

## **Rural Credit and Community Relationships in a Northern Vietnamese Village**

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### **Abstract**

The purpose of this paper is to examine the conditions of success in rural credit in developing countries, based on the investigation of a Vietnamese case. The rural credit institutions in Vietnam have achieved splendid results, compared with those in other Asian countries. Some studies of rural credit in Vietnam have paid attention to the group lending scheme based on the Grameen Bank model or to social ties among borrowers. However, these studies did not show how group lending and social ties function in the rural credit system, so the author interviewed people in a northern Vietnamese village.

The author found that joint liability groups formed by borrowers are just nominal and have no provision for borrowers' default. Nevertheless, the bank loans have rapidly penetrated many villagers, and have never been defaulted. This is because the entire hamlet participates in monitoring. Almost all social activities here take place in hamlets. If someone causes trouble in a hamlet, it may result in economic and social sanctions from others, including non-borrowers. However, young villagers with non-agriculture income are under less economic pressure to follow the rules of behavior that have traditionally governed interactions in their hamlets.

The author concludes that Vietnamese rural credit has succeeded by depending on rural communities characteristic of Vietnam, but an effective monitoring system must be created.

**Keywords:** microfinance, group lending, peer pressure, kinship, social capital, Vietnam Bank for Social Policies (VBSP, Ngân hàng Chính sách xã hội), Vietnam Bank for Agriculture and Rural Development (VBARD, Ngân hàng Nông nghiệp và Phát triển Nông thôn), Vietnam Fatherland Front (VFF, Mặt trận Tổ quốc Việt Nam)

### **I Introduction**

Several Asian governments have established new specialized development finance institutions to offer credit to rural people who cannot get credit from private lenders. However, few of these are self-sustaining institutions with the capacity to serve large numbers of rural clients [Meyer and Nagarajan 2000: 1].

In Vietnam, bank loans for rural individual households started in the 1990s. Compared to other Asian countries, Vietnam has achieved splendid results. The first is high loan repayment

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rates. The overdue rate among total outstanding loans to farmers from Thailand's BAAC (Bank for Agriculture and Agricultural Cooperatives) was 13.5% as of March 31, 2001 [BAAC 2002: 81]. The rate of Vietnam's Agribank as of June 30, 2001 was only 0.98% [Do Tat Ngoc 2001] and that of the VBP (Vietnam Bank for the Poor) was 1.55%.<sup>1)</sup> The second success of the Vietnamese system has been in expanding the availability of credit to farmers. In Vietnam, 70% of farm households had access to formal credit by 2001 [*ibid.*]. A field survey in rural Vietnam reported that 67% of Agribank borrowers used their loans as a substitute for another source of funding, principally private moneylenders [Le Roy and Robert 1999: 57]. It is not an exaggeration to say that those are marvelous achievements in only one decade.

What is the cause of the good performance of Vietnam's rural credit system? Wolz argued that group lending with joint-liability caused no risk to banks and resulted in high loan repayment rates [Wolz 1997]. A recent report on rural credit in Vietnam also pointed out peer pressure among the borrowers' group [Chu Minh Thi Hong 2006: 318]. However, these studies did not show how joint-liability of those groups worked. The group lending scheme was known for the success of the Grameen Bank<sup>2)</sup> of Bangladesh, and has been replicated all over the world, including in Vietnam. But recently group lending schemes based on the Grameen Bank model have been criticized [Armendáriz and Morduch 2005: 85-118]. A field experiment in the Philippines reported that converting group liability to individual liability does not affect the repayment rate [Karlan and Giné 2007].

Dufhues argued that social ties are crucial for access to credit in rural Vietnam. He observed that almost all the group members were neighbors or relatives of group leaders in his research area [Dufhues *et al.* 2002: 356]. However, he defined neither "neighbors" nor "relatives."

The purpose of this paper is to examine the conditions of success in rural credit in developing countries based on the investigation of a Vietnamese case. Therefore, the author surveyed the actual situation of group lending in a Vietnamese village in order to know whether borrowers' groups really have a joint-liability function or not. The author also surveyed both neighboring and consanguineous relationships among bank loan borrowers in that village.

## II Overview of Rural Credit in Vietnam

### II-1 *Agricultural Policy Reforms and Emergence of Rural Credit Institutions in Vietnam*

Since the 16th Central Conference of the CPV (Communist Party of Vietnam) in April 1959, rural areas in Northern Vietnam had entered a new phase of the agricultural cooperatization movement. Farmers were actually forced to join agricultural cooperatives and the collective system in agricultural production had eliminated farmers' motivation and caused a decline in production. Therefore in 1981 the Central Secretariat of the CPV promulgated instruction No. 100, which changed the agricultural production unit from the production team under the

1) Unpublished document which the author obtained from the headquarters of VBP in December 2001.

2) The loan recovery rate was consistently above 90 % until the early 1990s [Khandker 1996: 65].

control of agricultural cooperative to each farming household. Although the percentage of products belonging to farmers accounted for only 20% of contracted outputs, instruction No. 100 enabled farmers to pay more attention to final output. In 1986, Vietnam adopted the new policy called “Đổi Mới” (renovation) to move the centrally-planned economy towards the market economy. Resolution No. 10 by the Politburo of the CPV in 1988 entitled farmers to retain ownership of all their products gained from the contracted fields after paying tax and their cooperatives’ fee. The land law, revised in 1993, gave farming households long-term users’ rights over the land, including the right to change, transfer, lease, inherit and mortgage it [Nguyen Sinh Cuc 1995: 70–103].

The introduction of reforms in agricultural policy has brought splendid growth to Vietnam’s agriculture. Before Resolution No. 10 in 1988, Vietnam lacked food and had to import rice. Since 1989, Vietnam became a large rice exporter [Nguyen Sinh Cuc 2003: 345–346].

However, problems remain for Vietnamese farmers. First, Vietnamese farmers live in poverty, because there is only a small cultivation area per household. Second, agriculture is the industry that is most affected by nature. Due to production risks and high transaction costs caused by those problems, commercial banks have a tendency to avoid lending to individual farmers.<sup>3)</sup> As a result, financial institutions were created to help individual farmers adjust to the market economy.

## II-2 *The Major Rural Credit Institutions in Vietnam*

Today three financial institutions provide credit for individual households in rural Vietnam (see Table 1). Agribank<sup>4)</sup> plays a major role in financing for households in rural Vietnam. Agribank became independent of the SBV (State Bank of Vietnam, the central bank) in 1988, and had begun to serve loans for households in earnest from the 1990s. At the end of 2005, 58% of Agribank’s outstanding loans had been served for individual households, 30% for private enterprises and cooperatives, and 12% for state-owned enterprises [Agribank 2006: 8]. Agribank in principle lends money on collateral. However, decision No. 67, dated March 30, 1999, issued by the Prime Minister, permits an individual household to borrow an amount less than 10 million VND<sup>5)</sup> from Agribank without collateral [Vietnam, Government 1999]. The average loan per household was about 2.5 million VND in 1998 [Agribank 1999: 12, 26, 32], and had increased to about 10.3 million VND in 2005 [Agribank 2006: 8]. The reason for the increasing loan size is probably that many households have been able to borrow money from Agribank without collateral because of decision No. 67. Agribank has its headquarters in the

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3) This tendency is common in many developing countries [Armendáriz and Morduch 2005: 1–24; Khandker 1996: 69–70].

4) It was established as “Vietnam Bank for Agriculture Development” in 1988, was reorganized as “Vietnam Bank for Agriculture” in 1990, and changed its name to “Vietnam Bank for Agriculture and Rural Development” in 1996. This paper calls all these by their official alias, “Agribank.”

5) The VND (Viet Nam Dong) is the monetary unit of Vietnam. About 16,000 VND was equivalent to 1 US dollar as of 2005.

