MICROFINANCING IN THE CONTEXT OF NATURAL RESOURCE MANAGEMENT

"STRATEGIES AND POSSIBILITIES FOR THE USE OF SUBSIDY, SAVINGS AND CREDIT INSTRUMENTS"

Short-term Mission Report

by

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On behalf of:

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List of Acronyms & Abbreviations

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<th>Acronym</th>
<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>approx.</td>
<td>approximately</td>
</tr>
<tr>
<td>AusAid</td>
<td>Australian Aid</td>
</tr>
<tr>
<td>CEMMA</td>
<td>Commission for Ethnic Minorities and Mountainous Areas</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
</tr>
<tr>
<td>cum</td>
<td>cubic meter</td>
</tr>
<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
</tr>
<tr>
<td>DARD</td>
<td>Department of Agriculture and Rural Development</td>
</tr>
<tr>
<td>DID</td>
<td>Development International Desjardins</td>
</tr>
<tr>
<td>DM</td>
<td>Deutsche Mark</td>
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<tr>
<td>DoF</td>
<td>Department of Finance</td>
</tr>
<tr>
<td>DoLiSA</td>
<td>Department of Labour, Invalids and Social Affairs</td>
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<tr>
<td>DoLM</td>
<td>Department of Land Management</td>
</tr>
<tr>
<td>DPI</td>
<td>Department of Planning &amp; Investment</td>
</tr>
<tr>
<td>FA</td>
<td>Farmers’ Association</td>
</tr>
<tr>
<td>FSR</td>
<td>Farming System Research</td>
</tr>
<tr>
<td>g</td>
<td>gram</td>
</tr>
<tr>
<td>GfA</td>
<td>Gesellschaft fuer Agrarwirtschaft (Society for Agriculture)</td>
</tr>
<tr>
<td>GTZ</td>
<td>Gesellschaft fuer Technische Zusammenarbeit (German Technical Co-operation)</td>
</tr>
<tr>
<td>HCMC</td>
<td>Ho Chi Minh City</td>
</tr>
<tr>
<td>HEPA</td>
<td>Hunger Eradication and Poverty Alleviation Program</td>
</tr>
<tr>
<td>KfW</td>
<td>Kreditanstalt fuer Wiederaufbau (Credit Institute for Reconstruction)</td>
</tr>
<tr>
<td>kg</td>
<td>kilogram</td>
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</table>
Acknowledgements

This study would not have been possible without the committed contributions by the staff of the SMR Project, both in Buon
Ma Thuot and Hanoi.

The author also is grateful for the co-operation shown by all persons and organizations interviewed during the study period.

Abstract

This report is designed to fulfil two functions:

1. To propose a strategy for integrating microfinance instruments into natural resource management projects, in particular the SMRP.
2. To apply this strategy to a real case, the SMRP pilot site in Dak Phoi commune (Lak district - Dak Lak province, Vietnam)

Chapter 1 gives the necessary background regarding the goals and objectives of the SMR Project as well as the methodology used during the study.

Chapter 2 discusses the strategies of microfinance in NRM. The planning process is explained, microfinance instruments are analyzed, and the process of selecting partner and intermediary organizations is outlined; finally some strategic recommendations regarding the implementation and monitoring of microfinance instruments are put forward.

Chapter 3 presents an overview of the project’s pilot site in Vietnam. The political and administrative system is discussed; natural, capital and human resources and their allocation are described; the formal and informal financial sectors are outlined. Furthermore, results of a PRA mission are summarized as far as they were considered relevant to the subject at hand. Based on the information described in the previous sub-chapters recommendation domains are described, their problems, potentials and constraints summarized and some general solutions proposed.

Chapter 4 describes the results of the institutional landscape analysis conducted during the study period. Recommendations to the Project with regard to institutional net-working in the area of microfinancing are given.

Chapter 5 proposes some interventions for microfinancing NRM measures in the Project pilot site, describes the institutional network-options available for the implementation of these interventions and presents a "Loan Plus Services" program.

Executive Summary

This report proposes a strategy of integrating four microfinance instruments, i.e. subsidies, savings, loans and insurances, into NRM projects and describes the potential application of this strategy to a specific case (the SMRP project area Dak Phoi in Vietnam).

