayment terms

Loans are subject to a maximum of 200,000 dongs (16 US $) in the first year. They gradually increase by 100,000 dongs (8 US $) per cycle for borrowers who have repaid in full. The interest rate is set at 1.8% per month. Interest and part of the capital are repaid monthly.

Difficulties and changes

In the light of the fact that the Vietnamese government's interest rate policy prevented the introduction of a sustainable and financially autonomous loan scheme, in 1996 the RRP preferred to relinquish its objectives of extending the credit asociations. Existing village credit associations are gradually achieving autonomy, both operational and financial.
One of the difficulties the RRP credit associations face is the setting up of fake groups. These consist notably in borrowers wishing to take out larger loans whilst benefiting from more flexible loan terms than those of the VBA for example. Thus, although the RRP credit association .../...

[26] Several models of village credit associations actually exist in the RRP. The model presented here is the first model experimented by the RRP.

.../... presents no advantages in terms of interest rates, it does provide relatively flexible borrowing terms (no material collateral, simpler procedures). To avoid fake groups, the powers of the loan officer have been strengthened, notably during the group selection process.

Some key figures

A RRP credit association was introduced in 1992 in the village we studied and has 134 members (1997). Its penetration ratio in our sample was 16%. The average loan size is 528,000 dongs (43 US $).

People's Credit Funds

Objectives

The aim of the People's Credit Funds is to mobilise household savings and to fund the development of productive activities to improve the living conditions of rural populations.

Structure

Grass-roots People's Credit Funds (PCF) exist at commune level. They come under regional units which monitor operations, transfer funds between credit funds which are in deficit and those which are in credit, provide technical assistance and represent the communal credit funds at the central unit set up in 1995. This summit institution ensures that the whole system remains liquid by receiving deposits from the regional credit fund and by lending them funds. Each communal, regional or central credit funds must be financially autonomous. In September 1998, the PCF system included 983 credit funds and 625,000 clients (Fallavier, January 1999, Devfinance).
The State Bank of Vietnam selects the communes in which the PCF can be introduced using the following criteria: economic dynamism, existence of a demand for loans and a savings capacity, presence of local skills in managing a savings and credit operation, location close to a town, or a major road, etc. If 30 people in the commune are interested in becoming founder members, a PCF can then be set up. People's Credit Funds are thus set up and managed by their members, who make up the general assembly. The PCF is administered by a Board of Directors consisting of three members elected at the general assembly and a management committee. The Board of Directors consists in a chairman, a vice-chairman and a treasurer, all three notables in the commune. It takes all policy decisions on equity capital, savings mobilisation, and setting interest rates for savings and loans.
The Board of Directors appoints a Managing Director. The management committee consisting of the Managing Director, an accountant, two loan officers, a cashier and a internal controller, handles current operations : receiving clients, examining loan requests, collecting deposits. A credit committee consisting of the Board chairman, the Managing Director and members of the management committee, decides on which loans to grant. A Supervision committee made up of members elected by the general assembly supervises and monitors the results of the PCF.

Target population

People's Credit Funds are open to anyone belonging to the commune.

Loan conditions and procedures

People wishing to borrow must first become members by paying a minimum membership fee of 30,000 dongs (2.4 US $). The borrower must provide collateral equivalent to 80% of the amount requested and explain how he/she intends to repay (there should be no previous record of repayment problems). The borrower submits a loan plan to the loan officer. Once he has .../...

.../... considered the application, the loan officer draws up a loan contract which he decides to submit or not to the credit committee, which takes the final decision. People wishing to deposit savings are not obliged to be members and can live in a neighbouring commune.

Nature of the financial services proposed

Loans are short-term. The amount of each loan varies in the light of requests but cannot theoretically exceed 5 million dongs – 406 US $ (10% of the scheme's capital). The average loan size in our sample is 1.7 million dongs (138 US $). Repayment terms depend on the item being funded and match the borrower's production cycle. With the agreement of the central Vietnamese bank, the interest rate is set at 1.8% per month. This interest rate gives spread rates on savings of between 1.5 and 0.7%. The interest rate varies according to the nature of the deposit (current account or 3, 6, 9 and 12 months), and ranges between 0.5% for cash deposits to 1.35% maximum for one-year term deposits.

Difficulties and changes

People's Credit Funds still find it difficult to mobilise local savings. Their deposits consist for the most part in the savings of their founder members, commune leaders and political representatives. Their management bodies are also steered by founder members, which all in all means that the general assembly of members has little weight.

The various funding sources and their client groups

How much do people resort to borrowing?

Out of the 175 households surveyed, over half (56%) borrow from one of the funding sources identified. See graph 3 (« Number of borrowers and non-borrowers out of 175 families by level of wealth, 1997 »).

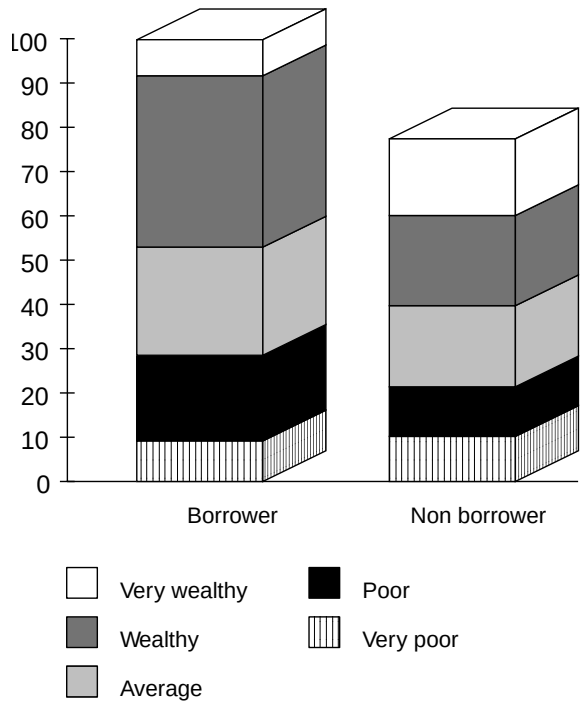
All categories of households use loans. It is clear, however, that the extreme categories – very wealthy and very poor – borrow relatively less. See graph 4 (« Borrowing households compared with non-borrowing households by level of wealth, 1997 »), p. 32.

The reasons put forward by these two categories naturally differ.

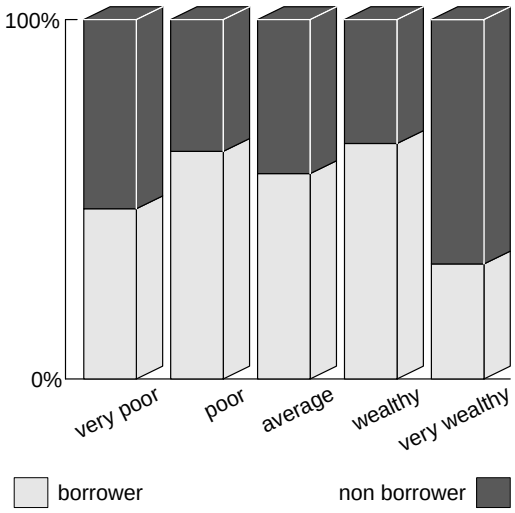
"Very wealthy" households have sufficient resources to not need to borrow. By contrast, "Very poor" categories say that they are afraid of getting into debt. As a result, they avoid borrowing.

There are also cases of "failure to gain access" to loans for certain very poor families (see Portrait p. 33).

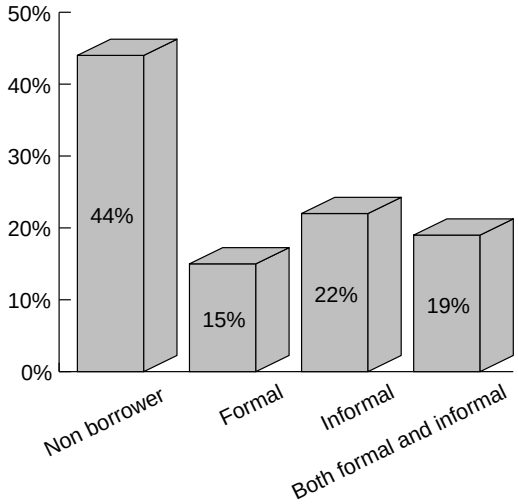
Graph 3
Number of borrowers and non-borrowers out of 175 families by level of wealth, 1997



Graph 4: Borrowing households compared with non-borrowing households by level of wealth, 1997



Graph 5
Spread of borrowing and non-borrowing households, 1997



● Penetration ratio within our sample

With the exception of the VBA, the different credit systems achieve relatively equal ratios of penetration in the surveyed area. See table 6.

Households which need finance turn first to their own families for loans.

In our sample, the VBA reached only 11% of families in rural communities whereas according to other surveys it generally reaches 20 to 30% families in rural communities. This is because the VBA's penetration ratio varies relatively widely between different communes and with the availability of funds from the bank at any given moment.

In June 1996, the VBA reached 18% of the rural households of the Nam Thanh District. At that time, it was involved with 16% of the families of the commune under consideration and 34% of the households of the neighbouring commune (Bui Thi Thai, 1996).

● Formal and informal funding sources existing in parallel

The graph 5 above shows that 22% of villagers borrow only from informal sources and that 19% use a combination of formal and informal sector loans.

Of the 39% of borrowers who take out loans from several sources, there are households which adopt a diversifying strategy (in agricultural or extra-agricultural activities) and which are seeking to create leverage effects by borrowing. These are in a minority and we encountered no cases of over-borrowing or continuous borrowing.

Table 6
Penetration ratio of the six credit sources, 1997

Informal			Formal and semi-formal		
Family	Moneylenders	Traders	VBA	VBP	RRP
17%	16%	16%	11%	17%	16%

T. T. Chûan's family

Wealth level: *"very poor"*
System of activity: *"farmer with a predominantly crop farming"*

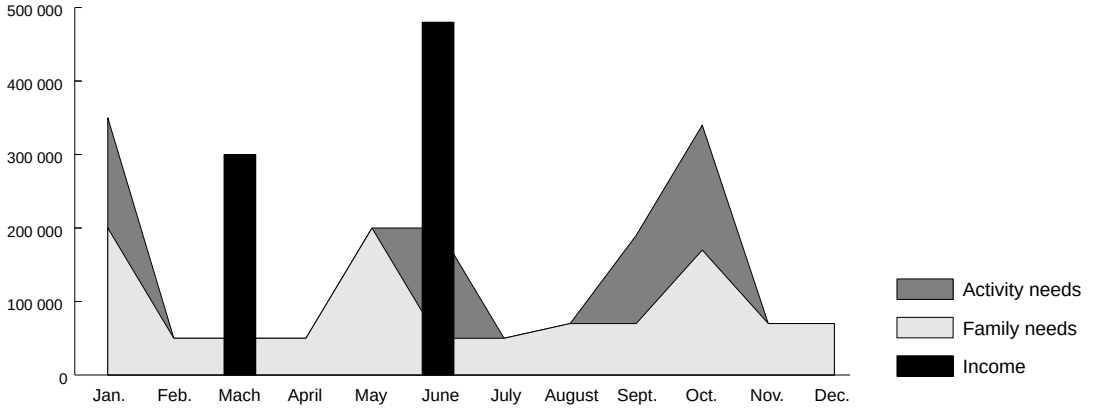
T. T. Chûan is 45 years old, and comes from a poor family. She is acting as head of the family since her husband, V.T. Thanh, who has been suffering from a serious illness for over six months, is now unable to work. Two of their three children are still small, and one is of working age. There are therefore only two people working within the household.

The family owns 3 saos on which it farms mainly shallots and garlic (dry winter crops). They also raise pigs but the output of this activity is very unreliable since it is intensified only to a very small extent (purchase of pigs at less than 10 kg, sale at around 30 kg and a long cycle of fattening). In addition, and despite being aware of the risks, the household is unable to afford to vaccinate its pigs. All their resources are spent on their subsistence and on health costs, and they are unable to save.

Their activity is exclusively agricultural, hence the seasonal nature of their farming income (March: dry crops; June: paddy crops; 300,000 dongs – 24 US $ – each time). T. T. Chûan explains that the family had no income at all for ten months, during the preceding year. In June, given V. T. Thanh's health problems, they decided to hire out their labour (300,000 dongs – 24 US $). Their peak needs for funding their productive activities reflect the cost of supplies of agricultural inputs (January and June: fertiliser for the rice – for their own consumption; September: fertiliser for the dry crops – grown for sale). The October peak reflects costs for the pig raising activity.

As we can see from the graph, the taxes due in May and October and preparations for the Têt holiday in January are a heavy burden on the household budget.

Monetary expenses and income throughout the year



Family needs . . . . . 1,100,000 d/year (89 US $/year)
Activity needs (working capital) . . . . . .590,000 d/year (48 US $/year)
Income . . . . . 1,350,000 d/year (110 US $/year)
Production for own consumption . . . . . 1,080,000 d/year (88 US $/year)

In addition, because V. T. Thanh is no longer able to work, the family has been unable to earn enough to pay the taxes due in October. Because of this failure to pay, the family has been penalised for late payment, i.e. the surface area available to them for cash crops (for resale) has been restricted by 2 saos to pay their debts. As a result, their earning capacity has fallen sharply.

To try to resolve their situation and to pay for the medical expenses of her husband's illness, T. T. Chûan decided to resort to borrowing. However, the family's financial situation is so precarious that the few potential lenders (traders, moneylenders and VBP) did not agree to run the risk of their insolvency (the household faces a pre-harvest shortfall of over five months per year). Her requests have all been rejected. With no access to the local credit market, she has no solution in sight and remains powerless in the face of her financial needs.

Mathias Robert

Monthly cash flow balances rise and fall sharply from month to month and although the household manages somehow or other to meet the costs of its farming expenses and its own consumer expenses, the financial situation is very precarious.

T. T. Chûan's family is particularly vulnerable faced with the unexpected, in this instance V. T. Thanh's poor health. With very low production resources (in quantity – only 1 sao of farming land), any major loss due to a poor harvest for example would be a fatal blow. The family is in a state of subsistence from which it will be difficult to escape: it is unable to save and given that its negotiating power vis-à-vis credit providers is non-existent, it finds itself excluded from the credit market.