**Table 1** Three Rural Credit Institutions in Vietnam

	Agribank	VBSP	PCF
Year of establishment	1988	1995 (as VBP) and reorganized in 2002	1995 (central alliance was set up)
Formal name in English	Vietnam Bank for Agriculture and Rural Development	Vietnam Bank for Social Policies	People's Credit Fund
Target client groups and their percentages in 2005	Individual HHs (58%), and other organizations	Poor HHs (81%) and other social policy beneficiaries	Members of each PCF
Structure	Headquarters (Hà Nội) and local branches at the provincial, district, and commune levels	Headquarters (Hà Nội) and local branches at mainly the provincial level	One PCF at the commune level and a central level alliance (Hà Nội)
Main source of fund mobilization	Deposits from customers and banks, bills and bonds	Mainly supported by the government	Deposits from members of each PCF
Loans outstanding in 2005 (in billions of VND)	180,037	18,426	6,433
Average loan size in 2005 (in millions of VND)	10.3 (only for HHs)	4.6 (only for poor HHs)	14.6
Number of individual borrowers in 2005 (in thousand)	More than 9,000	4,125 (for poor HHs and other policy beneficiaries)	1,046 (PCF members as of March 31, 2006)
Bad debt rate in 2005 (%)	2.3 (rate of non-performing loans)	1.2 (rate of frozen loans)	1.1 (rate of provision for doubtful accounts)
Net profit in 2005 (in millions of VND)	290,087	67,776	12,095
Necessity of collateral	No need for a loan under 10 million VND	No need for poor HHs	Need

Source: [Agribank 2006; CCF 2006; VBSP 2007]

Note: HHs = households

capital, Hà Nội, and has local branches at the provincial, district, and commune levels<sup>6)</sup> all over Vietnam. In terms of fund mobilization, customer deposits account for 91.5% of total fund resources in 2005 [*loc. cit.*]. It is therefore safe to say that Agribank is a self-sustaining institution despite being a state-owned bank.

The VBSP (Vietnam Bank for Social Policies) is the state-owned bank that provides preferential credit to the poor and other social policy beneficiaries [VBSP 2003a]. It was originally established as the VBP (Vietnam Bank for the Poor) in 1995, in order to provide low-interest credit without collateral to poor households. The standard of “poor households” that can obtain the VBP/VBSP’s loans is regulated from time to time by the government under the national HEPR (Hunger Eradication and Poverty Reduction) program [VBP 1996; VBSP 2003a]. For example, the standard from 2001 to 2005 was households whose income per capita per month was less than 80,000 VND in mountainous and island rural areas, less than 100,000 VND in rural areas in the delta regions, and less than 150,000 VND in urban areas [Vietnam,

6) There is one branch in each province, each district and each two or three communes.

Government 2001]. The VBP/VBSP provides loans for poor households through joint liability groups called SCGs (Saving and Credit Groups) in collaboration with mass organizations such as the Farmers' Association and the Women's Union [VBP 1996; VBSP 2003a; 2003b]. After decision No.67, Agribank also has recommended borrowers to formulate groups in collaboration with mass organizations.

The VBP had no local branches, and used Agribank's branches and employees [VBP 1996]. This system forced Agribank to shoulder excessive work loads and interfered with its sustainable management. The Vietnamese government therefore reorganized the VBP as the VBSP and added loans for other social policy beneficiaries onto its mission statement in 2002, under the principle of separation between policy and commercial lending. The VBSP now has branches in all provinces and some districts. Although the VBSP endeavors to mobilize deposits from customers, this accounted for only 11.5% of its total liabilities in 2005. The major part of total liabilities, 67.7%, is borrowed from other credit institutions [VBSP 2007]. This is due to the government's provision that the state-owned credit institutions are annually obliged to deposit at the VBSP the equivalent of 2% of their mobilized funds for the previous year [VBSP 2003a]. In other words, the funding of the VBSP is mainly supported by the government. At the end of 2005, 81% of the total amount of the VBSP's outstanding loans was served for poor households, 14% for job creation, 1.8% for safe water and rural environment sanitation, and 1.4% for migrant workers. The VBP stipulated that borrowers must use loans only for productive purposes [VBP 2001: 17]. But the VBSP allows borrowers to use loans for unproductive purposes such as housing and schooling [VBSP 2003a; 2003b]. This is probably because the authorities had to confirm the present situation that many borrowers use loans for unproductive purposes despite the bank's prohibition. A study in the Red River Delta pointed out that the majority of VBP loans were meant for daily use [Le Roy and Robert 1999: 45].

After the adoption of *Đổi Mới* Policy, old credit cooperatives established under the centrally-planned economy rapidly collapsed. In 1993, the Vietnamese government set up a network of new credit cooperatives named PCFs (People's Credit Funds), adjusted to the market economy. Each PCF at the commune level is its own legal entity and is managed independently. Anyone is eligible to save money in his or her favorite PCF. Now about 20% of total deposits are mobilized from non-members and only members in principle have access to PCF loans. Each PCF can lend money to non-members who are poor in its commune on the condition that the loan-outstanding for this type does not exceed 10% of its total loan-outstanding. At present about 8% of total loans outstanding are of this type.<sup>7)</sup> In 1995, PCFs set up the central unit, the CCF (Central People's Credit Fund) to assist PCFs in the network, especially mediating between the funds within the network by lending to and receiving deposits from PCFs. The former RCFs (Regional People's Credit Funds) at the provincial level have been merged into the provincial branch of the CCF. As of March 31, 2006, 920 PCFs existed [CCF 2006]. This is only 10.1% of the total number of communes in the country [GSO

7) The author's interview with Mr. Nguyễn Thạch Tâm, Director of International Relations and Project Management Department, CCF.

2006: 13]. Until now, PCFs' activities have been limited to a small part of Vietnam's rural areas. The commune surveyed in this study has no PCF. PCF's total amount of loans is far lower than Agribank's. The government does not intervene to save PCFs that failed to operate profitably, because PCFs are not state-owned financial institutions such as Agribank or the VBSP. Some PCFs were closed by the SBV for failing to meet the standards set for PCFs [Chu Minh Thi Hong 2006: 313].

Vietnam has not yet developed a formal insurance scheme for farmers. However, if borrowers fail to repay their loans from Agribank or the VBSP due to reasons such as natural disasters, the loans are rescheduled and/or written off [Do Tat Ngoc 2001; VBSP 2003a].

### III The Surveyed Site and Methodology

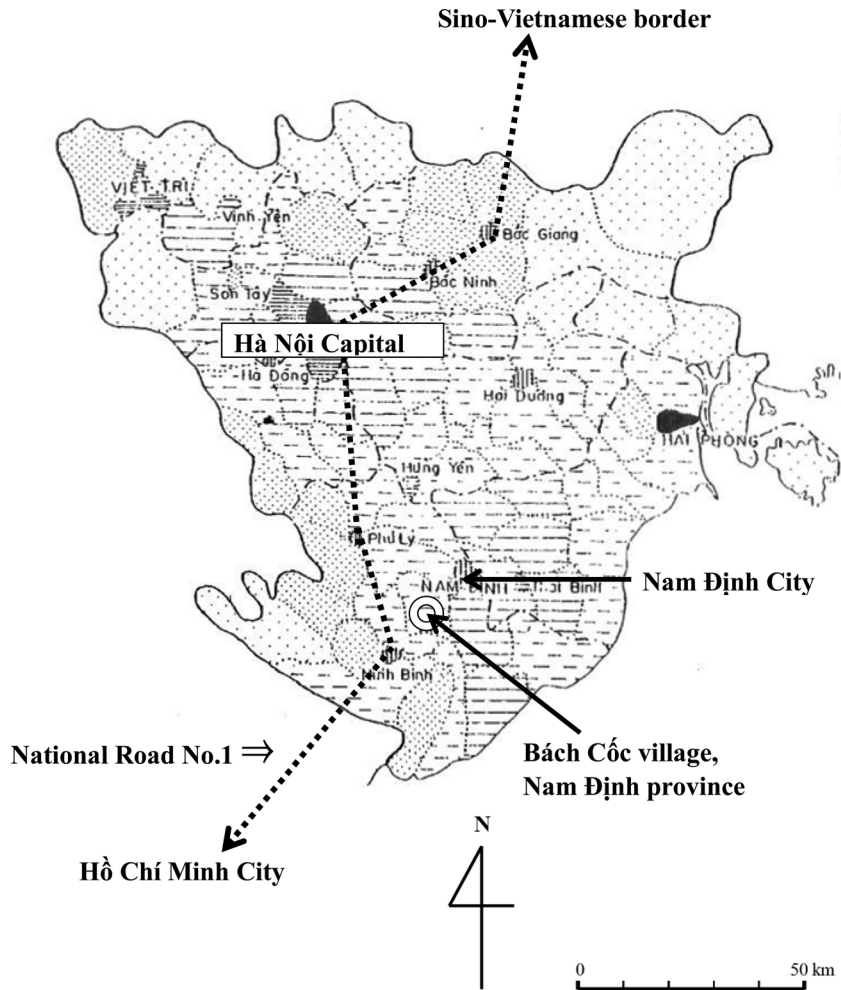
#### III-1 *Outline of the Surveyed Site*

Vietnam has two large deltas: the Red River Delta in the north and the Mekong River Delta in the south. These supply most of Vietnam's rice: the staple food in the country. There are many differences between these two deltas. The Red River Delta is the cradle of the ancient culture of Vietnam and has formed community ties in the village with the high population density [Phan Huy Le *et al.* 1997: 65-67]. In contrast, the Mekong River Delta has been developed by immigrants from the North, and so has the lower population density than the Red River Delta.<sup>8)</sup> In regard to rice production, as of 2004, 23% of harvested rice production was sold and 49% was consumed as food in the farming household in the Red River Delta. The corresponding figures in the Mekong River Delta are 70% and 16% respectively [Agroinfo 2008: 80]. The author therefore chose the site to survey in the Red River Delta in order to explore rural community relationships among bank loan borrowers.