Based on a resource assessment and land use plan for a particular area recommendation domains with homogeneous household systems can be identified. Two separate lines of intervention are proposed for resource-poor and resource-adequate groups. The report concentrates on the former.

Generally, resource-poor groups do not have the ability to create substantial savings a priori. Therefore, they need subsidy-support not only for direct NRM measures but also to ensure their basic needs are met since emergencies force the poor to exploit their natural resources.

Loans in kind or cash can be used to finance short-term agricultural investments, in particular to support the process of sedentarisation of shifting cultivators. This should also encourage people to save in kind or cash.

Experiences gathered by micro-credit schemes in Vietnam give evidence of two successful models: the solidarity village group model and the People Credit Funds model. In both models savings and credit are linked. Although loan conditions vary between individual schemes it can be said that success depends on the availability of demand-driven credit and savings products in combination with suitable planning and implementation services.

The most advanced microfinance instrument would be the introduction of non-subsidized insurance schemes to cover emergencies such as health, livestock diseases and crop failures.
1. BACKGROUND

1.1 The Sustainable Management of Resources in the Lower Mekong Basin Project (SMRP)

The lower Mekong basin is a natural resource shared by four nations (Vietnam, Cambodia, Laos and Thailand) and a large variety of ethnic groups. With increasing population pressure on the land, water, fauna and flora the need arose to manage the use of these resources. The Mekong River Commission (MRC) has been set up by the above nations to assist with this task.

The SMRP has become operational on December 1, 1995; it is attached to the MRC and funded by the Federal Republic of Germany. Its goal is defined as: "The riparian states manage their natural resources of the lower Mekong basin in an ecologically sustainable and socially acceptable way while maintaining the protective functions." Its long-term objective (6-8 years) is to develop and test viable strategies and concepts in the field of natural resource management in the catchment areas of the lower Mekong basin; and to strengthen institutions in the riparian states in the implementation of these strategies and concepts.

The objective of the Project’s phase I (1995-97) is as follows: "Appropriate participatory approaches for the sustainable management and rehabilitation of watersheds are identified, adjusted to specific physical and socio-economic conditions of the Lower Mekong Basin and their application is initiated in selected pilot areas." It is to be noted that the Project has no direct mandate to work towards poverty alleviation.

The Project has its operational base in Hanoi, Vietnam, where it is attached to the Department of Forestry Development in the Ministry of Agriculture and Rural Development (MARD). The Project’s first pilot site has been identified in the Dak Lak Province (SMR PROJECT OUTLINE, 1996).

1.2 Methodology of the study

The present study was conducted in April 1997 and was based on the Terms of Reference supplied by the SMRP (see: Annex 1). The study’s purpose is to find strategies and possibilities for the use of microfinancing instruments in the context of natural resource management.

Therefore, this report is a first contribution in the field of microfinancing towards the Project’s five results:

1. technical and non-technical data relevant to sustainable resource management in watersheds is collected, analyzed, complemented and organized in a data base;
2. the suitability of identified alternative concepts and strategies for participatory approaches for sustainable resource management in watersheds are assessed;
3. effective methods of involving the local population in the sustainable management of resources in watersheds are identified;
4. programs in the Project pilot areas are identified and initiated;
5. the implementation of strategies to strengthen the capabilities of relevant institutions in the riparian countries are developed and initiated.

The study was implemented according to the following methodological schedule:

Table 1: Methodological schedule for the study of "Microfinance in the Context of Natural Resource Management"
The study used certain elements of **Farming Systems Research** (FSR) since micro-financing in the context of natural resource management depends to a large extent on agricultural activities of the target group.

FSR is based on a number of empirical observations, in particular:

- Innovations developed in another environment (research stations, different cultural or political system) are not always suitable for resource-poor producers. Thus, there is a definite need to develop appropriate innovations and interventions for marginalised households. Farming Systems Research and field-trials can help to arrive at solutions of economic and technical importance to the resource-poor.

- Successful innovations are those that are easy to understand by the users; their use allows individual flexibility; they are of low risk; they match the target group’s motivations, norms and needs; and they do not cause “hidden costs” (time, effort, cash, etc.)