73% of all borrowers had at least one active loan from the informal sector. We can therefore observe that the informal sector is used continuously. This can be explained by the fact that although the formal and semi-formal sectors are well-developed and provide nearly 47% of the loans taken out by the households surveyed, the amount of credit that they can offer is limited. They account for only 22% of the total volume of loans agreed within our sample. See opposite graph 6.

Compared with formal sources of credit, informal sources are indeed attractive given that loans can be rapidly obtained, repayment terms are flexible and no collateral is required. This is all the more the case given that the Vietnamese authorities' policy of lower interest rates has been pushing down the interest rates applied in the informal sector.

In the period 1990-1992, average rates observed were between 6 and 7% per month, and maximum 20% per month (Tran Tho Dat, 1997). In 1998, our study found average rates of 3-4% per month, and a maximum rate of 8% per month. These rates are relatively low. By contrast, in 1996 in Cambodia rates found in the informal sector ranged from 8 to 40% per month (Daubert *et al.*, 1997).

Graph 6
Total loans agreed from each source of credit in our sample, in thousands of dongs, 1997

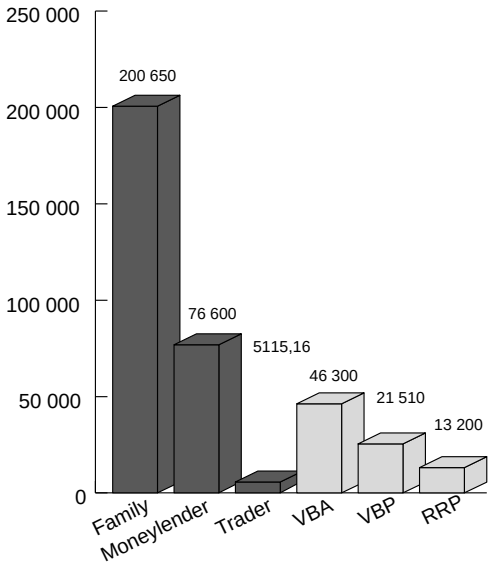


Table 7
Interest rates applied in the village studied, 1997

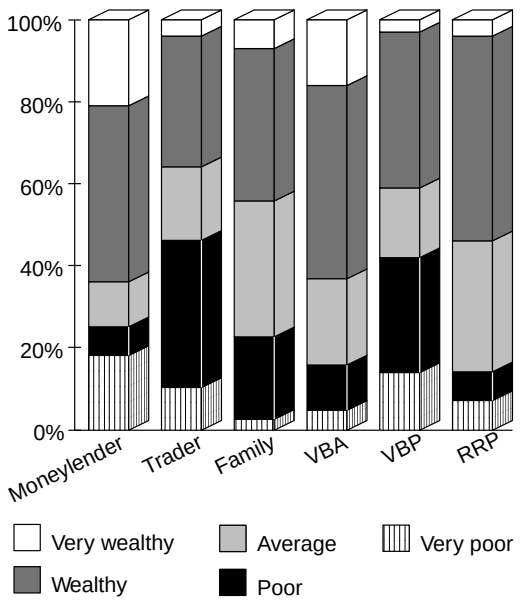
Credit source	VBA	VBP	RRP	Moneylenders	Traders	Family
Monthly interest rate	1.2%	0.8%	1.8%	1 to 8%	2 to 4%	0%

Nature of the funding sources

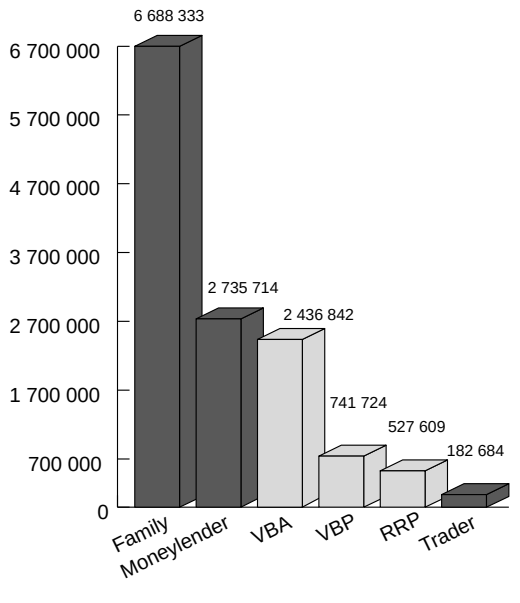
For each of the credit sources represented in our area, we considered several points relating to their impact in terms of the client group reached and the matching of supply and demand:

- the client group reached;
- where the poor fit in;
- access to credit;
- the practice of using "front" names;
- women and credit;
- the clients' view of the system.

Graph 7
Comparison of credit sources' client groups by level of wealth, 1997



Graph 8
Average loan size by source of credit, 1997



● The client groups of the various credit sources

The borrowing population within our sample included households from all the categories of wealth identified. The various sources of credit available in the village are not, however, used by these categories of wealth in the same proportions. See opposite graph 7.

◆ Most of the **Vietnam Bank for Agriculture's** clients are wealthy: 63%. These clients generally need large loans. These findings should be seen as reflecting the VBA's commercial objective which leads it to distribute large amounts and to avoid high risk clients.

◆ It is clear that the two credit systems targeting the poorest population groups only partially achieve their objectives:

– 41% of the families borrowing from the **VBP** were considered to be wealthy in our sample, and nearly 20% to be average. Biases in the selection process seem to partly explain these findings. Our surveys showed that for most of the loans granted to wealthy families, the loan was agreed thanks to special ties with one of the individuals selecting VBP borrowers.

– The **RRP's credit association** has a client group made up of up to 54% of wealthy households and only 14% of households in the "Poor" and "Very poor" categories.

◆ Most of the clients turning to moneylenders are well-off, as shown on the graph 7 above. Over 60% of loans from moneylenders are given to the "Wealthy" and "Very wealthy" categories of our sample, compared with 18% to "Very poor" households. The average amount borrowed from moneylenders totalled over 2.7 million dongs (220 US $), which is higher than the average VBA loan but lower than the average loan amounts borrowed from family and friends. We should note, however, that the standard deviation is over 10 million dongs (813 US $) for family loans, compared with 5 million (406 US $) for loans from moneylenders. See graph 8.

Given its limited capital (500 million – 40, 650 US $ – to 1 billion dongs – 81,300 US $ – per commune; Bui Thi Thai, 1996), the VBA cannot meet all loan requests and wealthy households wishing to

borrow large amounts therefore turn to their family and friends and to moneylenders. See table 8 below. Despite an unfavourable interest rate differential, people are encouraged to use moneylenders considering the absence of paperwork and the speed with which funds can be obtained.

Table 8
Average amounts borrowed from family and from moneylenders by category of wealth, in dongs, 1997

	Very poor	Poor	Average	Wealthy	Very wealthy
Family	si	1,867,000 (152 US $)	4,850,000 (395 US $)	7,768,000 (632 US $)	1,500,000 (122 US $)
Moneylenders	720,000 (59 US $)	1,250,000 (102 US $)	2,033,000 (165 US $)	2,108,000 (171 US $)	6,517,000 (530 US $)

si = statistically insignificant

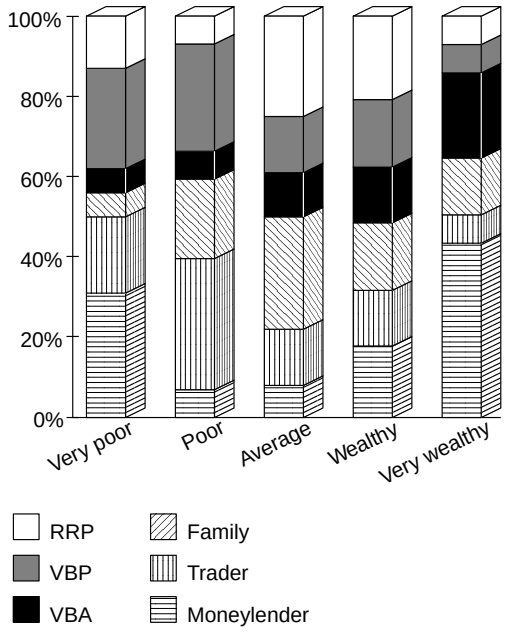
● Where the poor fit in

We can observe that after **traders**, who lend to 46% "Poor" and "Very poor" categories, the **Vietnam Bank for the Poor** is next to reach the most impoverished households, which represent 42% of its clients. One notes a difference between "Poor" and "Very poor" categories of our sample:

◆ "Poor" category households turn first to **traders**, who provide 33% of the loans they receive. Purchases on credit are common in these households, whose activities depend essentially on agriculture. Credit in kind is used to purchase agricultural inputs before each planting cycle. In pre-harvest periods of shortfall, credit purchases from traders avoid poor households having to sell their paddy or their small quantities of livestock. Their second source of credit is the **VBP** which accounts for 27% of the loans they receive. Borrowing from moneylenders is not widespread (7%) in these households which can call on family solidarity (20%).

◆ The poorest still turn first to **moneylenders**. Graph 9 shows that of all the loans received by households in the "Very poor" category of our sample, over 30% are from moneylenders and 25% from the VBP. Only very rarely can these households turn to their family (6%). Their financial vulnerability make the moneylender a suitable source of funding given that funds can be obtained particularly quickly and can be used to meet their current needs or unforeseen expenses. The poorest households, however, generally have to bear the highest interest rates given their risk of insolvency. See graph 9 below.

Graph 9
Source of loans taken out by category of wealth, 1997

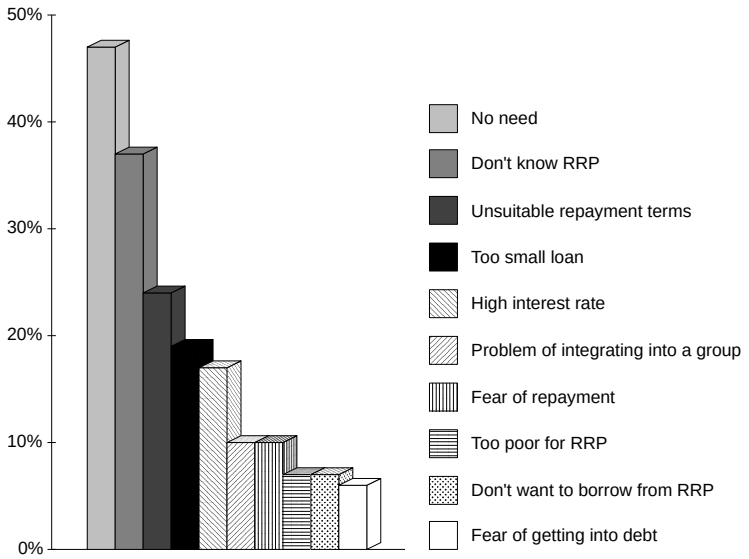


● Access to credit

At the time of our survey, 44% of households had no active loans. We considered the nature of these "non-borrowers" for each of the systems in order to assess cases of "failure to access" and to try to understand the reasons for this. Here we must distinguish amongst non-borrowers as a whole between households for whom loans do not provide an economic opportunity, and those who wish to have access to a given credit system, but are unable to achieve this. The latter can be regarded are cases of "failure to access".

Across all systems, most non-borrowers state that they do not wish to take out a loan. There are a number of reasons for this, the most frequent being their capacity to self-finance their activities or the lack of any productive activity to develop.

Graph 10
Main reasons given by RRP non-borrowers for not using this source of credit, 1997



◆ 81% of the **VBA**'s non-borrowers do not wish to take out a loan from the Bank, and the procedures required generally seem to have a discouraging effect.

Of the 11% of households stating that they were unable to obtain a loan from the VBA, 33% are unable to provide material collateral and 30% had their application rejected. The poor categories represent 40% of cases of failure to access the VBA.

◆ 65% of the **RRP**'s non-borrowers do not wish to borrow from this source. We can see that 26% of the RRP's non-borrowers had no opinion on this subject. Our surveys also showed that one of the reasons for not borrowing here was a lack of awareness of the existence of the credit association. This reason is not found in the case of the other systems, or at least only to a very small extent in the case of the VBP.

In addition to the fact that households state first that they do not need to borrow (having enough money and no activities to develop), graph 10 above also highlights the problem of the suitability of repayment terms, the amount of the loan being too small and the level of interest rates as being the main reasons advanced for not using the PPR credit scheme.

Monthly repayment of interest and of part of the capital is a constraint that is found across all categories of wealth. In addition, these repayment terms seem to be poorly suited to the household production cycle. Our surveys show that 50% of the households giving this reply have production systems which do not generate regular income throughout the year, but rather very widely spaced periodic income, at harvest times or when selling livestock, as shown in the graph 11 (p. 39).

◆ Very few households are unable to borrow from **moneylenders**: only 5% have been rejected by this source. No particular category of wealth emerges within this sub-sample. See graph 12, p. 39.

Most of the households not borrowing from moneylenders are not seeking to borrow, essentially because of the interest rates applied. For the very poor, fear of being unable to repay is also a major factor.

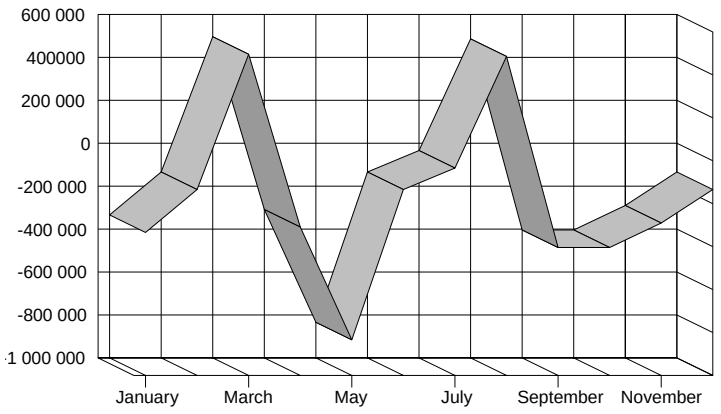
◆ By contrast, over 35% of **VBP** non-borrowers would like to take out a loan and are unable to do so. This reflects the VBP's selection process which explains 31% of non-membership cases (people who are ineligible) and 70% of "failure to access" cases

(people meeting the VBP's criteria but not selected).