The author surveyed in Bách Cốc village, Nam Định province in the Red River Delta, from 1999 to 2009. Fig. 1 shows the location of Bách Cốc village within the Red River Delta. This village is far from Hà Nội Capital (about 80 km) and not along National Road No. 1, Vietnam's main road, which connects Hà Nội and Hồ Chí Minh City. Because of poor market access, farmers here have been not able to develop commercial agriculture. Almost all the villagers cultivate rice for self-sufficiency. Some farmers sell vegetables at the market adjacent to the village, and some farmers sell livestock for collectors from Nam Định City, the capital of Nam Định province. So, this village site is a characteristic traditional rural community of Vietnam.

Since 1994, a Japanese village research group and Vietnamese institutions, especially Vietnam National University-Hanoi, have cooperated on comprehensive research in Bách Cốc village in order to understand village society as a product of its cultural, historical, and natural environments. Up to now, many historians, sociologists, agronomists, and economists, have participated in this research project and published their results [Iwai 1999; Sakurai 2006;

8) The population density of the Red River Delta in 2005 was 1,218 person/km<sup>2</sup>. On the contrary, that of the Mekong River Delta was 435 person/km<sup>2</sup>. That of Nam Định province, including the surveyed site, was 1,195 person/km<sup>2</sup> [GSO 2006: 29-30].



**Fig. 1** Location of the Surveyed Site within the Red River Delta  
 Source: [Phan Huy Le *et al.* 1997: 29]

Shimao 2000; Yanagisawa 2000].

Fig. 2 shows the composition around and within Bách Cốc village. The commune (xã) is the lowest administrative unit in Vietnam. Three agricultural cooperatives—Cốc Thành, Mỹ Trung, and Lê Lợi—exist in Thành Lợi commune. In 1959, the farmers in Northern Vietnam were forced to join agricultural cooperatives (cf. II -1). Agricultural cooperatives also were established here in 1959 [Sakurai 2006: 351]. At that time, agricultural cooperatives worked not only as agricultural production units, but also as a de facto lowest local administrative unit for tasks such as collecting tax and managing kindergartens.<sup>9)</sup> The law on cooperatives

9) The kindergartens that Cốc Thành cooperative had managed were taken over by Thành Lợi commune in 1995 [Iwai 1999: 81].



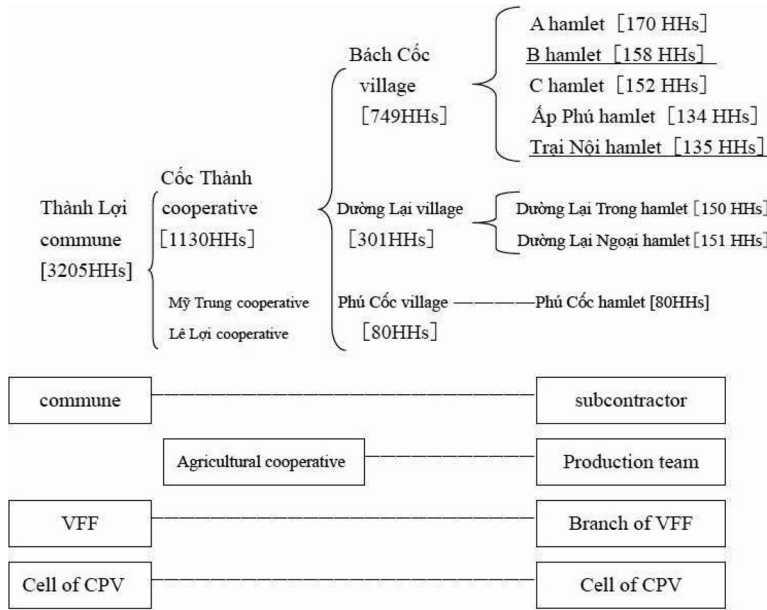


Fig. 2 Composition around/within the Village

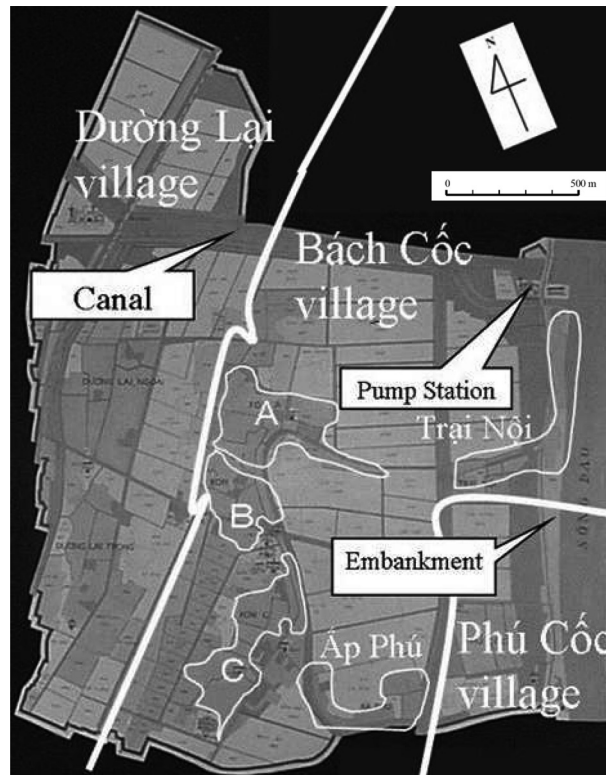
Source: The author's survey

Note: HHs = households

enacted in 1996 defines cooperatives as self-governmental economic organizations voluntarily established by members [Vietnam, National Assembly 1996]. After the enactment of this new law, agricultural cooperatives became established in some areas of commercial agriculture. This type of cooperative usually provides a specific function for limited members [Okae 2007]. However, in the surveyed site, agricultural cooperatives established during the period of collective agricultural production persisted under the new law and incorporate almost all the farmers in the area that they cover. Cốc Thành cooperative, which takes charge of Bách Cốc village, still has two purposes: the pursuit of economic efficiency and the promotion of welfare works [Yanagisawa 2000: 140].

There are three old villages (làng)—Bách Cốc, Đường Lài, and Phú Cốc—in the area of Cốc Thành cooperative. The village name of “Bách Cốc” was first seen in the historical documents of the 16th century and Bách Cốc village had been the lowest local administrative unit until 1946 when the communes were created as administrative units under the Communist regime [Sakurai 2006]. Now the village is only a unit for village festivals. There are five hamlets (xóm)—A, B, C, Ấp Phú and Trại Nội—in Bách Cốc village. Many social organizations have their lowest unit in the area of each hamlet. The commune authorities contract their works out to the hamlet heads and the agricultural cooperatives have a production team in each hamlet. The mass organizations (VFF) have their branches in each hamlet. CPV have the lowest-level cell in each hamlet.





**Fig. 3** Location of Bách Cốc Village and Its Five Hamlets within Cốc Thành Cooperative

Source: Cốc Thành Agricultural Cooperative

Note: Thick white line is the boundary between villages.

Fine white line shows the living area of each hamlet in Bách Cốc village.

In 1996, bank loans for households began in earnest here. In that year Agribank provided trial loans for the poor, and soon the VBP was offering loans for poor households (cf. V-1). In 1996, a borrowers' group for VBP loans at the hamlet level existed in only Trại Nội. Trại Nội hamlet raises the most cattle, because new developments around the embankment provide spaces for raising them (Fig. 3). For purposes of comparison with Trại Nội hamlet, the author chose B Hamlet, which cultivates the most vegetables.

### III-2 Methodology

Several local studies have been made of Vietnam's rural credit, but those were based on sample surveys [Le Roy and Robert 1999; Suda and Izumida 1998]. So, those could not erase the possibilities that the only good cases might be introduced by Vietnamese collaborators. To examine the situation of the group lending system, the author surveyed all households that had received bank loans from 1996 to 2005, in the two hamlets. The author also checked credit

documents<sup>10)</sup> kept by the borrowers' group leaders and the branch heads of mass organizations. In addition, the author interviewed the executives of mass organizations to learn about bank loans and those organizations, and also the hamlet heads, the village elders, and the staff of the agricultural cooperative to learn about the village's history, economic and social activities, and relationships among villagers. Apart from the survey inside the village, the author interviewed the staff of the headquarters and the provincial and district branches of Agribank and the VBP/VBSP.