The objective of FSR is to develop innovations/interventions specifically designed for more or less homogeneous groups of households. Therefore, FSR is based on two major steps: the identification of **Recommendation Domains** based on indicators, such as agro-ecological zones, land-use pattern and dynamics, land ownership, ethnic and religious groups, administrative borders, infrastructure, and income distribution.

Secondly, the description of **household-farm systems** in terms of availability and use of natural / capital / human resources, resource-related problems encountered by households, solutions perceived by the people concerned, constraints to solutions (internal, external).

**Access to capital** is a major constraint resource-poor households in rural areas have to face. Commercial banks often reject offering services for the "poor", mainly because:

- it is considered too expensive (long distances, small loans, etc.)
- the risk is considered too high (agricultural loans, low-income groups, many emergency loans)
- the poor rarely have collateral nor track records of previous credit discipline

<table>
<thead>
<tr>
<th>Task Description</th>
<th>Details</th>
<th>Time Required</th>
</tr>
</thead>
</table>
| (3) Field survey in pilot area: verify preliminary definition of recommendation domains in relation to microfinance | - "mud-map" the site (soils, land use, social map)  
- interview key-persons (village headman, elders, shop-keeper...)  
- interview selected individuals (borrowers, non-borrowers, innovators, "losers"...) | 2-5 (depending on the size of the area and population) |
| (4) Interview institutions relevant to micro-finance and related services for the pilot area | - develop situation-specific key-questions (see: Annex)  
- meet and interview individuals within the institutions who hold information relevant to questions | 0.3-0.5 per interview |
| (5) Analyze interviewed institutions with regard to microfinance                  | - describe institutions  
- use SWOT analysis on key issues to assess institutions                          | 1-2 |
| (6) Develop preliminary micro-finance intervention strategies for the pilot area   | - describe best practices for micro-financing  
- define priority objectives of micro-finance in pilot area  
- develop institutional network options  
- describe Project’s role in the strategy                                            | 1-2 |
| (7) Present and discuss the preliminary intervention strategies with Project staff and other individual or institutional stake-holders | - identify and invite "stakeholders"  
- present results of sub-activities of (6) to selected audience  
- discuss key issues, e.g. partner institutions, Project’s role, etc.               | 0.5-1 |
| (8) Revise preliminary intervention strategies                                   | - summarize discussion of presentation  
- evaluate discussion results  
- develop potential options for intervention                                          | 0.5-1 |
| (9) Develop recommendations to the Project for specific recommendation domains    | - identify actions needed to achieve intervention options (8)  
- recommendations to Project                                                          | 1-2 |
FSR can make a contribution to develop needs- and resource-based, sustainable micro-finance interventions. The aim is to give the resource-poor access to capital for productive purposes and to mobilize savings within the target group.

2. STRATEGIES FOR MICROFINANCING IN THE CONTEXT OF NATURAL RESOURCE MANAGEMENT

2.1 Planning Process

The human impact on natural resources in developing countries is clearly related to poverty and the lack of access to capital resources which can - to some extent - substitute natural resources. Therefore microfinance for low-income groups may well be able to make a contribution to NRM. It is crucial that microfinance in NRM projects addresses constraints that force the target group to exploit natural resources.

The following chart defines the role of microfinance in NRM projects.

**Figure 1: The role of Microfinancing in Natural Resource Management Projects for Resource-poor and Resource-adequate Target Groups**

![Figure 1](image)

Figure 1 indicates that microfinancing in the context of NRM can only start after a thorough **resource assessment** of the target area and group (i.e. macro- and micro-level resource availability and allocation). Based on this information **land use planning** can be initiated which will lead to a number of possible interventions. Where it has not been done already **land allocation** is a sine-qua-non for the success of a micro-finance system in NRM.

The lower half of the above chart should not necessarily be read in a chronological sense but rather in the context of logical planning. It shows the four most common **microfinance instruments**: subsidies, credits, savings, and insurances. Any of these instruments can be used at any time; however, when dealing with resource-poor groups one should first consider subsidy needs before rushing into savings and credit. Also, in this group it may make more sense to start with a "credit and savings in kind" scheme depending on the target group’s access to financial and input/output markets.