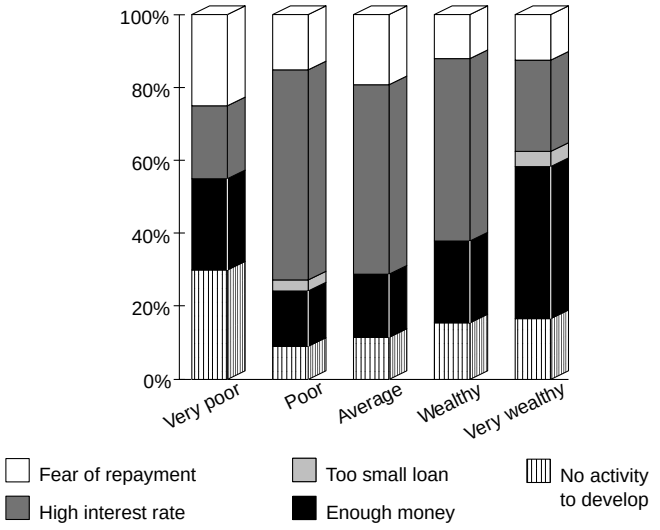
This high rate of failure to access requires further comment however. The low interest rate used by the VBP – 0.8% per month – makes that a large number of households, including the wealthiest, state that they want to borrow from the VBP and are unable to do so, but clearly they are not the VBP's main target group. See graph 13, page 40.

Amongst the families who want to borrow, 51% are from the "Very wealthy" and "Wealthy" categories; Only 20% are poor and very poor families and can be regarded as genuine cases of failure to access, being part of the target population group.

Graph 11
Cash flow balance of a household with exclusively agricultural activities, predominantly crops, 1997



Graph 12: Reasons given by households not borrowing from moneylenders for not using this source of credit, by level of wealth, 1997



● The practice of using "front" names

"Front" names are borrowers who agree to pass on all ("total front names") or part ("partial front names") of the loan obtained to another person. These practices are against the rules. They can reflect needs for larger loans, notably in systems where there are ceilings on loans.

These practices are tricky to identify while surveying but taking borrowers as a whole, at least 9% of them would appear to be transferring loans in this way. In all cases, the loan transfer occurred within the family (in the broadest sense).

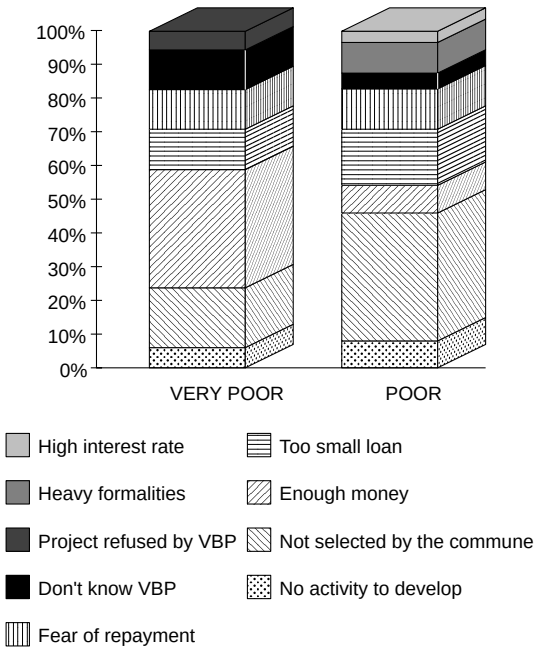
The table 9 presents the answers to the questions: "Have you borrowed to pass on your loan to another person? Have you obtained your loan from a front name?"

Our surveys show that these practices, which are rare in our sample, are restricted to loans obtained from the various formal credit systems, all of which set a loan ceiling.

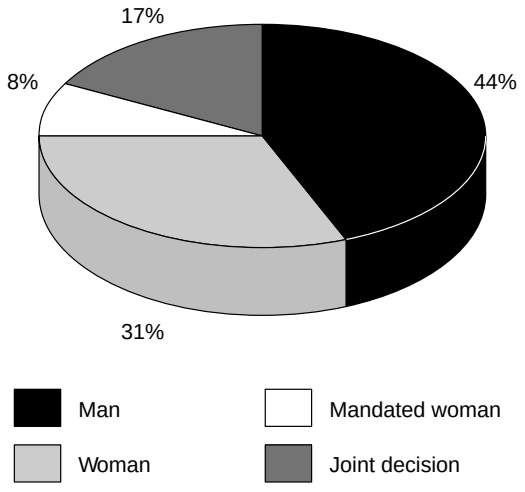
Table 9
The practice of using "front" names across all sources of credit, 1997

No use of front names	91%
Total front names	5%
Partial front names	4%

Graph 13
Reasons given by VBP non-borrowers for not using this source of credit, by level of wealth, 1997



Graph 14
Who receives the loan within the household, 1997



● Women and credit

None of the credit systems studied here target women as a priority. However our surveys show that of all the loans agreed, over half are made to the wife of the household. In addition, 56% of the loans received by woman are on their own initiative. They also manage how they are used. See table 10 below.

Our results highlight that women do not play the same role depending on the source of credit used. In most cases, it is men, as heads of the family, who decide and negotiate loans from moneylenders. In our sample, only 15% of moneylender loans were to women, whereas the VBP has more than 36% female members and the RRP credit scheme, 71%.

These results underline the major role of women in the rural areas of Vietnam and in managing household budgets.

● Clients' views of their sources of credit

◆ More than 45% of the reasons for being satisfied given by VBA members relate to the level of interest rates which is considered to be favourable. This figure rises to 55% for VBP members. The rates applied by these two banks are in fact the most attractive on the financial market, with the exception of course of loans obtained from family and close friends.

◆ As for clients turning to traders and moneylenders, what they appreciate most is the absence of paperwork, the speed with which funds are obtained and the flexibility in repayments.

Table 10
The role of women in deciding on and using the loans they receive, 1997

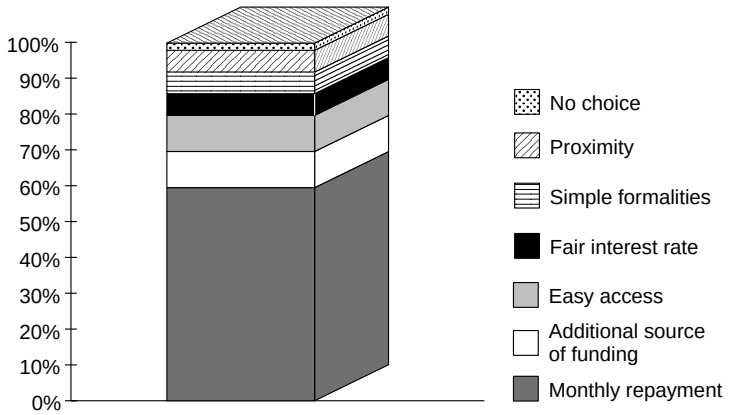
Loan decided and used by the wife	56%
Loan jointly decided	31%
Loan received by a wife mandated by her husband	13%
Total	100%

◆ Regardless of their level of wealth, members of the RRP credit association above all appreciate the repayment terms, and this was stated in 61% of their answers. The criteria put forward for other sources of credit are of secondary importance.

This high figure reflects the fact that 56% of the RRP credit association members are from households benefiting from fairly regular income throughout the year. They receive a pension or have a extra-agricultural secondary job enabling them to manage to repay both interest and capital on a monthly basis.

The monthly repayment is in fact a major factor distinguishing members and non-members of the RRP credit association. As we have seen above (graph 10, p. 38), these repayments terms are one of the reasons given by most households for not wishing to borrow from this scheme.

Graph 15
Reasons given by RRP borowers for being satisfied, 1997



Synthesis

Many rural households, which have had to meet greater financial demands since economic liberalisation, have recourse to borrowing (56%). Women are a major part of this population group, with over half of all loans agreed being made to women. The wide range of sources of credit available enable 83% of the families wishing to take out a loan to achieve this. Although it is not possible to distinguish between situations of over-borrowing and strategies with a leverage effect, this wide range of sources also allows almost 40% of borrowers to take out several loans simultaneously.

◆ Although specialised public banks are relatively well established, the **use of the informal sector** – moneylenders, traders and relatives – predominates in terms of the volume of credit loaned. Thus the informal sector, within which the family is the most frequently used source of borrowing, accounts for 53% of the loans agreed and 78% of the volume of loans across our sample.

With their flexible terms for obtaining and repaying loans, and relatively moderate rates, private lenders play a key role in funding poor households' pre-harvest shortfall periods (traders' loans) and urgent needs (loans from moneylenders or the family). They also play a major part in funding large investments that the formal sector cannot completely satisfy, given the existing ceilings on formal loans.

◆ The **formal sector** accounts for 22% of the volume of loans, and 47% of the number of loans agreed in our sample. The level of interest rates applied makes this sector particularly attractive. Rates are the first reason for being satisfied given by VBA clients (45% of reasons given) and by VBP borrowers (55% of reasons given). The low rates allow opportunity earnings between the various sources of formal and informal credit.

The rules governing the way the formal sector operates, including the time taken to obtain the loan, repayment terms (for the RRP credit association), the procedure to follow, and even the material collateral required (for the VBA) are on the other hand factors which tend to discourage non-borrowers.

◆ The formal and informal sectors complement each other in terms of the way they operate and the

opportunities they provide. This complementarity seems, however, less marked in terms of the population group reached when considering the situation of the poorest households.

Traders and the VBP are the sources which provide the most finance to poor households: 42% of VBP clients and 46% of those of traders are poor households. However, whether in the formal or the informal sector, the sources to which impoverished families can turn (private lenders, the VBP, the RRP schemes), for various reasons allocate most of their loans to a client group which can be regarded as "moderate to wealthy".

This restricts the access of the poorest to credit. Given the cash flow problems they face (see Chapter 1), their limited access to credit as a potential way of smoothing out their income and expenditure variations can be seen as a cause for concern.

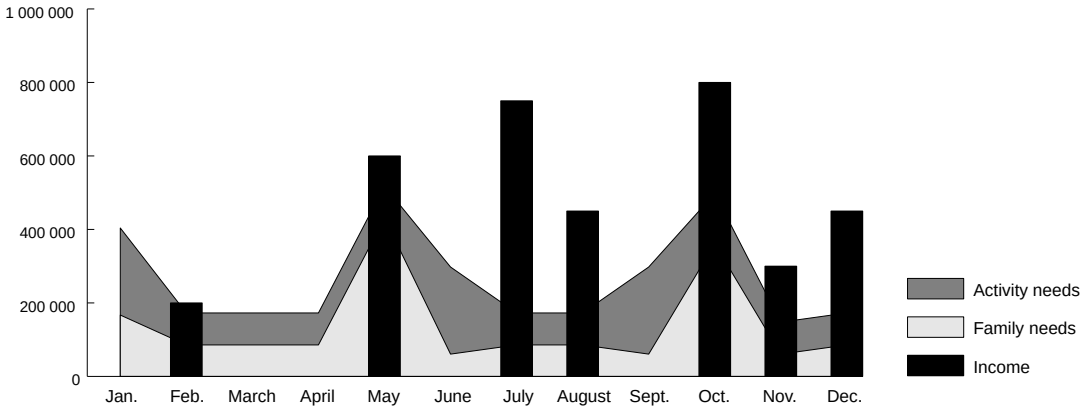
V. D. Chùc's family

***Wealth level**: "poor"*
***System of activity**: "farmer with a predominantly animal husbandry activity"*

V. D. Chùc, 34, is married with two small children. Both he and his wife were born in the village. V. D. Chùc's parents are poor and were unable to help him when he left home to get married. As for his wife, her parents are dead and were unable to leave her anything.

The household owns 5 saos of agricultural land. They grow rice, maize, soya and shallots. The rice is mainly for their own consumption, but can be sold if the need arises. The maize, soya and shallots are for generating cash income. The household has no pigs, but has started poultry breeding. To complement their farming income, which is too seasonal, the family has made efforts to intensify its poultry breeding activity (selling over 80 kg each cycle), which enables it to make relatively large profits in May (600,000 dongs – 48 US $), July (700,000 dongs – 57 US $), August (450,000 dongs – 37 US $) and October (500,000 dongs – 40 US $). Finally, the family makes additional income by hiring out its labour in October, November and December (300,000 dongs per month – 24 US $).

Monetary expenses and income throughout the year



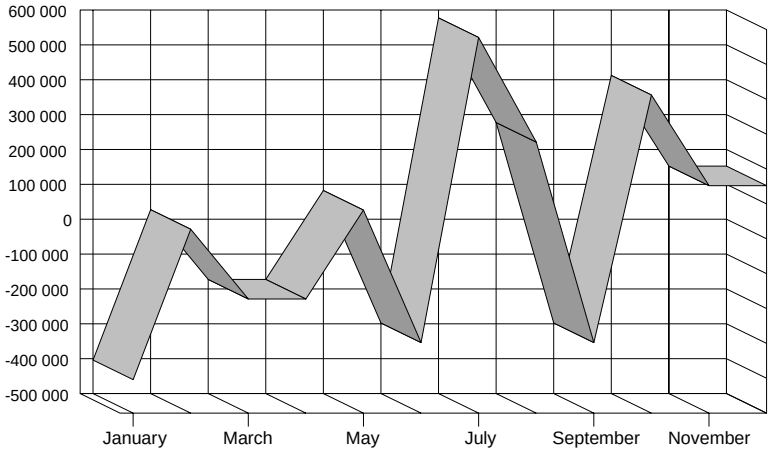
Family needs . . . . . 1,072,000 d/year (87 US $/year)
Activity needs (working capital) . . . . . 1,544,000 d/year (125 US $/year)
Income . . . . . 3,550,000 d/year (288 US $/year)
Production for own consumption . . . . . 1,620,000 d/year (131 US $/year)

Thanks to the more intensive poultry breeding activity, V. D. Chùc's family manages to stabilise its income, which enables it to smooth its cash flow variations through the year. The income generated by hiring out their agricultural labour enables them to pay for the family's normal food needs. Profits from the poultry breeding activity are entirely absorbed by the taxes due in May and October, but avoid them having to take out unproductive loans. Nevertheless, the household cannot manage to save the money needed to meet the costs of the January Têt holiday. Most of the income generated from farming has this year served to repay the loan taken out the previous year to be able to intensify the poultry breeding activity.