## IV Social Organizations and Relationships in the Village

### IV-1 *Function of Hamlet in Villagers' Lives*

Many social organizations have their lowest unit in each hamlet, although the hamlet heads do not necessarily hold posts in other organizations, except production teams. The hamlet head is also the head of the production team. He handles administrative issues (announcement and execution of policy, collection of tax, under the direction of the commune), and agricultural ones (guidance on agricultural production including irrigation control, keeping agricultural land registers, under the direction of the agricultural cooperative). Almost all the households have their own rice fields for self-sufficiency. Thus agricultural services, particularly irrigation, are vital. The hamlet households attend meetings once per month, and discuss issues of daily life.<sup>11)</sup> The hamlet branch head of the mass organization brings up its subjects in monthly meetings. The hamlet head also arbitrates conflicts within and between hamlets. If a villager dies, his or her hamlet organizes a funeral committee, whose members are the hamlet head, secretary (head) of the hamlet cell of the CPV, and the heads of the hamlet branch of mass organizations.<sup>12)</sup>

All of the social activities in a hamlet are conducted with knowledge of all of the households in that hamlet. Therefore, one has to follow the rules of behavior that govern interactions, even if they are against one's personal benefit. If one causes trouble, both economic and social sanctions are imposed by others in the hamlet.

### IV-2 *Vietnam Fatherland Front (Mass Organizations)*

Today the majority of bank loans are given through the organizations of the VFF (Vietnam Fatherland Front). The VFF is quite an important organization in Vietnam. The VFF organizes consultative meetings for selecting and recommending candidates for the National Assembly. The VFF has its organizations at all administrative levels—nation, provincial,

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10) These included each borrower's booklet for lending and saving, the notes that group leaders and branch heads had taken.

11) For example, checking sanitary conditions of every households.

12) If a member of the CPV dies, the secretary of the hamlet cell holds the post of chairman of the funeral committee, and the hamlet head holds the post of deputy chairman. If a non-member of the CPV dies, the posts of chairman and deputy chairman become reversed.

district, and commune. The mass organizations affiliated with the VFF at the commune level here have branches in each hamlet.

There are five VFF organizations here: the FA (Farmers' Association, Hội nông dân), the WU (Women's Union, Hội liên hiệp Phụ nữ), the WVA (War Veterans' Association, Hội cựu chiến binh), the OPA (Old Persons' Association, Hội người cao tuổi) and the YU (Youth Union, Đoàn thanh niên cộng sản Hồ Chí Minh). Among those organizations, the FA plays the biggest role in bank loans. The WU and WVA also handle bank loans, but their number of cases and loan amounts are far less than those of the FA. The other two organizations do not handle bank loans.

For a long time, the FA at Thành Lợi commune was affiliated with only a small percentage of farmers. However, in 1996 when the VBP loans began, the FA at Thành Lợi commune set up a branch at each hamlet to recruit farmers. In Thành Lợi commune, about one-fourth of all the farming households are FA members. The staff of the FA at the commune level occupy only three positions, two of which are concurrently held by the deputy managers of agricultural cooperatives. In addition, the annual income of the FA at the commune level is only 3 million VND at most, even if all the members pay their membership fees.<sup>13)</sup> Compared with FA, Cốc Thành cooperative has more staff (43 positions) and income (its annual income is about 700 million VND), although it is one of three agricultural cooperatives in Thành Lợi commune. The FA at the commune level here has too little staff and income to play an active role in agricultural production. Officially the intermediation of bank loans is the secondary function of the FA. The FA's original functions are the announcement of agricultural policies, and the dissemination of agricultural technology. However, these functions are performed by the agricultural

**Table 2** FA at Thành Lợi Commune and Cốc Thành Agricultural Cooperative

	FA at Thành Lợi Commune	Cốc Thành Cooperative
Original function	Announcement of agricultural policy, dissemination of agricultural technology*	Agricultural production management
Secondary function	Intermediation of bank loans	Social service
Ratio of members to total population	About one fourth	Almost all the households
Number of staff members	3 staff positions, 2 of which are concurrently held by the deputy managers of agricultural cooperatives	43 staff members
Annual income	3 million VND	700 million VND
Smallest unit	Branch at hamlet level	Production team at hamlet level

Source: Cốc Thành Cooperative and the author's survey

Note: The data in the table is based on the information as of 2001.

\* These two functions are actually operated by agricultural cooperatives.

13) The FA membership fee is 200 VND per month. The local district branch of Agribank, which also took charge of VBP loans before VBSP loans started, pays commission to the FA at each commune, 50,000 to 80,000 VND per month. So, the total income of the FA at Thành Lợi commune is about 3 million VND at most.

cooperative here (see Table 2).

Hamlet branches of the FA also have little staff and income. The staff of each hamlet branch is only one person: the head of the hamlet branch. The leadership positions of the SCGs are held by the hamlet branch heads of the FA (detailed in VI-2). The annual income of the hamlet branch is the commission that banks pay for the SCGs (cf. VI-1). Almost all the farmers who obtained bank loans whom the author had surveyed joined the FA in order to borrow money from banks. The actual activity of the FA at both commune and hamlet level is only the intermediation of bank loans. Therefore, the FA alone does not have the power to impose the sanctions upon the borrowers who do not repay bank loans.

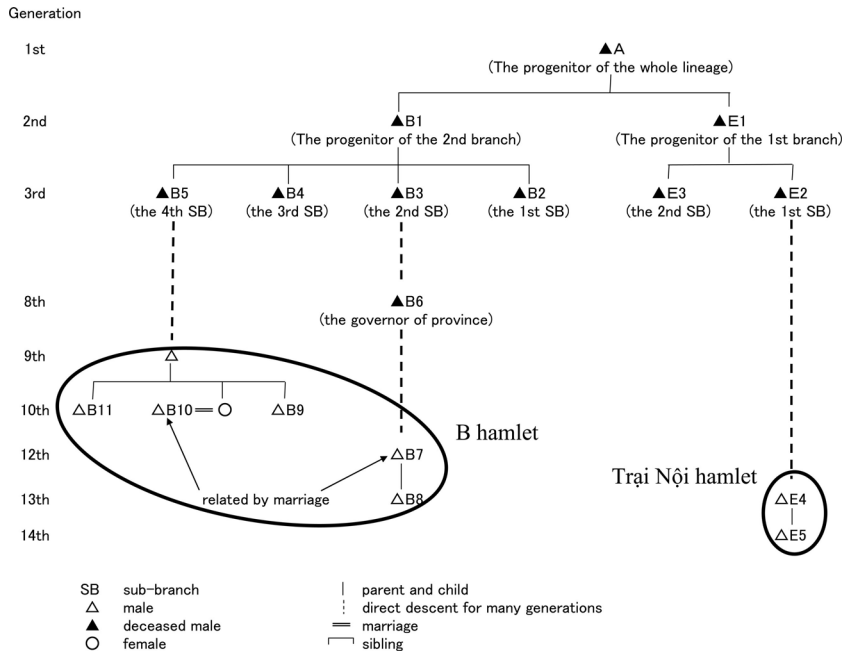
The WU and WVA, whose activities are mutual aid among women and war veterans, respectively, also intermediate the VBP/VBSP's loans. In Thành Lợi commune, it was originally decided that only the FA should handle the VBP's loans in 1996, but the WU and WVA also began to intermediate financing for villagers in 1998 at their request. There is no difference between VBP/VBSP's lending conditions through the FA and those through the WU/WVA. Only farmers can join the FA, and are eligible to obtain bank loans through the FA, however that condition is not crucial for access to credit in the village. Almost all the loans which the author surveyed were used for the borrowers' families, not only for borrowers. At least one member of each household was distributed farming land in 1981 under instruction No. 100 [Sakurai 2006: 470-482], that is, was eligible to obtain bank loans through the FA. The VBSP does not provide special loan programs for women or war veterans. In contrast to Vietnam, many microcredit programs in Bangladesh, including Grameen Bank, have separate programs for men and women, in accordance with the sociocultural norms of Bangladesh [Khandker 1998: 23]. About 94% of Grameen Bank's members are women [Khandker 1996: 66].

The associations other than the FA do not play important roles in the intermediation of bank loans, but hamlet branches of the WU, WVA, and OPA offer their own financing in the form of ROSCAs (cf. V-3).

#### IV-3 *Kinship Structure*

Although nuclear families have become popular, kinship is still an important component of rural society in Vietnam. The author saw some villagers who received bank loans for the use of their children or brothers who did not live with them.