Although it is possible to combine micro-finance instruments into packages (e.g. subsidized credit, subsidized insurances, compulsory savings with loans) one must be careful not to defeat the purpose of one instrument by adding another. In the
case of subsidized loans this has been well documented in many different countries. Rather than offering subsidized, "soft" loans it is better to clearly separate subsidies and credit ("hard loans"). On the other hand, credit and savings should always go together.

A general understanding of the political and administrative framework conditions must be obtained. Furthermore, the formal and informal financial sector affecting the target area should be analyzed.

Based on this foundation recommendation domains can be identified, i.e. groups of households that have similar access to natural, capital and human resources. Taking both, recommendation domain characteristics and land use plans into consideration microfinance interventions and instruments can be designed.

The following tables give examples of the role microfinance can play in the overall NRM project strategy and how it can be planned in detail.

### Table 2: Example of the Role of Microfinance in a NRM Project Planning

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1.1 Assess availability and use of natural resources</td>
<td>2.1 Prepare regional land use plan</td>
<td>3.1 Confidence building measures</td>
<td>4.1 Identify indicators of progress</td>
</tr>
<tr>
<td>1.2 Define agro-ecological zones</td>
<td>2.2 Discuss land use plan with people</td>
<td>3.2 Rehabilitate natural areas of high priority</td>
<td>4.2 Develop monitoring system</td>
</tr>
<tr>
<td>1.3 Assess availability and allocation of human resources</td>
<td>2.3 Discuss micro land use plans with people concerned</td>
<td>3.3 Conserve natural areas of high priority</td>
<td>etc.</td>
</tr>
<tr>
<td>1.4 Assess availability and allocation of capital resources</td>
<td>2.4 Prepare micro land use plans with people</td>
<td>3.4 Introduce NRM measures in agriculture</td>
<td>etc.</td>
</tr>
<tr>
<td>1.5 Conduct PRA</td>
<td>2.5 Identify suitable agricultural activities</td>
<td>3.5 Start microfinance scheme</td>
<td>etc.</td>
</tr>
<tr>
<td>1.6 Conduct technical surveys</td>
<td>2.6 Identify services needed by farmers</td>
<td></td>
<td>etc.</td>
</tr>
<tr>
<td>1.7 Mapping</td>
<td></td>
<td></td>
<td>etc.</td>
</tr>
</tbody>
</table>

### Table 3: Detail Planning for Microfinance in a NRM Project

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1.1 Describe the political and administrative framework</td>
<td>2.1 Collect information on recommended land use</td>
<td>3.1 Describe the institutional microfinance landscape</td>
<td>4.1 Negotiate with selected intermediaries and partner institutions</td>
</tr>
<tr>
<td>1.2 Describe the allocation of available resources</td>
<td>2.2 Define which activities are recommended for each recommendation domain</td>
<td>3.2 Prepare interview key questions</td>
<td>4.2 Organize target group according to microfinance model (e.g. solidarity groups)</td>
</tr>
<tr>
<td>1.3 Describe financial sector</td>
<td>2.3 Collect data on recommended activities: resources and services needed, inputs, outputs, etc.</td>
<td>3.3 Interview organizations</td>
<td>4.3 Mobilize savings and/or initiate loan and subsidy application process</td>
</tr>
<tr>
<td>1.4 Describe household systems</td>
<td>2.4 Prepare Activity Profiles</td>
<td>3.4 SWOT analyze organizations</td>
<td>4.4 Implement support services to microfinance scheme (e.g. business plans, training, ext. service, etc.)</td>
</tr>
</tbody>
</table>
2.2 Instruments

Four microfinance instruments can be used in the context of NRM: savings, credit, subsidies and insurances. It is essential to adhere to best practices and principles (see Annex) when integrating these instruments into a NRM project. Foremost, three principles are important:

- offer savings products that are attractive to the target group
- separate subsidies and credit
- loans should not be tied to specific purposes but they must be planned

Planning of subsidies and loans must be based on macro as well as micro plans, i.e. land use and household/enterprise plans. A simplified version of the household/enterprise plans is the business plan.