Given that this activity is proving to generate income, and that it has been possible to pay off the loan without having to draw on capital assets, the loan can be regarded as productive, enabling a genuine increase in the family's resources.

The family has no income for five months each year, but nevertheless its income is relatively high. Their poultry breeding is now fairly intensive, but it is only by hiring our their labour that they manage to pay their current food costs. Although they manage to meet their needs, they are unable to save, any surplus being immediately absorbed. Their financial situation thus remains fragile. If the unexpected occurs, illness for example, the family would immediately find itself in difficulties, which would probably force them to take out a non-productive loan.

Cash flow variations throughout the year



Mathias Robert

The micro-economic impact of the loans distributed by the VBA and the VBP

Direct uses of loans

We identified 11 ways in which VBP loans were used. See graph 16 below.

VBP loans are used in four main ways. The most frequent is buying animals to fatten or breed (piglets, poultry or young fish), followed by repaying a loan, buying agricultural inputs and paying school expenses.

The ceiling of VBP loans is 2.5 million dongs (203 US $) and they are therefore well suited to purchasing livestock or agricultural inputs on a small scale (e.g. a piglet a few weeks old costs 300,000 dongs – 24 US $). See table 11, page 46. This type of use of the loan is most frequently found in "Poor" and "Very poor" category households. 75% of households who have used their loan in this way did not need to find additional funds to realise their project. Half of the VBP borrowers used their loan to pay for two different expenses.

Graph 16
Main uses of VBP loans, 1997

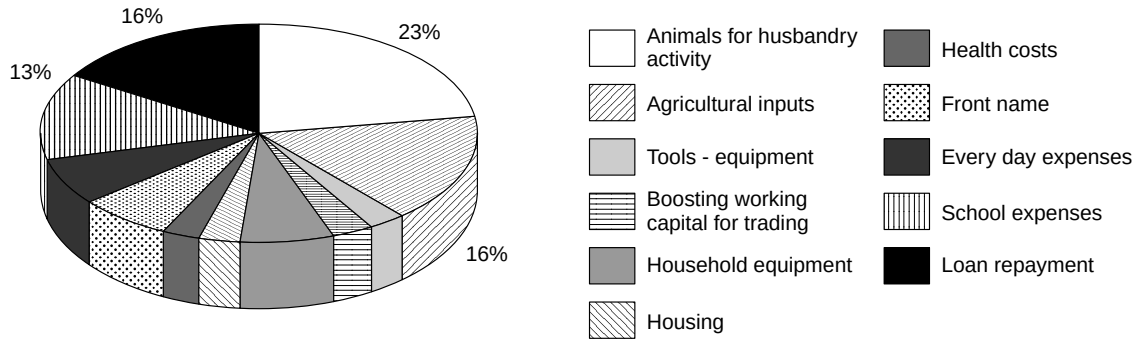


Table 11
Average amounts borrowed from the VBP by category of wealth, in dongs, 1997

Very poor	Poor	Average	Wealthy	Very wealthy
587,500 (48 US $)	631,250 (51 US $)	900,000 (73 US $)	782,730 (63 US $)	si

Table 12
Average amounts borrowed from the VBA by category of wealth, in dongs, 1997

Very poor	Poor	Average	Wealthy	Very wealthy
500,000 (40 US $)	si	800,000 (65 US $)	2,455,550 (199 US $)	4,330,000 (352 US $)

si : statistically insignificant

We identified 11 ways in which VBA loans were used by the 19 borrowers. See graph 17 below.

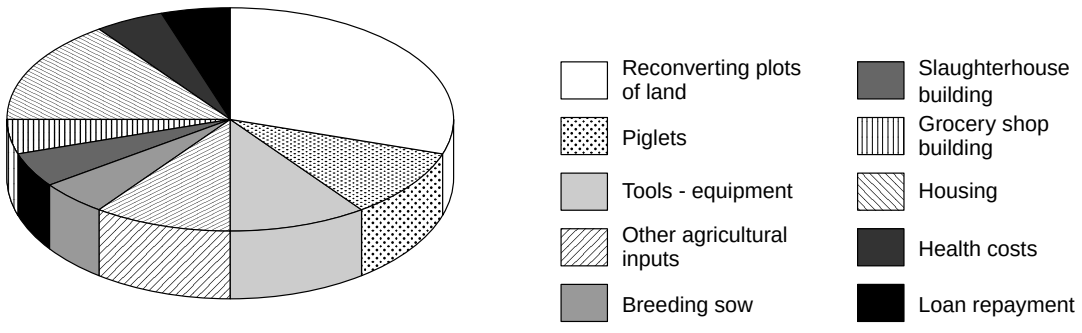
VBA loans are most frequently used to reconvert plots of land into house garden and orchard, and the answer "reconverting plots of land" was given in 30% of responses. VBA borrowers also use their loans for housing.

The poorer categories do not make housing investments (see graph 18, p. 47). For this type of investment, the amounts borrowed from the VBA are too small (on average 2.5 million dongs – 203 US $) to fund the entire project. The borrower has had to top up his VBA loan either by using savings or by turning to a moneylender. See table 12 above.

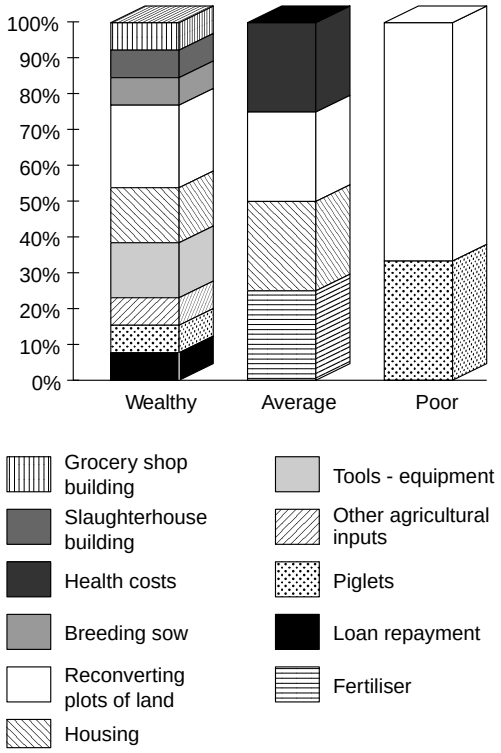
90% of well-off categories of households thus top up their VBA loan, while poorer households do with the loan by itself.

36% of VBA loans are used to pay for two different expenses. See graph 19, p. 47.

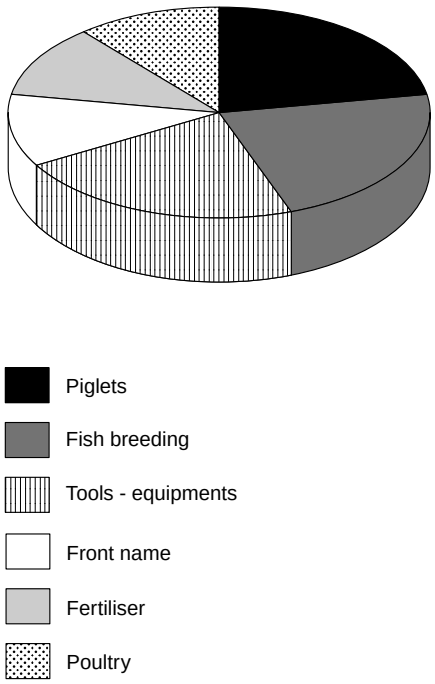
Graph 17
Main uses of VBA loans, 1997



Graph 18
Comparison of the direct uses of VBA loans, by level of wealth, 1997



Graph 19
Secondary uses of VBA loans, 1997



VBP loans pay for small purchases. For poor and very poor families, whose main system of activity is essentially agricultural, they are for the most part used to pay for small scale purchase of livestock, which households use most frequently as a form of saving in kind.

For better-off households, VBP loans appear to be a cheap source of money which they can use as the opportunity arises for one of their many current activities. No real trend emerges in the way in which VBP loans are used by these categories.

It is also clear that the interest rate used by the VBP – the lowest on the market – affects the way in which VBP loans are used. Exploiting the interest rate spread between various credit sources, some households borrow from the VBP to be able to repay more expensive debts as quickly as possible. 16% of VBP loans were used in this way.

The VBA allocates 65% of its loans to agricultural investment. It is the only formal source providing loans of up to 10 million dongs (813 US $) and meets higher investment needs (e.g. reconverting plots of land into garden and orchard).

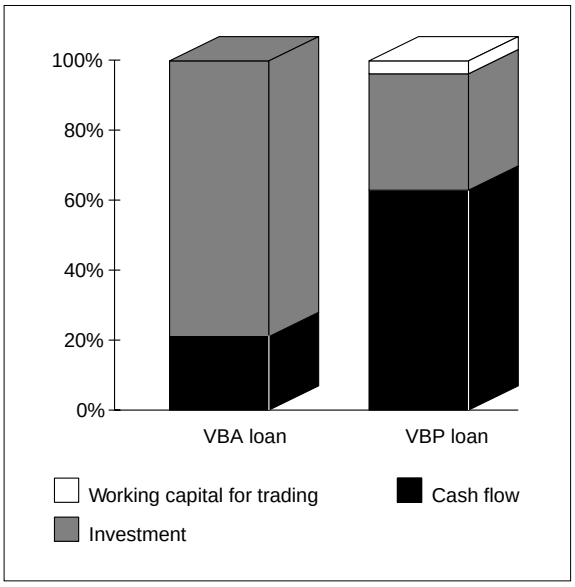
In the area of our survey, the VBA seems above all to be a mechanism for financing wealthy households, enabling them to top up what they have saved at relatively low cost or to reduce the amount they need to borrow from the moneylender to pay for a major productive or non-productive project.

The ways in which loans are used

As we saw in the first chapter, loans are used in three ways: cash flow loans, investment loans and loans to boost a working capital for trading.

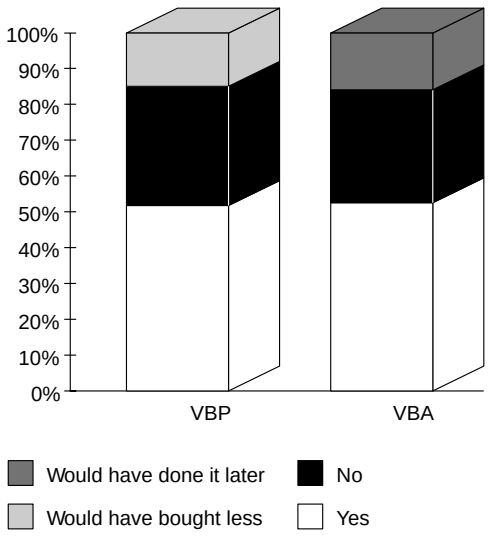
The graph below highlights a major difference in the way loans from the two Banks are used: over 60% of VBP loans are cash flow loans, whilst 75% of VBA loans are used for investments. Our surveys show that all VBA loans used for cash flow purposes are those provided to non-agricultural households.

VBP loans are mainly used as part of household cash flow budgets, whereas VBA loans are used to finance investment projects.



The substitution role of credit

Graph 20: Replies to the question "Would you have gone ahead with this expenditure without the loan?", 1997



The impact of a loan has a chain reaction effect and is spread over several areas of activity within the household, including expenses relating to its productive activities and consumer expenses – we speak of the fungible nature of credit. Therefore we need to consider the induced effects of a loan. To do this, one of our first steps must be to determine what the loan has enabled the household to avoid. We therefore asked households if they would have gone ahead with their expenditure had they had no loan (see graph 20). If they answered in the positive, we then asked how they would have paid for the expenditure.

Irrespective of whether they had a VBP or a VBA loan, 67% of borrowers would have gone ahead with the expenditure without the loan and would have paid for it in some other way. See graph 21, p. 49.

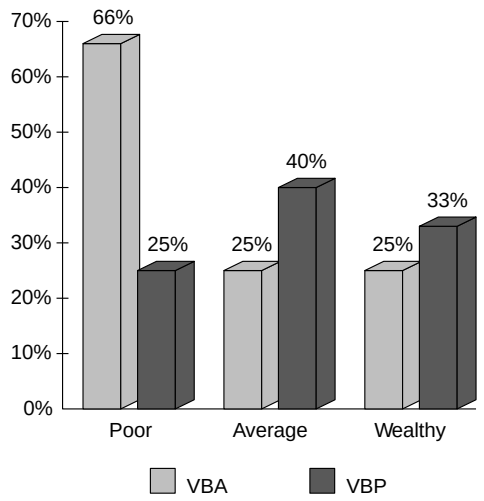
◆ 75% of the VBP's poor borrowers would have gone ahead without the loan. This may suggest that they do not really need the loan, but have obtained it as a result of the VBP's selection criteria which allocates loans in a relatively automatic way.

However, given that these households are constantly stretched as far as their cash flow is concerned, immediately using the loan to cover an expense which would have been incurred even without it indirectly enables the household to maintain an acceptable cash flow position, which in turn allows everyday expenses to be covered or unforeseen events to be coped with.

◆ 66% of poor households which had obtained a loan from the VBA would not have made the investment in question without the loan. Making an investment to improve their production resources or to diversify their activities requires putting up funds which they would not have without borrowing. Turning to a moneylender, however, is too expensive for this type of investment and other sources of funding do not provide large enough amounts. Only access to a VBA loan can enable them to obtain the necessary funds on acceptable terms.