In regards to Vietnamese kinship, the author must refer to the patrilineal lineage (*đông họ*) based on Confucian thought. Hy Van Luong said that the data on the structure of kinship and gender relations in the 20th century Northern Vietnam point to a remarkable continuity in the structural parameters of Vietnamese kinship, despite the significant achievements of women in the public domain and the weakening of corporate patrilineage [Hy Van Luong 1989: 743]. The lineage members inherit a common patrilineal family name and worship a common patrilineal ancestor (the progenitor of the lineage). Some lineages have their own rules, chronicles, and halls for ancestor worship.



**Fig. 4** Partial Genealogy of the Bùi Huy Lineage

Source: The chronicle of the Bùi Huy lineage, [Shimao 2000] and the author’s survey

There are 17 lineages in Bách Cốc village, and each has its own ancestor’s hall. The biggest one is called the Bùi Huy lineage, because all its members have a common patrilineal family name, “Bùi,” and almost all its male members have a common middle name, “Huy” (e.g. “Bùi Huy Thành”). Fig. 4 shows the partial genealogy of the Bùi Huy lineage. The progenitor of the whole lineage (A in Fig. 4) was a man in the 15th century. The Bùi Huy lineage has two branches. The progenitor of the first branch (E1) was the first son of A. That of the second branch (B1) was the second son of A. The first branch has two sub-branches. The progenitor of the first sub-branch of the first branch (E2) was the first son of the progenitor of the first branch (E1). That of the second sub-branch (E3) was the second son of E1. The second branch also has four sub-branches in the same way. Now, all the Bùi Huy lineage members gather on the deathdays of the progenitor of the whole lineage (A) and his wife. The members at each branch and each sub-branch levels gather on the deathday of its progenitor on or during the lunar New Year.

As of 2005, the hamlet heads of both B and Trại Nội hamlet belong to the Bùi Huy lineage. The head of B hamlet (B7) belongs to the second sub-branch of the second branch (the 12th generation from the original progenitor). The head of Trại Nội hamlet (E5) belongs to the first sub-branch of the first branch (the 14th generation).

The head of B hamlet (B7) has held the post since 1986, because of the prestige of his ancestor in the 19th century (B6) who was the first in the village to be promoted to governor of the province, and therefore a hero of the lineage and the village [Shimao 2000: 236–238]. B7’s

son (B8) holds the post of head of the B hamlet branch of the YU. The head of B hamlet branch of the FA (B11) belongs to the fourth sub-branch of the second branch (the 10th generation) of the lineage. His elder brother (B9) holds the post of chairman of the VFF committee in B hamlet, and his brother-in-law (sister's husband, B10) holds the post of secretary (head) of the B hamlet cell of the CPV. B10's younger brother is married to the elder sister of B7 (hamlet head).

The head of Trại Nội hamlet as of 2005 (E5) has held that post since 2001. At that time, the former hamlet head resigned because he was leaving the village to work in southern Vietnam. The hamlet members then elected E5 to be the new head in the hamlet meeting. The former hamlet head does not belong to the Bùi Huy lineage, and had neither a matrilineal nor a matrimonial relationship with E5. Both the former and current hamlet heads have held the post of head of the FA hamlet branch concurrently. The head of the OPA hamlet branch (E4) is E5's father. Other leading members of Trại Nội hamlet are not related to E5. The reason that one kinship group does not dominate Trại Nội hamlet is that it has been developed by poor peasants from other parts of the village.

Dufhues points out the problem of nepotism that impedes the flow of information and excludes households outside the network of SCG leaders [Dufhues *et al.* 2002]. In the surveyed site, the percentage of loan amounts for the households of the leading members of hamlets (the hamlet head and the executives of VFF and CPV in the hamlet) and their relatives (parents, siblings, children, and those of their spouses) is 18.0% (eight households) in B hamlet, and 19.5% (eight households) in Trại Nội hamlet. There is also no marked tendency towards loan concentration in particular sub-branches of the lineage. So, the leading members of hamlets here do not exclude households outside their own networks.

The consanguineous relationships are thus important for the villagers' customs and hamlet governance, but are not crucial for access to credit.

## V Current Status of Rural Credit in the Village

### V-1 Outline of Each Type of Bank Loan

Banks provided five types of loans: 1. "ordinary loans" by Agribank, 2. "PFP (Preferential Fund for the Poor) loans" by Agribank, 3. "HEPR (Hunger Eradication and Poverty Reduction) program loans" by the VBP/VBSP, 4. "F67 (Fund of decision No. 67) loans" by Agribank, and 5. "SW (Safe Water) program loans" by the VBSP (see Table 3). The following figures such as "the average loan size" and "loan cases" were calculated in all the bank loans from 1996 to 2005.

The first type of loan, "ordinary loans," had been provided by Agribank since the early 1990s when no organizations helped villagers to borrow money from banks. After the enforcement of decision No. 67 in 1999, the number of this type of loan decreased. However, if villagers require loans of more than 10 million VND from Agribank, they still must use this type of loan. This type of loan requires borrowers to use the same lending rate as the market rate. In B hamlet, there were four loan cases of this type, and the average loan size was 14.0 million VND. In Trại Nội hamlet, there were seven loan cases of this type, and the average loan size

**Table 3** Five Types of Bank Loans

Loan type	1. Ordinary	2. PFP	3. HEPR	4. F67	5. SW
Operating year	From 1990s to present	1996 (only one year)	From 1996 to present	From 1999 to present	From 2004 to present
Operating bank	Agribank	Agribank	VBP(96-02)/VBSP (03-present)	Agribank	VBSP
Number of loans in B hamlet	4	0	35	18	About 20*
Average size in B hamlet (mill VND)	14.0	No case	2.4	5.8	2.0
Number of loans in Trại Nội hamlet	7	3	51	41	About 30*
Average size in Trại Nội hamlet(mill VND)	5.1	1.8	2.1	5.3	2.0
Necessity of collateral	Need	Need	No need	No need	No need
Lending rate	Market rate	Lower than market rate	Lower than market rate	Market rate	Lower than market rate
Borrowers' group	None	None	One in each hamlet (cf. VI-2)	One in each hamlet (cf. VI-2)	None
Intermediating organization	None	None	FA, WU, VWA	FA	Agricultural cooperative

Source: The author's survey

Note: \* The author did not survey SW loans in detail, because that is beyond the scope of this paper.

was 5.1 million VND.

The second type of loan, "PFP loans," was a trial loan program provided by Agribank for the poor households which could not obtain ordinary loans in 1996, before VBP loans started. Borrowers received this type of loan at a preferential lending rate. This type of loan was succeeded by VBP's loans in 1996. This case was seen only in Trại Nội hamlet, not in B hamlet. In Trại Nội hamlet, there were three loan cases of this type, and the average loan size was 1.8 million VND, far less than the ordinary loans. In the two types of loan, ordinary and PFP loans, borrowers have to put up collateral, such as their houses and right of using lands. Bank clerks visit the households in order to examine their collateral securities and investment plans.

The third type of loan, "HEPR program loans," was provided by the VBP starting in 1996, and has been in use by the VBSP from 2003 to the present. Borrowers receive this type of loan at the preferential lending rate without collateral, by forming joint liability groups under the direction of VFF organizations such as the FA, WU, and WVA. In B hamlet, there were 35 loan cases of this type, and the average loan size was 2.4 million VND. In Trại Nội hamlet, there were 51 loan cases of this type, and the average loan size was 2.1 million VND. The number of this type of loan cases is the most among all the types.

The fourth type of loan, "F67 loans," had been provided by Agribank since 1999 on the basis of decision No. 67, dated March 30, 1999, issued by the Prime Minister, which permits an individual household to borrow less than 10 million VND from Agribank without collateral. In order to promote F67 loans, the FA has cooperated with Agribank nationally in the same way as the VBP. In Nam Định province, the FA has helped borrowers set up groups since 1999 [Phạm



Hồng Cờ 2001: 62].<sup>14)</sup> In Thành Lợi commune, the FA branch in every hamlet directed its members to set up a group. In B hamlet, there were 18 loan cases of this type, and the average loan size was 5.8 million VND. In Trại Nội hamlet, there were 41 loan cases of this type, and the average loan size was 5.3 million VND. The number of this type of loan cases is lower than that of the HEPR, but the amount of this type of loan is the most among all the types, because the average loan size is far larger than those of the HEPR. Chapter VI will show the actual situation of group lending schemes in those two types of loan, HEPR and F67 loans.