The business plan plays an essential role in a microfinance scheme. In it the purpose of a subsidy or loan should be outlined and some basic economic calculations should be presented. This may prove to be a difficult task for applicants. External support for the preparation of business plans is therefore needed. Sample enterprise profiles and individual consultancy should be made available to applicants. The following chart depicts the planning process described above:

Figure 2: Planning of Microfinancing for Resource-poor Target Groups in a Natural Resource Management Project

```
1.5 Define recommendation domains in terms of problems, potentials, constraints and possible solutions
2.5 Define microfinance instruments needed to facilitate the implementation of these activities
3.5 Prepare institutional network proposal and microfinance model
4.5 Monitor progress of scheme according to microfinance and NRM indicators
3.6 Decide on project support services within the proposed institutional network
```

2.3 Selecting partners and intermediaries

NRM projects are generally not in a position to implement microfinance instruments directly. They need intermediaries and partner organizations, such as banks, mass organizations, NGOs and government organizations.
An **intermediary** is any organization or individual that acts like a bridge between the target group and another organization or between two organizations. A **partner** is any organization that has a clear agreement with a project or another organization.

When selecting partners and intermediaries a clear definition of what is expected of them should be formulated. The following SWOT table is an example of what these criteria could look like.

**Table 4: SWOT Analysis of Potential Partner Organizations**

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>STRENGTH</th>
<th>WEAKNESS</th>
<th>OPPORTUNITY</th>
<th>THREAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization able to act as a financial institution for rural Savings and Credit schemes</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Organization able to act as an intermediary to facilitate the implementation of a Loan Plus Services Programme</td>
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<tr>
<td>Organization financially and legally sustainable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff available for field work</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization and seconded staff are flexible to respond to clients’ needs/requests</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization and seconded staff are flexible to cooperate with other organizations</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Seconded staff are qualified for the job</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Seconded staff have relevant experience for the job</td>
<td></td>
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<tr>
<td>Seconded staff are mobile</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Seconded staff have access to basic office equipment and means of communication</td>
<td></td>
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<tr>
<td>Seconded staff are motivated to do the job</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Seconded staff are accepted by most other enterprise promoting organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seconded staff are accepted by clients</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Organization has a positive image amongst clients and other organizations</td>
<td></td>
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</tbody>
</table>

**2.4 Implementation**

A number of implementation options are available and it will depend - to some degree - on the chosen partners and intermediaries which option is to be implemented. As far as S/C schemes are concerned the following table characterizes the nine most commonly used models.

**Table 5: Organizational Models for Savings and Credit Schemes**

<table>
<thead>
<tr>
<th>PURE CREDIT ORGANISATIONS</th>
<th>SAVINGS AND CREDIT ORGANISATIONS</th>
<th>WELFARE AND CREDIT ORGANISATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Personal integrity model</td>
<td>• Solidarity group model</td>
<td>• Community development model</td>
</tr>
</tbody>
</table>
Explanations:

1. **Personal integrity** as basis of creditworthiness is assessed by credit officers together with local authorities (e.g. political or religious leaders).
2. Individuals are represented by an *umbrella organization* (e.g. trade association) which accesses loans and re-lends to members.
3. Democratic group organization with elected **board** which is the decision-making body of the credit organization.
4. **Solidarity groups** vary in size and commitment to joint liability. Generally, the group members are inter-se guarantors for loans which are linked to a savings program (e.g. Grameen Bank in Bangladesh; UNICEF, OXFAM, Action Aid and other S/C programs in Vietnam).
5. **Revolving credit and savings associations** (RoSCA) are based on traditional S/C customs (e.g. "hui" in Vietnam). They combine mostly compulsory savings or membership fees with loan distribution amongst members. Common criteria for loan distribution are: loan auctions (i.e. members bid for the interest rate they are willing to pay if they get a loan), borrower lotteries (i.e. members receive loans in chronological order according to the draw of member names in a lottery), group discussions, loan applications, etc.
6. **Credit co-operatives** (e.g. People’s Credit Fund, Vietnam) are the stepping stone for the better-off amongst the poor into the formal financial market. Credit co-operatives generally mobilize savings by selling compulsory shares to members who in turn are then eligible to access loans. Savings are usually also accepted of non-members. Loans are provided according to the elected board’s directions and policies.
7. **Community development credit schemes** combine non-bankable investments (e.g. health training or education) with credit and sometimes savings.
8. The **broker** model is used by organizations that play the role of intermediary between the poor and the formal financial market. Often the intermediary covers some of the expenses or risks that the partner financing institution is not prepared to bear.
9. The **merchant** model is a paternal approach to credit supply. The organization basically spoon-feeds and controls the borrowers by giving loans in kind, compulsory training and savings, close monitoring of repayments, etc.