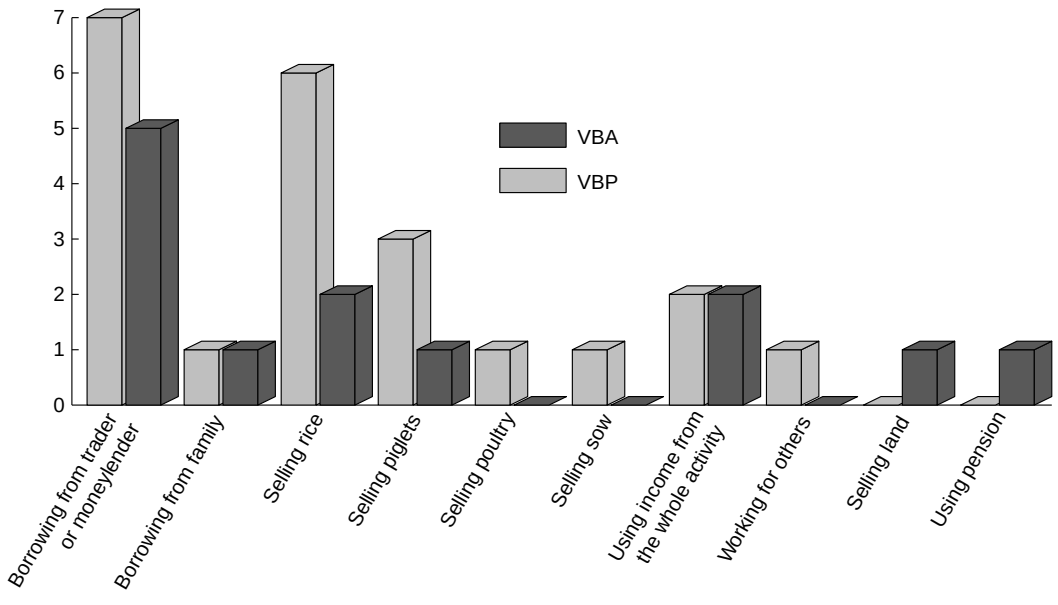
◆ None of the "Very wealthy" households which had received a VBP loan would have gone ahead with the expenditure unless the loan had been approved. In the "Wealthy" category this proportion falls to 33%. These results confirm the conclusions of section 1, highlighting the opportunistic behaviour of the most wealthy category vis-à-vis VBP loans.

Graph 21
VBP and VBA borrowers, by level of wealth, who would not have gone ahead with the expenditure without the loan, 1997



As we can see from graph 22 (below), loans obtained from the VBA and the VBP firstly replace informal loans from a moneylender or a trader.

Graph 22
What VBP and VBA loans enable borrowers to avoid, 1997



In order of frequency, VBP and VBA loans enable borrowers to avoid:

	VBP	VBA
– turning to a private lender (moneylender or trader)	32%	38%
– selling paddy rice	27%	14%
– selling part of their savings in the form of livestock (pigs, poultry)	18%	-
– using resources generated by their activities as a whole	-	14%

For the few "Poor" category households which obtain a VBA loan, the loan is invariably a substitute for turning to a moneylender.

For poor households which would have made the expenditure without the VBP loan, the loan prevents 40% of them from turning to a moneylender, 30% from selling their stock of paddy at low prices, and 20% from selling off their livestock (poultry, pigs) to meet cash flow needs.

Note that 20% of wealthy households prefer to borrow from the VBP or the VBA rather than turning to their family to avoid being in their debt or because they prefer to turn to them only in emergencies.

Only in 30% of cases did borrowers take out a loan enabling them to acquire funds which they would not have been able or willing to acquire in other ways.

There are enough funding sources for peasant farmers who cannot borrow from one to be able to apply to another. The existence of different sources also enables borrowers to employ strategies to minimise the financial cost of borrowing. Thus VBA and VBP loans enable nearly 70% of borrowers to acquire funds at the lowest possible cost, and to exploit the spread interest rates compared with moneylender loans and the differential in sales costs between two periods. The loans represent "opportunity earnings".

Loans enable the VBA's wealthy clients to make investments on more advantageous terms. Using a VBP loan avoids them having to use more expensive sources of funding or sell the assets they own at a poor price. The impact of such loans cannot therefore be assessed by considering the profitability of the object of the loan – as stated by the borrower – alone, but must also take into account the costs the loan has enabled the borrower to avoid.

The credit effect on activities

When the households surveyed had invested in a productive activity, we asked them to assess the impact of the loan in terms of "its effect on the activity". We can identify four types of effect:

– "developing effect": when the loan has enabled an activity to develop, i.e. there has been an increase in the quantities produced or in the intensification level;

– "launching effect": when the finance obtained has enabled a new activity to be launched. In this case, the loan can help to diversify the household's activities;

– "maintaining effect": when acquiring a loan enables a level of investment in an activity to be maintained;

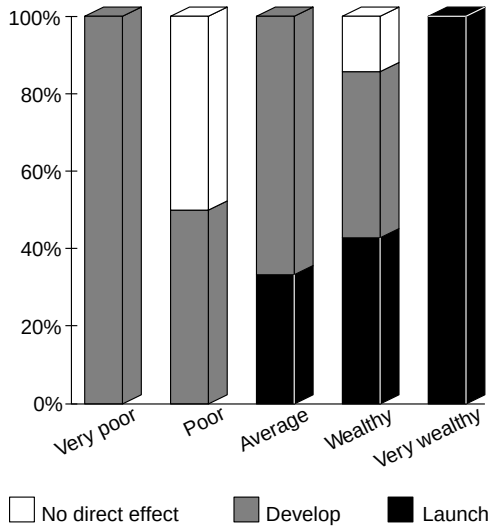
– "no direct effect": when the loan has no investment leverage effect. This is the case for example for loans which have enabled an investment which would otherwise have been funded from elsewhere (using savings or by another loan).

For 35% of the VBP's borrowers and 74% of the VBA's borrowers, the loan obtained had a leverage effect given that it enabled them to develop or to launch an activity.

Table 13
For borrowers having used their loan in a productive way, replies to the question "Has the loan helped to launch, develop or maintain the activity it funded?", 1997

The effect of the loan	VBP	VBA
Launch an activity	8%	44%
Develop an activity	38%	44%
Maintain an activity	31%	-
No direct effect	23%	12%

Graph 23
Spread by level of wealth of the effects of VBA loans on the activities funded, 1997



● The effect of VBA loans

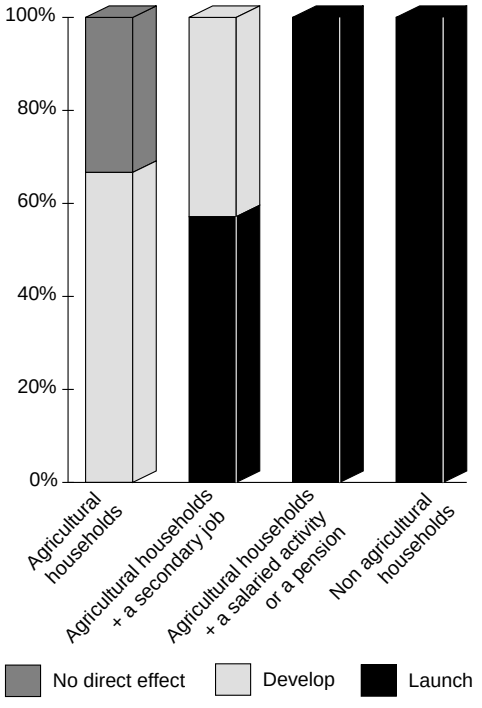
The graph 23 above shows that the wealthier the household, the greater the "launch of activities" effect of VBA loans.

VBA loans help to develop existing activities for 66% of poor households and reinforce activity diversification for 100% of very wealthy households and 43% of wealthy households by enabling them to launch a new activity.

The more the family is already committed to diversifying its activities (within or outside the agricultural area) or has income from a source other than work, the greater the effect of a VBA loan. See graph 24.

◆ **VBA loans enable 67% of exclusively agricultural families to intensify their secondary activities** by developing their market garden (reconverting plots of land to grow vegetables and fruit). Within this category, in some households animal husbandry activities predominate. For families whose activities still depend essentially on growing crops, VBA loans finance activities which would have been undertaken with the same level of investment if they had been funded from another source (i.e. the loan has no direct effect). For these families, it is reasonable to suppose that using a VBA loan is a strategy to substitute one source of funding for another, to minimise the fi-

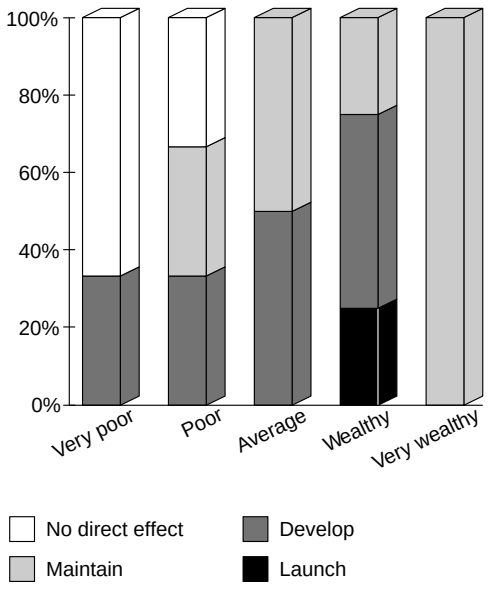
Graph 24
Spread of the effects of VBA loans by activities undertaken, 1997



nancial costs of the loan or to maintain a measure of independence from family or close friends who might have been able to provide a loan.

◆ **VBA loans fund the launch of new activities for 77% of households with diversified sources of income**, thanks to secondary jobs or "unearned" income, such as pensions. The more regular the non agricultural income, the greater this effect (the "launch" effect occurred in 57% of families with a secondary job and 100% of households with a salary and/or a pension).

Graph 25
Spread by level of wealth of the effects of VBP loans, 1997



● The effect of VBP loans

VBP loans have a less marked effect in terms of contributing to the diversification or intensification of activities. See graph 25.

◆ 17% of VBP borrowers used their loan to develop an existing activity by paying for the purchase of piglets or poultry, increasing their use of agricultural inputs other than fertiliser, or buying new tools.

◆ 14% of borrowers used their loan to maintain an activity, i.e. maintaining the quantity of pigs or poultry, or maintaining the quantities of fertiliser used.

We should note that the use of fertilisers or agricultural inputs is fairly widespread in the rural areas of the Red River delta and the practice of saving in the form of livestock is also common. This partly explains why the "launch" effect is virtually non-existent (one case only) for VBP loans which essentially finance this type of activity.

Outside these activities, VBP loans are in fact unsuitable for launching a small business, for reconverting a plot of land or buying a breeding sow. The amounts available are far too small to provide the initial capital (see table 11, page 46).

74% of VBA loans were used to strengthen a move towards more diversified or intensive activities. This effect is less marked for VBP loans which tend to be used to meet cash flow needs.

VBA loans appear to be a financial mechanism enabling wealthy families to accelerate the process of diversification to which they are already committed.

VBP loans seem to be a way for poorer families to gradually improve their capacity to finance their own activities by enabling them to maintain or at best to increase the level of intensification of their current activities.

N. Q. Hàc's family

Wealth level: *"very wealthy"*
System of activity: *"farmer with a predominantly activity and a secondary job"*

N. Q. Hàc is 59 years old. He was born into a very wealthy family (his parents were classed as "phu nong" (wealthy peasant in the 1954 census), and is married to N. V. Dùc. They have two sons and two daughters, one of whom is still a child. Five people in the household are therefore working to feed six mouths. The family structure seems to be likely to enable capital to accrue. N. Q. Hàc's family has different, closely linked activities.

N. Q. Hàc is above all an entrepreneur. Two years ago, he came into his inheritance and decided to intensify his pig fattening activity, which was at that time only moderately developed. Today, he buys his pigs at 60 kg and sells them at around 100 kg or more, which means that he runs virtually no risk on the investments he makes. Once the activity was this intensive, he acquired a breeding sow and began raising litters. The sow produces two litters per year. The financial profits from pork breeding and fattening total 3,900,000 dongs per year (317 US $: 81 US $ in January, 122 US $ in May and 114 US $ in December). The pigs are fattened on what is left over from dry crops and maize which are also grown.

Subsequently, observing that meat distribution in the village was inadequate, N. Q. Hàc invested in building an abattoir and a commercial outlet and made processing and selling meat his secondary activity. To achieve this, he used all of his farming income and obtained additional funding by taking out a loan from a moneylender.

Part of the stock of meat needed for the selling activity comes directly from his own herd, which enables him to make optimal use of his fixed costs. Selling pork is a high added value activity since the profit margin is 500,000 dongs (40 US $) per cycle. This is a relatively intensified activity, since according to N. Q. Hàc he completes one purchase-resale cycle per month, without fail throughout the year. The household thus earns a regular income (600,000 dongs – 48 US $ per month turnover), and therefore has no cash flow constraints, is protected from any pre-harvest shortfalls and does not have to hire out its agricultural labour or resort to unproductive loans.

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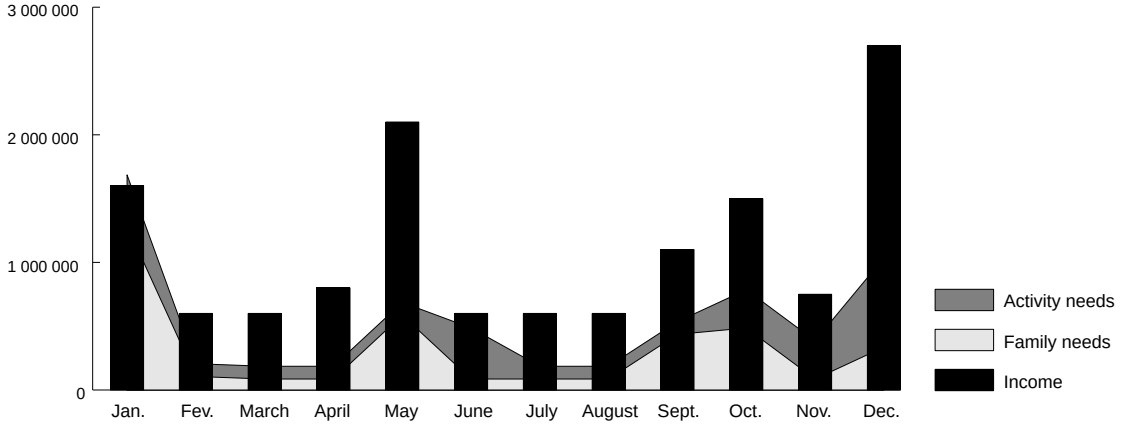
N. V. Dùc is therefore the one who carries out the agricultural activities, with the help of her two sons. The family owns 5 saos on which they grow rice for their own consumption, maize for fattening the pigs, and garlic and shallots for sale. She also tends a garden, mainly growing food for family consumption, except for five litchis, bought three years ago, which when mature (in two years time) will generate approximately 5,000,000 dongs (406 US $). This activity earns the family a seasonal income of 4,950,000 dongs (402 US $: 158 US $ in May, 40 US $ in September, 147 US $ in October and 57 US $ in December), while the agricultural working capital is only 1,000,000 dongs (81 US $).