The fifth type of loan, “SW program loans,” were a special lending program with lower interest, provided by the VBSP since 2004. The agricultural cooperatives manage this program here. A household that wants to purify water for its daily use can borrow 2 million VND from the VBSP. 1.2 million VND in one loan is collected by the cooperative to construct common drainage in its area, and 0.8 million VND is used to construct facilities to supply safe water for each household. SW loans were not used to improve the productivity of each household, so the author will not discuss SW loans any more at this paper.

#### V-2 *Results of Bank Loans during 10 Years*

Figs. 5-1 and 5-2 show accumulated loan amounts from 1996 to 2005 in B and Trại Nội hamlets, respectively. The loan amounts per year are calculated through the total loans provided since 1996. For example, the accumulated loan amounts in 1998 are calculated as the total loans provided during three years from 1996 to 1998. By 2005, 34 households in B hamlet (21.5% of B hamlet) and 46 households in Trại Nội hamlet (34.1%) had received bank loans. It is safe to say that bank loans for individual households had rapidly penetrated the lives of people in that village during those 10 years.

At first, the HEPR was the biggest lender in total amounts, but now F67 is. While in B hamlet the loan amounts of F67 overtook those of HEPR in 2004, in Trại Nội hamlet the loan amounts of F67 overtook those of HEPR as soon as F67 loans started. It is probably because the farmers in Trại Nội hamlet required a large sum of money to raise cattle. In contrast, farmers in B hamlet did not require a large sum of money to plant vegetables (cf. III-1). Some households took HEPR loans first and then F67 loans later. Recently some villagers have become richer and acquired ordinary loans of more than 10 million VND, especially in B hamlet that is located in the center of the village and the cooperative’s area (see Fig. 3) and had developed commercial jobs with the local people as customers.

#### V-3 *Informal Credit*

Table 4 shows the characteristics of bank loans and informal credit. For villagers, relatives are the first sources when seeking credit here. The interest rates are much lower than from other sources, even free in almost all cases. Their major use is repairing or building houses, followed by emergency consumption such as illness, funerals, weddings and hunger just before

14) Decision No. 67 does not force borrowers to set up groups. For example, in another survey village at Hải Dương province, no one who received Agribank’s loans set up groups.

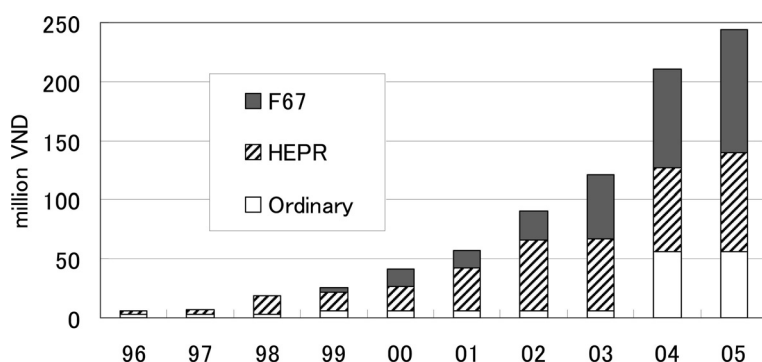


Fig. 5-1 Accumulated Loan Amounts per Year in B Hamlet

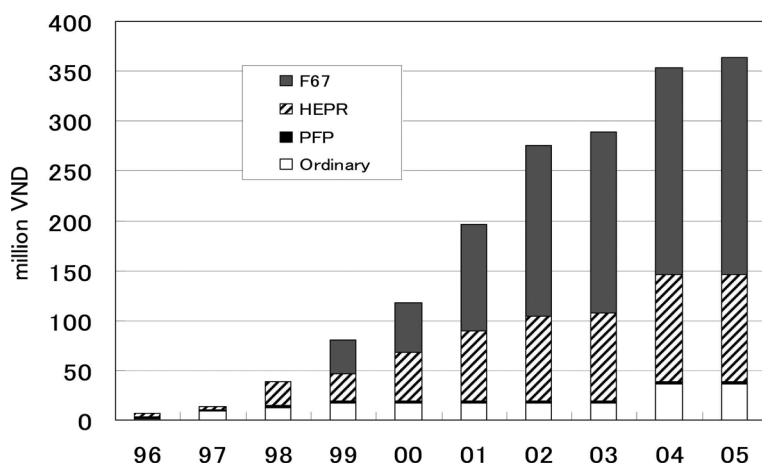


Fig. 5-2 Accumulated Loan Amounts per Year in Trại Nội Hamlet

Source: The author's survey

Note: The loan amounts in Figs. 5-1 and 5-2 are sums of four types of bank loans, excluding SW loans.

Table 4 Bank Loans and Informal Credit

		Average Size in Trại Nội Hamlet	Necessity of Collateral	Frequency of Use	Interest Rate per Month in 2000
Bank Loan	VBP/VBSP (HEPR)	2.1 million VND	No need	Frequently	0.7%
	Agribank (F67)	5.3 million VND	No need	Frequently	1.2%
Informal Credit	Relatives	Depending upon circumstances	No need	Very frequently	Very low, free in almost all cases
	Private money lender	Depending upon circumstances	Need	Seldom	Very high (4% in one case)
	ROSCAs	0.6 million VND	No need	Frequently	Deposit rate (0.2%)

Source: The author's survey

the harvest (May, October). Today, loans are provided in cash and never in paddy. Some people borrowed money for housing from relatives and received bank loans to cover any difference. For almost all the borrowers' perceptions, formal and informal credit is fungible with each other. When the author asked some people why they had borrowed from banks instead of from relatives, some answered, "our relatives also have no money." Others mentioned that, "no relatives live near our house because our family recently moved into this village," while others stated, "it is possible that relatives will suddenly require repayment for personal reasons." Though borrowing from relatives has many advantages such as no collateral and flexibility of use, bank loans are essential for people who need a large amount of money for productive purposes.

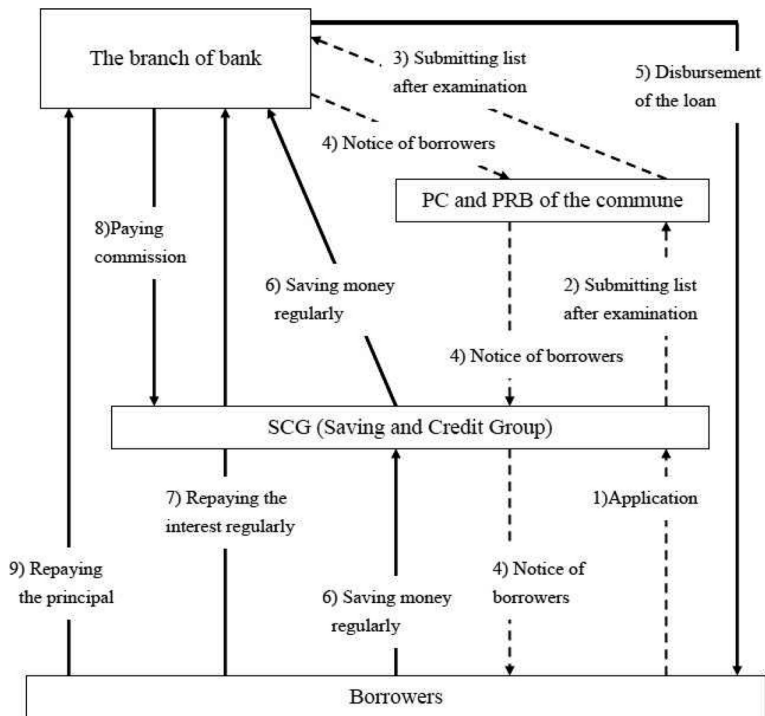
The villager who cannot obtain any loans, comes to borrow money from private moneylenders, whose interest rates are much higher (4% per month in one case) than any other loan. With the recent increased outreach by formal credit institutions, loans from moneylenders have dwindled. In the surveyed site, no traders give farmers credit in the form of production inputs such as seeds, fertilizers, or feeds.

Apart from these informal credit systems, VFF organizations also operate a variety of ROSCAs (rotating savings and credit associations). ROSCAs are informal credit institutions based on pooling resources with a broad group of neighbors and friends. ROSCAs can be found nearly everywhere. The typical ROSCA is made up of a group of people who agree to regularly contribute money to a common "pot" that is allocated to one member of the group each period. Twenty people, say, may agree to contribute 15 US dollars each for 20 months, generating a monthly pot of 300 US dollars. At monthly intervals the group meets to collect dues and allocate the proceeds, with the past recipients excluded from getting the pot again, until every member has had a turn with 300 US dollars pot [Armendáriz and Morduch 2005: 58-59]. Each hamlet branch of the OPA here deposits the membership fees earned in the bank. When, for example, a member becomes sick, or dies and is buried, the association pays him or her (or the survivors) some money out of the interest on the pooled fund. When the member turns 60, 70, and 90, it offers him or her a gift. The member can borrow money from the fund, too. In that case, he or she has to pay interest equivalent to a bank's interest on deposits. The hamlet branches of the WU and WVA also operate ROSCAs. ROSCAs are carried out by the hamlet branches, and do not concern the associations at the commune level. Armendáriz and Morduch said that ROSCAs are commonly cited as indigenous ways that communities can use to overcome credit constraints [*ibid.*: 74]. Therefore, the fact that ROSCAs are operated by associations at the hamlet level, not at the commune level is one sign of evidence that the hamlet is the basic community for the people here.