(Source: “Where credit is due”, Joe Remenyi, 1993)

NRM projects generally do not have the mandate or resources to run S/C schemes on their own; however, using other intermediaries and linking them with financial institutions can be a workable solution. The same could be said for the implementation of subsidies and insurances. However, subsidy schemes are usually not of a permanent nature since they should either act as catalyst or emergency relief. Therefore, NRM projects may consider to take charge of subsidies themselves rather than contracting intermediaries.

3. RECOMMENDATION DOMAINS IN THE PROJECT AREA

3.1 The political and administrative system

Presently the Project operates one pilot site in Dak Phoi commune which is located in the Lak district, one of the 17 districts in Vietnam’s largest province, Dak Lak. The province capital, Buon Ma Thuot with approximately 200,000 inhabitants, is home to a number of political and administrative institutions some of which have district and commune level outreaches. The following chart gives an overview on the political and administrative system in Dak Lak province.

**Figure 3: Political and Administrative System in Dak Lak**
3.2 Natural, Capital and Human Resources

Dak Lak province is situated South-East of the Truongson mountains at an altitude between 400 (around BMT city) and 2,405 meters (Chu Yan Sin peak). The average temperature is 24° C with 81% humidity (VIETNAM DISCOVERY, 1997).

The following table compares some key indicators of natural, capital and human resources in Dak Lak province, Lak district and Dak Phoi commune.

**Table 6: Comparison of Dak Phoi Commune with Lak District and Dak Lak Province**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Dak Phoi Commune</th>
<th>Lak District</th>
<th>Dak Lak Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total area (ha)</td>
<td>14,130</td>
<td>110,730</td>
<td>1,953,747</td>
</tr>
<tr>
<td>Forest (ha)</td>
<td>12,700</td>
<td>92,854</td>
<td>1,205,461</td>
</tr>
<tr>
<td>Bald hill/bare land (ha)</td>
<td>5,639</td>
<td>19,378</td>
<td>324,270</td>
</tr>
<tr>
<td>Deforestation (ha)</td>
<td>n/a</td>
<td>286</td>
<td>23,951</td>
</tr>
<tr>
<td>Production forest (ha)</td>
<td>410</td>
<td>21,014</td>
<td>796,995</td>
</tr>
<tr>
<td>Protection forest (ha)</td>
<td>33,449</td>
<td></td>
<td>292,525</td>
</tr>
<tr>
<td>Special use forest (ha)</td>
<td>6,627</td>
<td>38,391</td>
<td>142,941</td>
</tr>
<tr>
<td>Plantation forest (ha)</td>
<td>190</td>
<td>413</td>
<td>n/a</td>
</tr>
<tr>
<td>Agric. Land (ha)</td>
<td>1,300</td>
<td>9,557</td>
<td>339,970</td>
</tr>
<tr>
<td>Annual crops (ha)</td>
<td>wet rice: 70</td>
<td>5000-10,000</td>
<td>144,186</td>
</tr>
<tr>
<td>Perennial crops (ha)</td>
<td>cashew: 220</td>
<td>&lt;1000</td>
<td>195,191</td>
</tr>
<tr>
<td>Cattle / household</td>
<td>approx. 0.5</td>
<td>2.5</td>
<td>n/a</td>
</tr>
<tr>
<td>Pigs / household</td>
<td>approx. 1.5</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Chicken / household</td>
<td>approx. 4.5</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Sources:
1. Preliminary Assessment of present and potential land use systems - Dak Phoi
   (Dr. Pol Deturck, February 1997)
   (The People’s Committee, Dak Lak Province; 25/12/96)

GIS data for 1993 (SMRP, 1997) reveals that Lak district has three major agro-ecological zones:

- Moderately steep, ferrallitic soil on extremely wet highlands
- Steep, ferrallitic soil on extremely wet highlands
- Steep, ferrallitic soil on moist highlands

Approx. 80% of land in Lak district is sloped at more than 25 degrees. Most of the soils in the area are classified as "thin soils", i.e. they are less than 30 cm deep. At over 2000 mm per year rainfall figures for Lak district are higher than for the provincial average of 1800 mm. Approximately 70% of the total annual rainfall is encountered in the wet season between May and November with a peak between July and September.