Monetary expenses and income throughout the year

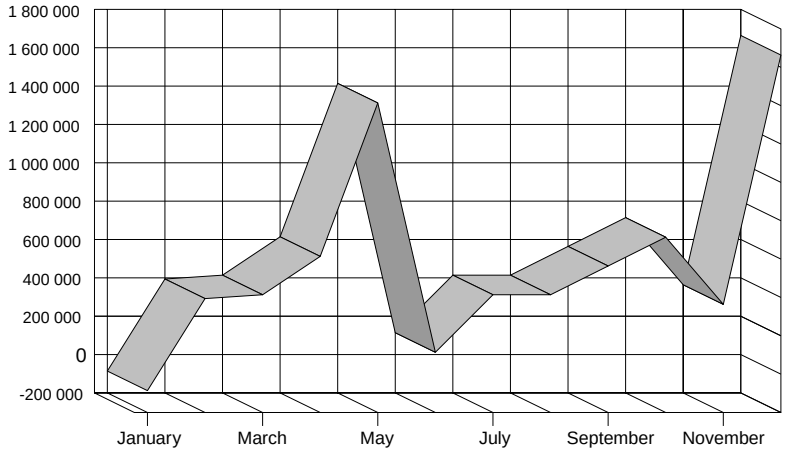


Family needs . . . . . 3,752,000 d/year (305 US $/year)
Activity needs (working capital) . . . . . 2,800,000 d/year (227 US $/year)
Income . . . . . 13,550,000 d/year (1 102 US $/year)
Production for own consumption . . . . . 2,880,000 d/year (234 US $/year)

N. Q. Hàc's secondary activity yields high added value and is not seasonal. The purchase costs of the goods and induced activity costs are minimised. The household has substantial cash flow surpluses, and therefore has a significant saving capacity. They are able to accumulate capital whilst providing to a great extent for their own consumption (which is equivalent to only 20% of the income) and for their family needs. The household has no difficulty in meeting the costs of taxes and the Têt (New Year) holiday.

N. Q. Hàc can easily meet unforeseen expenses and avoid taking out unproductive loans. His risk aversion is low. Given his capacity to self-finance his activities, in a few years time N. Q. Hàc will be able to start up a new, more highly capital-intensive activity with greater added value.

Cash flow variations throughout the year



Borrowers' perception of the economic impact

Having evaluated the "effect" of loans, we sought to analyse how the borrowers themselves assessed the economic impact of their loans.

Table 14
Estimation of the economic effect of loans using replies to the question "Do you think you have made money thanks to the loan?", 1997

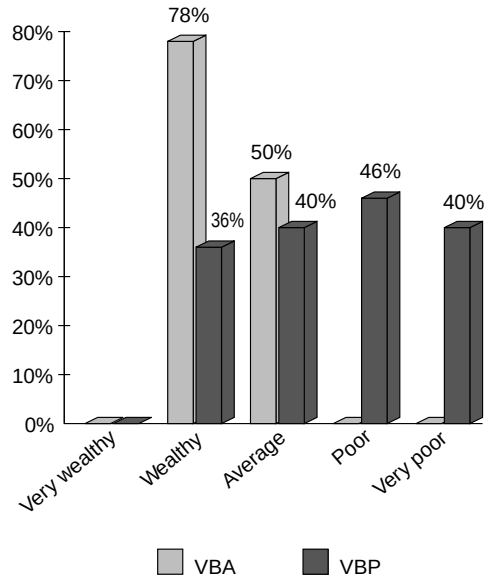
Do you think you have made money thanks to the loan?	Yes	No
VBP	83%	17%
VBA	84%	16%

Over 80% of borrowers consider that they have made a profit thanks to their loan. 42% believe that they can self-finance their activity in the future, using the profits they saved.

Table 15: Replies to the question "Do you think you can self-finance your activity thanks to the loan?", 1997

Thanks to the loan, do you think you can pay for your activity using your own money?	Yes	No
VBP	39%	61%
VBA	47%	53%

Graph 26
Percentage of borrowers in each category of wealth who consider that they can self-finance their activity thanks to the loan, 1997



VBP borrowers' assessment of the economic impact of their loan is very positive. In addition, nearly 39% of borrowers also state that they have made enough profit to fund their activity using their own money. 50% of these households belong to the poorer categories.

VBA and VBP borrowers' subjective assessment of the economic impact of their loans are very positive. For 42% of them, the profits made allowed sufficient savings for them to pay for the continuation of the activity themselves.

How profits generated by the loan are used

To continue our analysis of the impact of the loans, we also considered their indirect impact, by observing the manner in which borrowers used the profits generated by the loans.

Given the phenomenon of fungibility, great care must be taken when analysing the way in which income from loans is used. See graph 27 below.

Profits are used in three main ways, regardless of whether they are from VBA or VBP loans. More VBP borrowers, however, state that they will use the profits made for current expenses.

Table 16
Main uses of profits generated, VBA and VBP, 1997

Main uses	VBP	VBA
Current expenses	41%	33%
Repaying debts	27%	17%
Improving housing	14%	13%

● How profits generated by VBA loans are used

Analysing this by level of wealth suggests that all categories of borrowers recycle profits into current expenses. This is the principle way in which wealthy households use their loan.

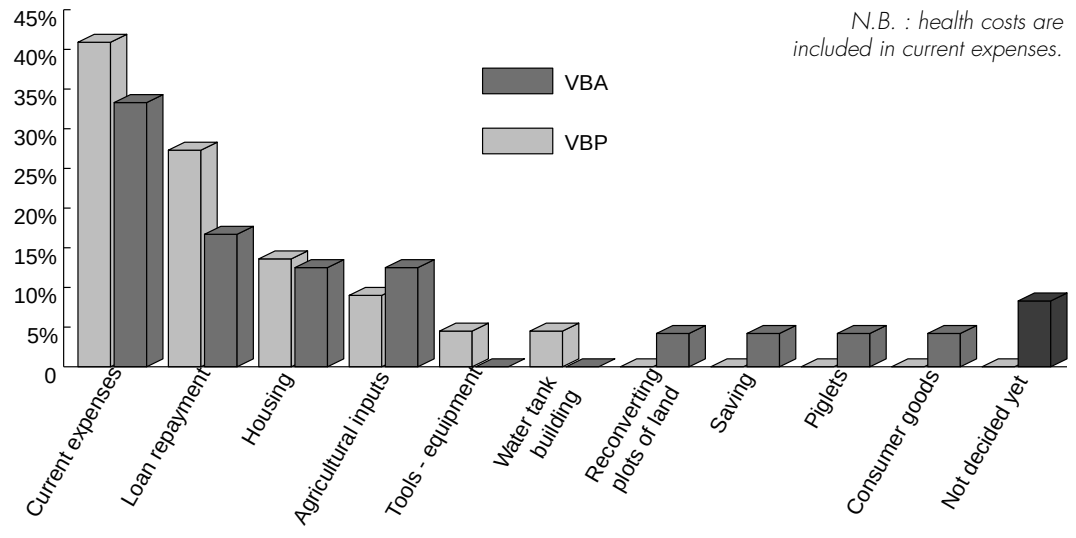
Wealthy families also use their loan to repay debts. This is the case for 15% of wealthy families and 50% of very wealthy families, while this use of the loan is not found in any other category of wealth.

The spread of ways in which the loan is used by activity shows that households in which the main activity is agriculture find it easier to use the profits made in a productive way.

● How profits generated by VBP loans are used

Profits generated by the loan are most frequently used to cover families' current expenses (41%). Loans were used to repay debts in 27% of cases, mostly

Graph 27
Spread of the way in profits generated by loans are used, 1997



in poor households (56%) for which this is the principal way in which the loan is used. Productive use of the profits (18%) are partial reinvestments in the activity being financed. The extreme categories, "Very wealthy" and "Very poor", do not make this kind of investment.

In all, only 18% of VBP borrowers and 25% of VBA borrowers use their profits for income generating activities.

The way in which profits are used rather reflects the spread of resources within the household, and it is therefore logical for them to be principally used for current expenses.

Synthesis

◆ Given its commercial objective, the majority of the VBA's clients are wealthy (63%). **VBA** loans are used principally for productive investments (75% of loans), most of which are in agriculture (65% of loans). Generally speaking, VBA loans allow well-off families to increase their investment capacity at low cost, which enables them to follow the market trend by intensifying or diversifying their activities. 67% of VBA borrowers use their loan as a substitute for another source of funding, principally moneylenders. When used for a productive investment, VBA loans have a leverage effect in 75% of productive loans. They enable 43% of wealthy borrowers to launch a new activity and 100% of very wealthy borrowers to intensify one of their activities. By contrast, the high amounts loaned (nearly 2,5 million dongs on average – 203 US $), restrictive administrative formalities and the need to provide material collateral prevent VBA loans from being a suitable funding source for poor families. Overall, VBA borrowers' perception of their loan is very positive, but less than half of them consider that they can self-finance their activity using the profits saved.

◆ In the area of our study, **the Vietnam Bank for the Poor** allocates 42% of its loans to poor households. But despite its efforts to target this client group, it also reaches mainly average and wealthy families. The average loan is 742,000 dongs (60 US $), with an upper limit of 2.5 million dongs (203 US $). VBP loans are mainly (over 60%) used to even out cash flow variations, which partly explains why 67% of VBP borrowers use their loan to pay for an expense which they would have had to cover even without a loan. Loans firstly prevent borrowers taking out private loans (from traders or moneylenders), selling paddy, or even liquidating their savings in the form of livestock (pigs or poultry). When used in a productive manner, VBP loans have relatively little leverage effect. They are used to diversify or intensify activities in 35% of cases of productive loans, but they also enable 14% of borrowers to maintain an activity at the same level of investment. Like the VBA, the VBP provides a low-cost "finance opportunity" and this aspect is even more marked given the relatively automatic nature of the selection procedure.

Over 80% of borrowers consider that they have made a profit thanks to their VBP loan, but only 39% believe that they can self-finance their activity using the profits saved.

N. T. Lîn's family

Wealth level: *"wealthy"*
System of activity: *"farmer with a predominantly activity and a secondary job"*

N. T. Lîn, fifty years old, is married to N. T. Taùn. They have three children, of whom two are of working age.

N. T. Lîn was born and brought up in the village, but has lived for many years in the province of Hanoi, where he had a job with a flower company. Over a period of ten years, he has trained himself in horticulture, gained a good understanding of commercial practices and developed a wide network of professional contacts. He then returned to his village, determined to put this know-how into practice. He therefore started up a business producing flowers and processing them into ceremonial arrangements (for weddings, funerals, etc.). Given the great frequency of this type of event, he had no difficulty in marketing his products. As the first to launch this activity, to date he has no competition, his expectations are encouraging and he has a wide margin for growth. The turnover of this activity, which is regarded as a secondary job, ranges from 400,000 to 900,000 dongs (33 to 73 US $) per month, which means that he has no cash flow problems and doesn't have to hire out his labour.

His wife N. T. Taùn and their two working age children look after the agricultural and animal husbandry activities. The household owns 4 saos. They invest in cash crops (maize, garlic and shallots) in September (300,000 dongs – 24 US $) and in rice for their own consumption in January and in June (300,000 dongs x 2 = 600,000 dongs – 48 US $). The family also owns a garden of 1/2 sao which they use to produce food for their own consumption (vegetables, bananas), except for a litchi which will generate an expected income of up to 1,000,000 dongs (81 US $) in three years time.

Annual income from agricultural activities totals 800,000 dongs (65 US $). Their pig fattening activity is highly intensified (purchase of 30 kg, sale of 100 kg, 3 cycles per year), bringing in 37% of their annual income (1,150,000 dongs – 93 US $ – in June and December, and 1,000,000 dongs – 81 US $ – in January and September). Peak needs for activities reflect animal husbandry investments (purchase of piglets in January and June: 260,000 dongs x 2 = 520,000 dongs – 42 US $). See graph next page.

From time to time, and only when she can spare the time (approximately once or twice a month), N. T. Taùn offers child-minding services in the neighbourhood. Although the income from this side-line activity is marginal, approximately 50,000 to 100,000 dongs (4 to 8 US $) per month, there is no doubt that it contributes a not insignificant part of the household's resources, and pays for part of the family's current food expenses.