## VI The Actual Situation of Group Lending Schemes

### VI-1 Official Lending Procedure through Group Lending Schemes

Today the majority of bank loans are HEPR and F67. These two types of loans are provided through group lending schemes. The VBP's manual for concerned parties such as bank clerks, commune officers, and leaders of SCGs [VBP 2001] explains forming SCGs as follows. Five to 50 people who want to get loans must set up an SCG voluntarily, or under the direction of VFF organizations. The SCG must submit a list, bylaws and activity plans to the commune and obtain its recognition. SCG members elect the executive staff including a leader. The staff must examine loan applicants and monitor borrowers. The SCG leader must call a weekly or monthly meeting. He or she must also disseminate agricultural technology and encourage members to save money in the bank. However, SCG members are not required to save money; the savings obligation depends on the SCG's bylaws.



**Fig. 6** Official Lending Procedures through a Group Lending Scheme in Vietnam  
Source: [VBP 2001]

Note: —▶: the currents of money  
 .....▶: the procedures of loans without money  
 1)–9): See the text

Fig. 6 shows the official lending procedure. The author describes it in more detail:

- 1) People who wish to obtain a loan apply for an SCG.
- 2) The SCG examines and submits the list of loan candidates to the PC (People's Committee) and PRB (Poverty Reduction Board) of the commune.<sup>15)</sup>
- 3) The PC and PRB of the commune examine and submit the list of loan candidates to the branch of the bank.
- 4) The bank decides who can obtain loans and informs applicants of the decision through the commune and SCG.
- 5) The bank disburses the loans for borrowers directly in cash.
- 6) (If the SCG's bylaws have the article on saving) borrowers save money in the bank regularly through the SCG. The SCG keeps their booklets for lending and saving until the end of the loan term.
- 7) Borrowers repay the interest to the bank regularly, through the SCG (usually every three months).
- 8) The bank pays a commission to the SCG.<sup>16)</sup>
- 9) At the end of the loan term, borrowers repay the principal to the bank, directly in cash.

With a group lending scheme in the cases of HEPR and F67 loans, the bank does not incur the cost of selecting and monitoring borrowers. Therefore, the transaction cost is much lower

**Table 5** Group Lending Procedures of Grameen Bank and Vietnamese Bank

	Grameen Bank of Bangladesh	Vietnamese Bank (VBP, VBSP and Agribank)
Number of members in one group	5 persons	5 to 50 persons
Superior unit of groups	Center (organized by six to eight groups)	None
Lending term	One year	One to three year (in the author's survey)
Repayment by borrowers	Repayment in 50 equal weekly installments	VBP/VBSP: Repayment of the interest every 3 months and the entire principal at the end of the term Agribank: Repayment of the interest every 3 months and the principal in installments (two or three times)
Obligation of borrowers' saving	Three following obligation: 1) 1 taka each week 2) 5% of the principal to a group fund 3) 5 taka for each 1,000 taka loan to an emergency fund	VBP: No obligation VBSP: Obligation (no common regulation on the amount of saving) Agribank: No obligation
Bank clerks' visiting borrowers during lending term	Visiting several centers on a weekly basis	None

Source: [Agribank 2001, 2002; Khandker 1996; VBP 2001; VBSP 2003b] and the author's survey

15) The PC manages the whole administration of the commune. The PRB manages the national HEPR program in the commune, under the direction of the PC.

16) The commission per year is equivalent to 1.2% of loan amounts.

than in the cases of ordinary and PFP loans. At the time when HEPR loans were in use by the VBSP in 2003, part 6 in the lending process was modified. Since then, the VBSP has forced borrowers to save money [VBSP 2003b]. After decision No. 67 in 1999, Agribank began to provide loans through group lending schemes, and the formal regulations on lending groups were promulgated in 2001 [Agribank 2001]. There are a few different procedures with the VBSP loans. First, the PC and PRB of the commune do not examine the borrowers (parts 2 and 3 in the lending process), because not only “poor households” but also others can obtain the Agribank’s loans. Second, the borrowers are not forced to save money (part 6, cf. VI -4.). Third, under the regulation in 2002 [Agribank 2002] the borrowers must directly repay the interest to the bank (part 7). Fourth, the borrowers must repay the principal in installments during the loan term in the case of a large sum (part 9).

Table 5 shows the differences in group lending procedures between Grameen Bank of Bangladesh, the root of group lending schemes, and Vietnamese Bank (VBP, VBSP and Agribank). A group for Grameen Bank has only five members. Six to eight groups are organized into a community called the “center.” All transactions are openly carried out at the center meetings. Such two-tier peer monitoring and transparency in transactions eliminates possible problems of collusion. Grameen Bank usually lends small amounts (less than 100 US dollars) to a member for a year and loans are repaid in 50 equal weekly installments. Each center is assisted by a bank clerk, who visits several centers on a weekly basis. Each member is required to deposit 1 taka<sup>17)</sup> each week at the weekly group meeting. Members must also contribute 5% of their principal to a “group fund” and 5 taka for each 1,000 taka loan (above an initial 1,000 taka loan) to an “emergency fund” [Khandker 1996: 68]. Compared to the Grameen method, less cost falls on banks in the Vietnamese method, but the feasibility of joint-liability in the Vietnamese method still remains.

Do Vietnamese banks succeed in group lending despite the less cost method? If so, what are the causes of success? In order to answer these questions, the author will compare the actual situation of the group lending in the research area with the official lending procedure.

#### VI-2 *Formation of SCGs (Saving and Credit Groups)*

Under the bank’s regulations, SCGs are voluntarily established by members. However, the actual SCGs in the surveyed site were not.

Table 6-1 shows the formation of SCGs in B hamlet. In 1996, an SCG at the whole commune level was born, and its leader was the head of the commune’s FA. Since that time, the group had begun to deal with HEPR loans for FA members. In 1999, the same SCG had also begun to deal with F67 loans. In 2001, one SCG at each FA hamlet branch was formed, and its leader was the head of the FA hamlet branch. In 2005, each was divided into two groups, one for the HEPR and the other for F67. But in B hamlet, the leader of both groups was the same man: the hamlet branch head.

17) The monetary unit of Bangladesh. About 40 taka was equivalent to one US dollar as of Khandker’s writing.

**Table 6-1** Formation of SCGs in B Hamlet

Loan Type	HEPR Loans		F67 Loans
Actual operating organization	The hamlet branch of the FA	The hamlet branch of the WU*	The hamlet branch of the FA
Formation of SCGs	1996. An SCG was formed at the commune level to deal with the HEPR loans. 2001. An SCG was formed at the hamlet level and began to deal with both the HEPR and F67 loans. 2005. An SCG was divided into two for the HEPR and F67 loans.	1998. SCGs were formed at the commune level and have dealt with HEPR loans.	1999. An SCG for the HEPR at the commune level also began to deal with F67 loans. 2001. An SCG was formed at the hamlet level and began to deal with both the HEPR and F67 loans. 2005. An SCG was divided into two for the HEPR and F67 loans.

Note: \* The members of the B hamlet branch of the WVA have had the right to obtain HEPR loans since 1998, but no one yet have required them until 2005.

**Table 6-2** Formation of SCGs in Trại Nội Hamlet

Loan Type	HEPR Loans		F67 Loans
Actual operating organization	The hamlet branch of the FA	The hamlet branch of the WU and VWA	The hamlet branch of the FA
Formation of SCGs	1996. An SCG was formed at the hamlet level and began to deal with the HEPR loans. 2005. An SCG was divided into two for the HEPR and F67 loans	1998. SCGs were formed at the commune level and have dealt with HEPR loans.	1999. An SCG for the HEPR at the hamlet level also began to deal with F67 loans. 2005. An SCG was divided into two for the HEPR and F67 loans.

