VIETNAM`S RURAL CREDIT MARKET – DETERMINANTS OF FARMERS` BANKABILITY

Insa Johanna Theesfeld

Diplomarbeit

zur Erlangung des akademischen Grades Diplom-Agraringenieurin
an der Fakultät Agrarwissenschaften der
Universität Hohenheim

Eingereicht am
Institut für Agrar- und Sozialökonomie in den
Tropen und Subtropen
Prof. Dr. Franz Heidhues

Diese Arbeit wurde gefördert aus Mitteln
der Vater und Sohn Eiselen-Stiftung, Ulm

Hohenheim, Januar 2000

8 SUMMARY

Access to financial services is important for the reduction in poverty of rural farm households in developing countries. It contributes to higher income and better food security. Participation of the poor in credit and savings networks is correlated with improved nutritional and educational status of children; and lower birth rates among women. Although in Vietnam more and more private and public agencies get involved in improving the efficiency of financial systems targeting the poorer clientele, their effectiveness at improving access does not meet expectations. There are many constraints restricting the access of the poorest, especially the ethnic minorities in Northern Vietnam to credit and savings schemes. The main objective of this work is to identify existing constraints and the reasons for their existence, as they lead to the segmented financial market in the research area.

According to the World Bank, Vietnam is still considered a low-income country. With the economic renewal "Doi Moi" initiated in the late 1980s, Vietnam undertook a series of successful major reforms. More recently, however, Vietnam is facing a loss in the momentum of growth as the impact of the first generation of reforms is fading. In this study, the research area is the Ba Be district of Northern Vietnam. About 95% of the around 70 000 people in the Ba Be district are ethnic minorities. The population growth rate in the area is still high, with a rate of 2.2% in 1998. The land use of 0.1 ha arable land per inhabitant of the district is very low. More than 80% of the local population rely on subsistence farming and fishing. Two communes are the main research sites. The Nam Mau commune is located in the core zone of the National Park created in 1993. In the core zone of the National Park it is almost impossible to live on subsistence farming as upland farming is officially forbidden. The Khang Ninh commune is located in the buffer zone. Although poverty has fallen nation-wide in the last five years, 30% of the households in these two communes live below the poverty line, which is determined by an income of less than 15 kg rice/person/month.

In a farm household survey using a standardized questionnaire, 86 households from three villages representing two ethnic minorities, the Tay and Dao groups have been interviewed. The econometric method used to test the significance of the hypotheses is the probit regression model, a non-linear estimation. Another applied method is a participatory approach with guided local women's credit groups. Secondary data and general information about the financial systems contribute to the results of this work.

The formal financial institutions which exist in the Ba Be district are the State Treasury (ST), the Vietnam Bank for Agriculture (VBA) and the Vietnam Bank for the Poor (VBP). Although the ST is not a financial institution in the sense of financial market theory, it is in charge of a nation-wide government credit program. This program is meant to only provide credit to the poor and to members of the politically active mass organizations organized in credit groups on a joint-liability basis. One of the funds rotates in the Nam Mau commune, where credit group members from the Tay village Pac Ngoi obtained an overwhelming share. The interest rate of this program is even more subsidized than the one from the VBP and there are no savings opportunities. This program is totally dependent on government decisions and is not cost-effective. The VBA is the main element of the formal rural finance system in Vietnam. In the research area it grants only individual loans. It offers the only savings scheme in the area. The interest rates for loans and savings are somewhat increased towards market interest rates. The VBA works efficiently by comparison. The VBP was implemented in 1995 to lend money at low subsidized interest rates directly to poor households. It does not mobilize any savings. The government allots the available credit funds. The VBP can not be considered to work sustainable. It works in conjunction with the credit groups and therefore receives high repayment rates. Different ethnic minorities do not have equal access to these credits. The credit allocation process shows that additional characteristics must be relevant for joining a credit group as not every poor household in a village is able to participate. Many institutions and organizations are involved in the complex formal credit distribution process. The Chairman of the commune has significant deciding power. A total of 56% of all interviewed households have access to formal credit, but of these, 92% are members of a credit group, which stresses the importance of credit based on credit group membership for the local poor.

A large proportion (74% of all interviewed households) uses informal credit resources. The majority of the informal creditors are relatives. The high importance of this informal sector indicates the high demand for credit and the existence of access constraints to the formal market. A sever lack of extension services also exists in the research area. This reduces the marginal benefit of access to finance.

Access constraints can be seen from the client`s perspective and from the financial intermediary`s perspective. The conceptual framework of bankability is developed for the discussion of these different points of view. Bankability comprises all characteristics that enable a person to become a client-partner of a formal financial institution. The concept of bankability identifies determinants of farmers` bankability including additional characteristics that can be divided into hard characteristics (such as off-farm income, land title, house, animals, other assets) and soft characteristics (such as production skills, knowledge about investments, position in civil society, honorable character). A general evaluation identified which characteristics clients perceive to be relevant to bankability. The significant impact of several of these characteristics is confirmed statistically by the probit regression. A significant difference can be observed in the impact of certain variable on access to formal individual credit and to credit groups. For access to individual credit and for access to credit groups, the importance of soft characteristics is confirmed by the clients and the financial intermediaries. In other words, hard characteristics are not sufficient to determine credit access. From the client`s perspective, the hard measurable characteristics are less important and the soft characteristics are more important for borrowing money through credit groups than individually. This opinion of the local people is statistically significant. The fact that the un-fulfillment of these soft characteristics presents access constraints has not, thus far been a focus of consideration until now.

For the future development of microfinance systems, one important point is the negative influence of external effects. External effects (such as ethnic group membership, living in a certain village, preference of friends, un-sustainable financial institutions) are inherent in the institutional set-up itself, and the credit allocation process. Because of these external effects, being bankable does not necessarily equate to having access to formal credit.

This empirical research found that 31% of all interviewed households refrain from becoming members of credit groups, and a large proportion (73%) did not try to apply individually for credit at the VBA. A high proportion of farmers value the risk associated with indebtedness more than they value the possible return on the investment. These clients evaluate their own bankability as insufficient. One solution to reduce the constraints in access to the formal financial market is a credit group-based insurance fund in local credit groups. This opportunity was jointly developed in local working groups and is an innovative idea to improve the bankability and thereby improve the credit access of the local people. Other alternative solutions for improving bankability are based on the theory of social intermediation, such as the distribution of savings and credit books to local credit group members.