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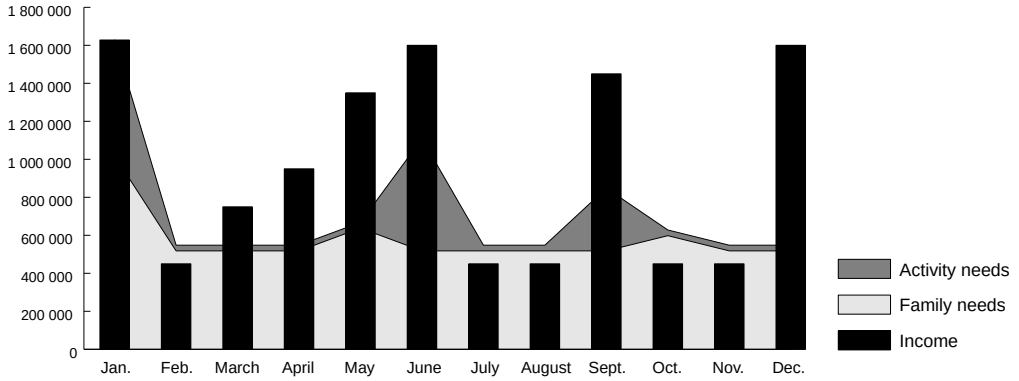
Profits from the secondary acti-

Monetary expenses and income throughout the year

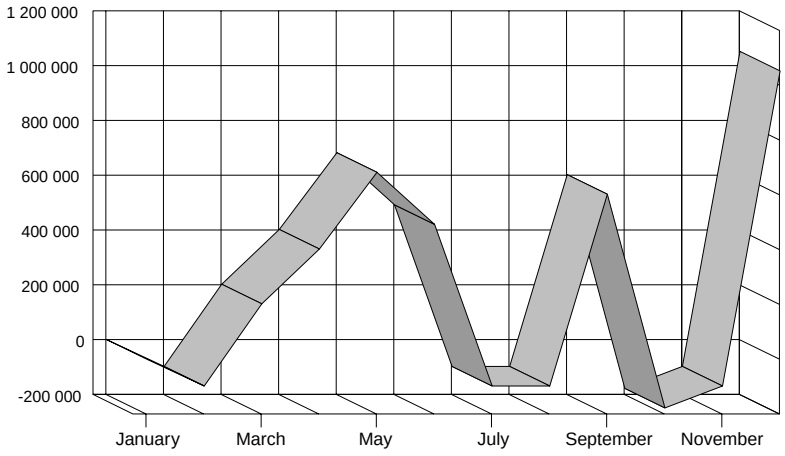


Family needs . . . . . .6,916,000 d/year (562 US $/year)
Activity needs (working capital) . . . . . .1,800,000 d/year (146 US $/year)
Income . . . . . .11,578,000 d/year (941 US $/year)
Production for own consumption . . . . . .2,160,000 d/year (175 US $/year)

vity and from the agricultural and animal husbandry activities pay for the education of their other, non-working son, who is training to be a schoolteacher. This intangible investment, akin to a long-term deposit, explains the size of the household budget, since this alone costs 3,600,000 dongs (293 US $) over the year, i.e. 52% of the total, which is a high proportion. It should be noted that this focus on education remains, in this context, restricted to well-off families.

The taxes due in May and October and the New Year holiday expenses pose no underlying financial problems for the family. The household has no cash flow problems and focuses on maximising the monetary income earned. The system of activity used is diversified, with notably a move towards extra-agricultural activities. His animal husbandry activities are considerably intensified, which has enabled him to accrue capital before it is needed. With several, quite distinct sources of funding, N. T. Lîn's monetary income is secure.

Cash flow variations throughout the year



Conclusion

● A wide range of credit sources for a significant level of demand

Since economic liberalisation, rural families have to meet increased financing needs. Many of them have recourse to borrowing, 56% of our sample in 1997.

Faced with significant demand for credit, the range of sources (the market "supply") is remarkable both in its diversity and its volume. In our study, 83% of families wishing to obtain a loan succeed in doing so and 40% take out more than one loan at a time.

● A very active informal sector

Alongside the formal systems (the Vietnam Bank for Agriculture, the Vietnam Bank for the Poor and the People's Credit Funds) set up by the State, traditional sources of credit continue to predominate, while the semi-formal systems set up on the initiative of external operators are relatively undeveloped.

Although state-owned banks are relatively well established locally, turning to the informal sector – moneylenders, traders and relatives – thus still predominates. In the area of our study, in the Nam Thanh District, the informal sector accounted for 53% of the loans made and 78% of the volume of credit distributed. The family remains the most popular source of informal credit.

Moneylenders mostly provide loans to well-off families, who represent over 60% of their clients. At the same time, the moneylender is the first funding source for the poorest families. This dual and apparently contradictory use of moneylenders is fairly rare but can be explained. The large amount of credit available has had the effect of pushing down interest rates, including those applied by private lenders. Informal sector rates are only 1 to 8% per month, compared with 8 to 30% per month, and an average of approximately 15%, in neighbouring Cambodia. Informal credit is therefore more attractive to the wealthy in Vietnam, and is at the same time traditionally the first source of credit for the poor.

With their flexible terms and conditions for obtaining and repaying loans and relatively moderate rates, private lenders (moneylenders and traders) play a vital role in funding farming cycle loans and meeting the emergency needs of poor households, but also in financing major investments which the formal sector is unable to meet in full.

● A well developed, but not necessarily sustainable formal sector supply

The formal sector accounts for 47% of the loans made and provides 22% of the volume of credit distributed. In this sector, our study shows that the Vietnam Bank for Agriculture and the Vietnam Bank for the Poor complement each other relatively well in terms of the client group(s) reached and of micro-economic impact.

Given its commercial objective, most of the VBA client's are wealthy, 60% of its borrowers coming into this category. The large amounts distributed (nearly 2.5 million dongs on average – 203 US $), constraining administrative formalities and the need to provide material collateral generally prevent poorer families from ha-

ving access to the VBA. On the other hand, the VBA enables well-off families to increase their investment capacity at low cost, which allows them to follow the market trend by diversifying or intensifying their activities.

The Vietnam Bank for the Poor allocates 42% of its loans to poor households in the area of our study. On the face of it this seems to be a good result. But the VBP also has clients in average and wealthy categories. Given that there are a large number of sources of finance, one might expect a bank with a stated aim of targeting the poor to select its clients more carefully. It is noteworthy that the subsidised interest rate of the VBP leads to some opportunistic use of loans, exploiting the differences between rates. This underlines the tendency we have observed, i.e. that VBP loans above all provide households with an opportunity to smooth out their cash flow variations. In addition, as the amounts loaned are relatively low (on average nearly 750,000 dongs – 61 US $), the impact of VBP loans is less marked in terms of assisting households to diversify their activities.

The rather high loan amounts (ceiling of 2.5 million dongs – 203 US $), still attractive for well-off families, and the clients selection process imply that the VBP and the VBA probably do not complement each other enough. Finally, the current policy of low interest rates makes the future of the VBP uncertain. Although this aspect has not been addressed in our study, it is important to recall its importance as it highlights the extent to which the problem of providing credit specifically to the poor has still not been resolved.

● Access to credit which is still restricted for the poorest

Given this abundant and relatively cheap supply of credit, rural families funding needs are relatively well covered, although we are once again aware that our study does not reflect the wide range of contexts in Vietnam. The Red River delta area is probably better off from the point of view of the credit available than the remote mountain areas. But the overall trend is fairly clear.

It remains true, however, that poor households are relatively less well covered. It is difficult for them to gain access to the VBA, which rather distances itself from their needs, as one might expect from a commercial bank. As for the VBP, which is a source of funding theoretically accessible to them, it finds it difficult to target this client group and its sustainability is in doubt. In our sample, nearly 60% of VBP loans are made to families regarded as "average to wealthy".

The semi-formal systems tested by external organisations or mass organisations have no greater success in proving that complementary systems other than the VBP can develop on a major scale in this context. They provide additional credit in an already crowded environment, and in addition their prospects of financial sustainability are poor because of the subsidised rates applied by the VBP, which tend to push down the interest rates these systems apply.

Our study provides no operational insight into how to meet the challenge of targeting of better the poor. This was not our objective. But let us acknowledge that this is no easy task. Thanks to the positive aspects of its rural credit policy (a large supply of credit allowing good cover of needs), as well as its more negative aspects (low, sometimes subsidised interest rates jeopardising the future sustainability of the existing formal sources), Vietnam has created a paradoxical situation in which the overall winners are "average and wealthy" families.

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Acronyms and abbreviations

CGAP	Consultative Group to Assist the Poor
DID	Développement International Desjardins
GDP	Growth Domestic Product
GRET	Groupe de Recherche et d'Echanges Technologiques
PCFs	People's Credit Funds
RRP	Red River Programme
SIDA	Swedish International Development Agency
UNDP	United Nations Development Programme
VBA	Vietnam Bank for Agriculture
VBP	Vietnam Bank for the Poor
VLM	The Virtual Library on Microcredit Web-site: http://www.soc.titech.ac.jp/icm/

d	dongs
US $	american dollars
si	statistically insignificant

Methodological annexe

Methodological annexe

Method, surveys and data-processing tools

Gret has been bringing together and disseminating the results of its work on the micro-economic impact of credit and on the methodological aspects of this kind of study since 1995. A methodology for analysing impact has been elaborated in the context of this overall debate. This was initially tested in the course of our study of the micro-economic impact of credit provided by Ennatien Moulethan Tchonnebat (EMT) in Cambodia. It was then improved in the course of specific work[27] in Vietnam in 1997 and in the Democratic Republic of Congo in 1998. The present study made full use of the fruits of this work on methodology, but we also further developed some aspects and identified certain limitations.

The object of this annexe is therefore to briefly present the methodological approach used in the context of our study.

[27] ◆ The micro-economic impact of rural credit in Cambodia, *Pierre Daubert et al., Gret, Etudes et Travaux Series, 1997.* ◆ Mise au point d'une méthode d'évaluation de l'impact micro-économique d'un système financier décentralisé. Expérimentation sur le volet crédit du Programme Fleuve Rouge au Nord Vietnam, *Martin Parent, Christine Jallais, Enesad, Gret, End of studies report, June 1997.* ◆ L'impact micro-économique du crédit rural en République démocratique du Congo. L'exemple des mutuelles d'épargne et de crédit de Kabinda - Kasaï oriental, *Guillemette Jaffrin, ESCP-Gret, Training report, July 1998.*

● Overall approach to the study

The objective of our study was to shed light on micro-finance in Vietnam, taking a local situation as our starting point. To achieve this, our approach was to study the impact of credit in a rural commune of northern Vietnam through:

(i) the nature of the existing loans available;

(ii) analysis of the micro-economic impact of loans provided by the two main sources of credit in rural areas: the Vietnam Bank for Agriculture (VBA) and the Vietnam Bank for the Poor (VBP).

● Methodological choices

Key hypothesis

Our methodological choices were dictated by the hypothesis that the impact of credit differs depending on the socio-economic category of the household.

Our method therefore consisted in "collecting the data enabling the analysis of the behaviour of each questioned household in relation to the various loans available to be analysed, and to relate this data to certain socio-economic characteristics" (Parent-Jallais, 1997).

To assess the micro-economic effects of credit systems, we considered a certain number of variables

identified as relevant in the course of our previous work on impact analysis, and devised two axes for our analysis: the levels of wealth of households and their systems of activity.

The variables considered can be listed under the following more generic headings:

(i) Impact of credit systems:

1. Penetration ratio
2. Client group(s) reached
3. Access to credit
4. Where the poor fit in
5. "Front name" practices
6. Women and credit
7. What the clients think of the system

(ii) Micro-economic impact of credit:

8. Direct uses of loans
9. The ways in which loans are used
10. The substitution effect of loans
11. The loan effects on the activity being funded
12. Profitability rates
13. Borrowers' views of the economic impact
14. How the profits generated by loans are used

Taking fungibility into account

Our methodological choices also take account of the fungible nature of credit. Great care must be taken when analysing the economic impact of micro-credit. A loan has a chain reaction effect and is spread over several areas of activity within the household, including expenses relating to its productive activities and consumer expenses. Thus, "even if the loan is intended for a precise, immediate and concrete object, its real impact may be induced, immaterial and bearing no relation to its direct attribution. The absence of any clear boundary between agricultural activities and the consumer needs of the household further contribute to this dilution effect" (Daubert *et al.*, 1997).

To take account of the hurdle of fungibility[28], we opted to study the effects of credit on the scale of the household as defined by D.J. Casley and D.A. Lury and not at individual level. "A household is made up of a person or a group of persons, generally related to each other, who live together under one single roof and who share a communal life in the sense that they are responsible to a single head of the family and share a common source of food" (Casley and Kumar, 1991).

But above all, our intention was to draw no conclusions on the impact of credit using only the profitability of the activity it has been used to finance, but rather to consider also the substitution effect of credit. This means asking the borrower if he would have undertaken the expenditure in question had he/she not had a loan. If the reply is in the negative, it is reasonable to assume that the income generated was the result of the loan. On the other hand, if the reply is in the positive, we then have to establish what the loan enabled the borrower to avoid to identify the constraint removed thanks to the loan (e.g. a loan from a moneylender, the sale of a piglet, etc.).

Consideration of the substitution role of credit indeed allows one to calculate profitability rates which take account of indirect uses of credit, but also to put notions of productive and unproductive credit into perspective. "An apparently unproductive loan can indirectly contribute to increasing income, if only by preventing recourse to moneylenders or by freeing working time" (Daubert *et al.*, 1997).

● Surveys and data-processing tools

Site selection

The survey was conducted in a rural village selected on the basis of two criteria:

– the presence of sources of credit – VBA and VBP – and a RRP village credit association;

– the homogenous nature of the context.

The selected village is a rural village of 1,000 families in a commune[29] of the Nam Thanh District in the Red River delta of northern Vietnam (see Chapter One).

How the surveys were conducted

The surveys were conducted in two stages.

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[28] *See* The micro-economic impact of rural credit in cambodia, *Pierre Daubert et al., Gret, Etudes et travaux Series, October 1997, chapter 3 on the constraints and specific nature of impact studies.*

[29] *The commune in which we conducted our survey is not one of the communes selected by the government to set up a People's Credit Fund. This savings-credit scheme being of interest to us, however, we carried out additional surveys in a neighbouring commune where a People's Credit Fund was set up in 1996.*

A series of detailed surveys

175 households (17.5% of the total) were randomly surveyed using a single individual questionnaire. A semi-directive type of survey technique was used, the survey being designed to obtain quantitative and qualitative data. The data collected was then handled and statistically analysed using the statistical software *Sphinx Plus2*.

This software enables data to be simultaneously sorted and cross referenced, an analysis of multiple data such as multiple factor analysis (quantitative and qualitative), and the application of each of the variables to different strata of the population.