Source: The author's survey

Table 6-2 shows the formation of SCGs in Trại Nội hamlet. In 1996, an SCG was formed by FA members of the Trại Nội hamlet branch to apply for HEPR loans. Its leader was the head of the Trại Nội hamlet branch. The reason why another SCG was formed in Trại Nội hamlet, apart from one at the whole commune level, is probably because many farm households there demanded bank loans to raise cattle. In 1999, the same SCG also began to deal with F67 loans, and in 2005 it was divided into two groups, one for the HEPR and the other for F67. But the leader of both groups in Trại Nội hamlet was the same man: the head of the Trại Nội hamlet branch. He also held the post of hamlet head.

HEPR loans through the WU and WVA have been dealt with by an SCG formed by members of each organization at the commune level. Their leaders have been the heads of each organization at the commune level.

### VI-3 *Actual Function of Joint Liability*

Someone who wishes to obtain an HEPR or F67 loan must join the SCG in his or her own hamlet. He or she cannot join his or her favorite group or establish a new one. The SCGs are not



dissolved when their loans end. In other words, the SCGs here are only nominal and never voluntarily established groups.

In reality, bank loans of both the HEPR and F67 are intermediated by the hamlet branch of each organization (see Tables 6-1 and 6-2). According to borrowers' perceptions, bank loans were provided through VFF hamlet branches, not through SCGs. Very few of the borrowers were even aware of being members of SCGs, much less did they know that the real function of a SCG is joint liability for defaulting members. The VFF organizations which intermediate bank loans do not promise to assume the borrowers' debts. There is no clear agreement on who is responsible for future defaults.

#### VI-4 *Saving the Money of Borrowers*

As a provision for borrowers' defaults, the VBP had recommended that borrowers save money, but had never forced them to. Therefore, few borrowers here had opened savings accounts. From the time when HEPR loans were taken over by the VBSP in 2003, the VBSP had forced borrowers to save money. However, there is no common regulation on the amount of saving. That decision relies on the bylaws of each SCG. In B hamlet, borrowers must save 25,000 VND per one million VND of loan, only one time. In Trại Nội hamlet, borrowers must save at least 10,000 VND per month, regardless of loan size. Agribank does not force borrowers to save money, so few borrowers here open savings accounts. In any case, savings amounts are too small to protect against defaults (see Table 3 to know the average loan size).

Almost none of the borrowers here can afford to save money in the bank. In other areas where commercial agriculture had developed, some large-scale farmers receive both loan and savings services from banks. But, Cốc Thành agricultural cooperative, even after the land distribution in 1981 under instruction No. 100, often collected and distributed farming land in 1988, 1993 and 2003, based on the principle to distribute the equal land area per person [Sakurai 2006]. This is de facto violation of land users' rights guaranteed by the land law (cf. II-1). This egalitarian system had succeeded in maintaining the stability of farmers' lives, but it interfered with the development of large-scale farming adjusted to the market economy.

#### VI-5 *Rate of Default and Rescheduling*

There have been no defaults of bank loans here so far. The rate of rescheduling is 1.8% of total bank loan amounts in B hamlet. That rate in Trại Nội hamlet is 4.4%. The rate of delayed interest payment is 0% in B hamlet, 6.3% in Trại Nội hamlet. As of 2005, these rates have remained very low.

If rescheduling is repeated, it will eventually lead to default. At that time it will be serious if the problems on joint liability for defaulting members have not yet been worked out.

#### VI-6 *Monitoring Mechanism*

There have been no defaults on bank loans, although SCGs (borrowers' groups) themselves really do not have joint-liability function. This is because all hamlet members, including non-

borrowers, have a monitoring mechanism.

Almost all social activities take place in hamlets, and a villager is expected to follow the rules of social behavior (cf. IV-1). The leading posts of agricultural cooperative and hamlets (the hamlet head and the executives of VFF and CPV in hamlet) are often held by the same or related persons. The hamlet heads are also the heads of the production teams of the agricultural cooperative. In B hamlet, the head of FA hamlet branch, the SCG leader, held the cooperative's post of warehouseman and treasurer since 1986 and was the chief of the rice production division since 1997. He is also related to the chairman of the hamlet VFF committee, the secretary of CPV hamlet cell, the hamlet head, and the head of YU hamlet branch (cf. IV-3). In Trại Nội hamlet, four posts of hamlet head, production team head, the head of FA hamlet branch and SCG leader were held by the same person (cf. VI-2). If one causes trouble, it may lead to both economic and social sanctions by those leading members. Of course, there is no contract on delayed payment or default cases, such as "if one does not repay a bank loan, its household cannot receive irrigation services." The possible sanctions are the borrowers' incentive for repayment of bank loans on time. The life of one villager is always seen by others, including non-borrowers in a hamlet, who are also informally pressured by those leading members, so the transaction cost for monitoring the bank loans is assumed to be zero.

From the standpoint of VFF executives, the intermediation of bank loans is not to their economic benefit, because the commission that banks pay for the SCGs is too small (cf. VI-1). They provided a sort of administrative service for the households in the hamlet. Consequently, they elevated their prestige and could possibly be promoted in the local administration. For example, the head of Trại Nội hamlet branch of FA had been an executive committee member of FA at the commune level since 2002, and a deputy of the People's Council at the commune level since 2004. The commune authorities also intermediated loans of state-owned banks as a sort of administrative service for the households in the commune, because they understood those loans were based on central government policy. In contrast, Grameen Bank of Bangladesh, the root of group lending schemes, is not state-owned. So, both the central and the local governments of Bangladesh do not help its loan activities. In addition, rural Bangladeshis tend not to follow the customary rules of behavior that coordinate interactions, so, Grameen Bank had to adopt a more complicated and costly method by the groups composed of only borrowers (cf. VI-1).

## VII Conclusion

In order to understand the cause of the good performance of Vietnam's rural credit, the author studied the actual functions of group lending schemes and social ties among borrowers in a northern Vietnamese village. The research leads to the following conclusions.

Today most bank loans are provided through joint liability groups formed by borrowers. However, these groups have no provision for borrowers' default. In reality, bank loans are intermediated by VFF organizations, especially the Farmers' Association (FA). But those

organizations do not promise to shoulder the borrowers' debts. Besides, the FA does not work well on agricultural production, except for the intermediation of bank loans. Thus, FA alone does not have the power to impose sanctions upon the borrowers who do not repay bank loans. In brief, neither borrowers' groups nor VFF organizations have joint-liability function here.

Nevertheless, the bank loans have rapidly penetrated many villagers, and the loans have never been defaulted. This is because the entire hamlet participates in monitoring. Almost all social activities here take place in hamlets. If someone causes trouble in a hamlet, it may result in economic and social sanctions from others, including non-borrowers.

The author doubts, however, whether villagers will continue to follow the customary rules of behavior that coordinate interactions with others in their hamlet in the future. In 1999 when the author started to survey the villagers, Nam Định City, 7 km away from the village, did not provide many employment opportunities, which meant that the young villagers had to work within the village or leave the village. However, in 2003 an industrial park was constructed 4 km away from the village. The park requires many young laborers, so now many young villagers go back and forth to work there every day. Because many heads of households are not within the village in the daytime, now the monthly hamlet meeting is held at nighttime. Nevertheless, the attendance rate has fallen from 100% to 50% in B hamlet (70% in Trại Nội hamlet). The income of the families who go to work in the industrial park does not rely on agriculture. This means, they are under less economic pressure to follow the rules of behavior that have traditionally governed interactions in their hamlets.

As of this writing, the rate of rescheduling has remained very low. If those rescheduled loans snowball and nobody assumes responsibility for the payment, they will go into default. Therefore, the author concludes that the Vietnamese rural credit system has expanded and achieved a good performance by depending on the customary rules of behavior in rural communities characteristic of Vietnam, not on the group lending scheme, until the present day, but the creation of an effective monitoring system for the future remains a pressing issue.

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### Abbreviations

BAAC	Bank for Agriculture and Agricultural Cooperatives, Thailand
CCF	Central People's Credit Fund
CPV	Communist Party of Vietnam
F67	Fund of decision No. 67
FA	Farmers' Association
HEPR	Hunger Eradication and Poverty Reduction
HH	Household
OPA	Old Persons' Association
PC	People's Committee
PCF	People's Credit Fund
PFP	Preferential Fund for the Poor
PRB	Poverty Reduction Board
RCF	Regional People's Credit Fund
ROSCA	Rotating Savings and Credit Association
SB	Sub-Branch of the lineage
SBV	State Bank of Vietnam
SCG	Saving and Credit Group
SW	Safe Water
VBP	Vietnam Bank for the Poor
VBSP	Vietnam Bank for Social Policies
VFF	Vietnam Fatherland Front
VND	Viet Nam Dong
WU	Women's Union
WVA	War Veterans' Association
YU	Youth Union

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