A more restricted series of surveys on household budgets

45 households out of the 175 previously surveyed were the subject of a second survey to reconstruct the family budget over a full year.

For each category of wealth and for the main systems of activity, a minimum of four people considered to be typical were questioned. The data obtained was entered into *Excel*, using a standard data entry grid.

● Classifications

Classification by level of wealth

Our purpose here is not to provide an absolute definition of poverty, but to classify families in relation to each other in a relative context of wealth. Our approach is not to quantify the wealth of a household using scales such as income, which is moreover difficult to measure, but to assess the household's standard of living using wealth indicators. Our objective is therefore to obtain relative levels of wealth across a given sample, using criteria of social differentiation typifying the socio-economic context from which the sample is drawn. In our study the reference environment is the village.

Wealth indicators

Developing this classification of levels of wealth required identifying wealth indicators. A series of interviews with nine resource persons and field surveys complemented by bibliographic research on the agro-socio-economic characteristics of the area of our study enabled us to identify twelve discriminatory indicators (see Table 1, p. 76). The wealth indicators are then assigned coefficients and weighted to take account of the characteristics of the area of our study.

◆ *Coefficients*: coefficients are points attributed to the modes of each indicator to take account of the different effects they have on the level of wealth in relation to the possible replies.

> *For example, the modes of the criteria "secondary job" are "yes" or "no". We need to determine the relative gaps between these modes which do not have the same significance according to the level of wealth of the household: thus the "yes" mode, which in this context is a positive manifestation of a state of wealth, has a coefficient of 100, while the "no" mode, instead of having no effect, will have a negative effect with a coefficient of -100 since it suggests a limitation or a handicap with regard to the household's capacity to generate income.*

◆ *Weightings*: although all are discriminatory, the wealth indicators identified do not, however, have the same significance with regard to indicating a household's state of wealth or of poverty. In a given context, some indicators are of greater importance, and attributing weighting coefficients enables this relative importance to be taken into account.

> *For example, within the village surveyed, the standard of living of a household is very strongly linked to the existence or not of regular income, whether unearned (a retirement or war pension) or a salary; the weighting for this criteria is 35%. The fact of hiring out one's labour is no doubt revealing, but much less than the regular nature of the income, and this is weighted at only 5%.*

The relative importance to attribute to each criteria was determined within two distinct families to allow easier comparison:

– indicators of income-generating capacity, which reflect the household's capacity to produce and therefore to generate income;

– indicators of financing capacity, which reflect the household's immediate capacity to save and therefore to invest.

Table 1
Wealth indicators and their weighting

	Indicator mode coefficients	Indicator weightings
Indicators of income generating capacity		
Regular income	- 200 to 200	35%
Dry crops surface area	0 to 200	20%
Pisciculture	- 100 to 100	15%
Secondary job	- 100 to 100	15%
Active-inactive ratio	- 100 to 100	10%
Hiring out one's labour	- 100 to 0	5%
Indicators of financing capacity		
Pig fattening	0 to 200	25%
Savings	0 to 200	15%
Consumer goods	0 to 200	10%
Loan to meet cash flow needs	- 200 to 0	25%
Pre-harvest shortfalls	- 200 to 0	15%
Emergency loan	- 200 to 0	10%

Wealth zones

The data collected during our surveys for each wealth indicator enable us to calculate two marks for each household. These determine its location in a wealth zone in which the y axis represents the financing capacity of the household and the x axis its income generating capacity.

Figure 1: Wealth zones

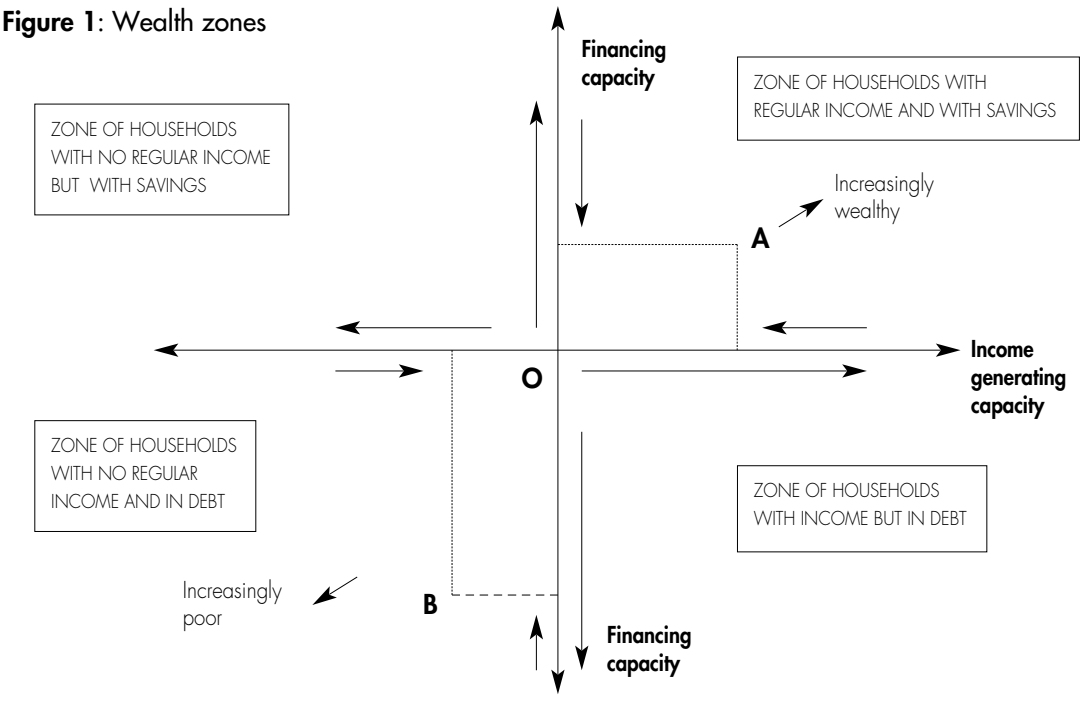
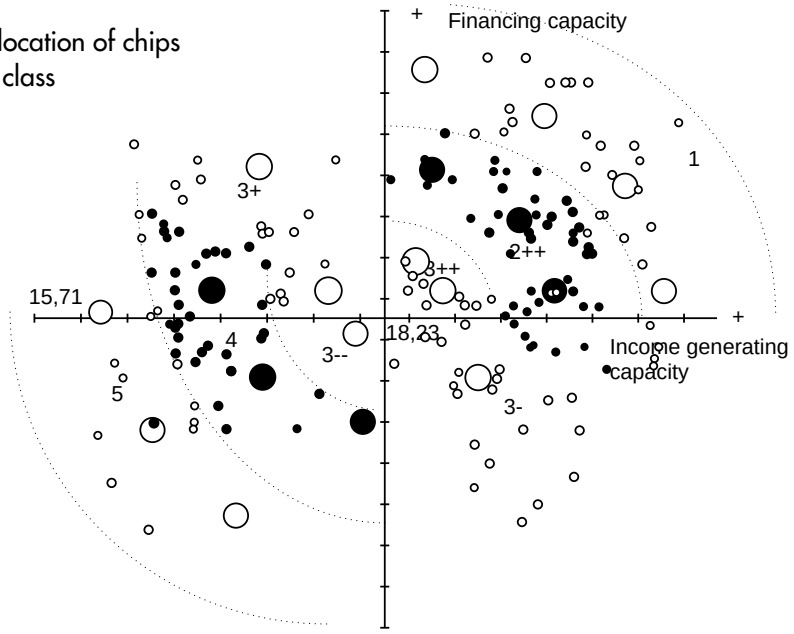


Figure 2
Spread of individuals and location of chips to group individuals into a class



◆ The north-east corner contains the richest households in our sample. It is characterised by households who have both a high capacity to generate income, and an advanced financing capacity. The further north-east an individual, the more he can be regarded as wealthy.

◆ The south-west corner is that of the poorest households. It contains those economic agents who are both in debt for their primary needs (i.e. a negative position on the scale of financing capacity) and with no advanced capacity to generate income (i.e. with an income potential below the average of all the income potentials encountered). Similarly, the further south-west the household is located, the more it can be considered poor.

The two other corners are more atypical:

◆ The north-west corner contains households with low income-generating capacity (compared to all the possibilities) but who have a financing capacity, which is paradoxical in this environment.

◆ The south-east corner is characteristic of households who have a high capacity to generate income but who are in debt for their primary needs and therefore in a situation of needing financing. This can reflect choosing to make productive investments to intensify or to create new activities, to the detriment of current expenses being financed by Emergency loans.

Establishing the classifications

The classification was carried out in an interactive manner using the statistical programme *Sphinx Plus2* which enable individuals to be grouped together using a proximity index. The location of the chip on the cluster of dots, obtained by crossing the two scales of wealth, enables the different classes of wealth to be built up (see figure 2 above). The classes have been constructed by concentric circles around the average household of the survey depending on the degree of precision sought.

We chose to construct five classes of level of wealth. Choosing to classify households into five categories prevents us from erasing statistically the differences observed during our surveys.

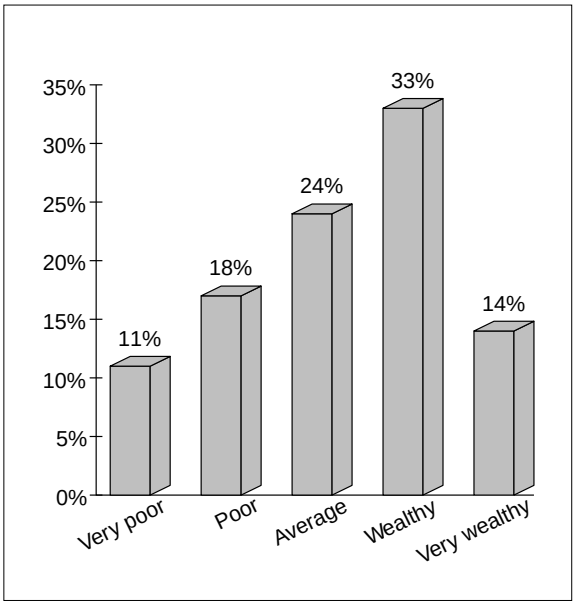
The degree of precision within the poor and wealthy classes enables us to study separately the individuals who, taking account of our surveys and their highly differentiated results in the case of some variables, would have to be considered marginal if they were treated in the wider classes.

Once the classes defined, a check on the assignment of the households based on questionnaires enables to avoid the errors in classification which can occur, notably for households in zones qualified as atypical.

Table 2
Classes of wealth obtained

Categories of wealth	Class n°	Scale of financing capacity	Scale of income generating capacity
Very wealthy	Class 1	100 to - 17	116 to 40
Wealthy	Class 2	75 to - 70	88 to 16
Average	Class 3 (+ and -)	60 to - 77	55 to - 73
Poor	Class 4	45 to - 42	- 25 to - 84
Very poor	Class 5	66 to - 80	- 74 to - 111

The spread of households surveyed within the classes of wealth is as follows:



Classification of systems of activity

Our intention is to study the strategies households use vis-à-vis credit according to their system of activity.

We should bear in mind that our initial hypothesis assumes that "the way in which credit is used must be related to the overall functioning of the farming operations and to the constraints of all kinds which affect them" (Daubert, 1995) and particularly the types of financing needs they give rise to and their capacity to generate income.

This classification is built up in two stages.

◆ First, the activities of the household were surveyed using two questions:

– What are your agricultural and extra-agricultural activities?

– Place the first three in order of size of income.

◆ We then identified various systems using combinations of existing activities and according to the relative significance of each activity within the combinations encountered, each category needing to be similar in terms of financing needs:

– Crop farming
– Animal husbandry
– Extra-agricultural activity
– Income from a source other than work
– Salaried activity
– Business activity

The classification obtained contains ten systems of activity, which are listed in the following table (table 19, p. 79).

This aspect of our analysis is relatively little used in this study. On the one hand, problems of insufficient sub-samples' size have restricted the data analysis according to the different types of system of activity of households. On the other, when it was possible, this analysis failed to reveal any significant tendencies for most of the aspects being considered. It is probable that some of the systems identified do not form a homogenous class in terms of their financing needs. In addition, it would appear that different categories identified at the outset ultimately generate similar financing needs and therefore fail to allow a differentiated interpretation of the credit effects.

Table 3
Spread of households according to their system of activity

System of activity	Number	Frequency
Farmer with a predominantly animal husbandry activity and a secondary job	37	21%
Farmer with a predominantly animal husbandry activity	37	21%
Farmer with a predominantly crop farming activity	35	20%
Farmer with a predominantly animal husbandry activity and a salaried activity or a pension	26	15%
Farmer with a predominantly crop farming activity and a secondary job	15	8.6%
Non-agricultural household with a salaried activity or a pension	12	7%
Non-agricultural household receiving a pension and with a secondary job	4	2.3%
Farmer with a predominantly crop farming activity and with a salaried activity or receiving a pension	4	2.3%
Non-agricultural household	3	1.7%
Non-agricultural household with an advanced business activity	2	1.1%

Note on data collection and the limitations of the study

Data collection is a critical phase determining the quality of the statistical analysis. The precautions taken when preparing the questionnaires, the training of the interpreters and the way in which the surveys were conducted, make us confident that the basic data is highly reliable.

With regard to the presentation of the results, the insufficient size of some sub-samples sometimes restricted any interpretation of these:

◆ Our study uses a total sample of 175 households selected at random. In the data analysis phase, the size of our sample seemed to be restrictive given our objective, to analyse the impact of several sources of credit, and also given our methodology, which uses two axes of analysis for each variable.

◆ To study the micro-economic impact of the loans provided by the VBA and the VBP, we had to work on their respective strata of borrowers, i.e. sub-samples containing 19 and 29 members. The relatively low numbers of these sub-samples has restricted the interpretation of some cross-referenced results according to levels of wealth or systems of activity.

The number of surveys and the method developed to study the budgets also seem to us to be not very satisfactory. The number involved proved too small to calculate the impact of credit using budgets and to draw any satisfactory conclusions. On the other hand, numbering 45, these surveys enabled us to obtain a clearer "snapshot" of individuals and to shed light on the strategies of each of the categories of wealth with regard to credit.

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