As far as natural resources are concerned the Lak district’s area is widely covered by bamboo and evergreen forests with some grasslands; most of these lands are highly erodable once cleared so that the recommended land use is restricted to perennial crops and forest; very few areas are suitable for wet rice and upland annuals.

The available data and information gathered during a PRA mission (1997) allows the following conclusions about Dak Phoi’s human and capital resources:

- the majority of population belong to the ethnic group of M’nong, whereas on provincial level this group makes only 21% of the population; the average size of M’nong households in the target area (5.4 persons) is only slightly larger than the provincial total average (5.2 persons per household).
- M’nong people are a culturally distinct ethnic group. They tend to live separate from the majority Kinh people.
- 44% of the commune’s forest lands - this is more than four times the size of the commune’s permanently used agricultural land - are classified “bare land”, thus indicating human pressure on forest land.
- M’nong depend mostly on shifting cultivation and allocate most of their family labour to land clearing and preparation. Although shifting cultivation practices in the target area can still be considered sustainable (DETURCK, 1997) rotations are shortening and yields decreasing; the people are aware that due to the present development in Vietnam they will have to discontinue shifting cultivation.
- Dak Phoi commune is grossly disadvantaged in terms of household income and food security (48% of households suffer severe rice shortages compared to 23% in the Lak district and 7% in the entire province); the cattle population (as a measure of wealth) is low compared to the district average.
- M’nong people are subsistence farmers with little cash experience. Rice shortages force people to collect or hunt emergency foods in the forests. Wealth is measured in physical terms (food and livestock) and the amount of productive labour in a family. The people in Dak Phoi are concerned that doi moi (=Vietnam’s transformation) will further disadvantage them.
- less than 10% of the target area is agricultural land, i.e. 2.03 ha per household (higher than the district or provincial average!)
- however: taking into consideration that most of the permanent agricultural land in Dak Phoi is used for cashew and

<table>
<thead>
<tr>
<th>Population</th>
<th>3,506</th>
<th>39,554</th>
<th>1,376,537</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>639</td>
<td>7,557</td>
<td>267,106</td>
</tr>
<tr>
<td>M’nong population</td>
<td>3,172</td>
<td>22,000</td>
<td>289,920</td>
</tr>
<tr>
<td>M’nong households</td>
<td>576</td>
<td>4046</td>
<td>47,842</td>
</tr>
<tr>
<td>Income ($/capita)</td>
<td>n/a</td>
<td>110</td>
<td>294</td>
</tr>
<tr>
<td>Households &lt; 180 kg rice/a/capita = hunger</td>
<td>308 (=48%)</td>
<td>1707 (=23%)</td>
<td>19,800 (=7%)</td>
</tr>
<tr>
<td>Households 180 - 204 kg rice/a/capita = poor</td>
<td>105 (=16%)</td>
<td>1648 (=22%)</td>
<td>50,816 (=19%)</td>
</tr>
<tr>
<td>Households 204 - 240 kg rice/a/capita = medium</td>
<td>102 (=16%)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
coffee growing the actual permanent staple food producing area per household is below 1 ha.

3.3 Formal financial sector

Formal financial institutions in Dak Lak are the State Bank of Vietnam (SBV) branch in Buon Ma Thuot and the Vietnam Bank of Agriculture (VBA) with one head-office in the province capital and 38 district branches. Lak district has one VBA branch in the district capital. The Vietnam Bank for the Poor (VBP) operates through the VBA infrastructure.

As far as non-bank financial institutions in Lak district are concerned there are:

- HEPA Program credit component for agriculture
- 327 Program ("Re-greening of barren land") credit component for agriculture
- 120 Program ("Job creation") credit component for income-generating activities
- Sub-department of Sedentarisation and Fixed Cultivation credit component
- Women’s Union S/C schemes (own funds or as intermediary)
- Farmers’ Association savings groups
- People’s Credit Funds

The following chart describes the institutional microfinance landscape in Dak Lak.

![Figure 4: Institutional Landscape "Micro-Finance in Dak Lak Province"

3.4 Informal financial sector

Savings mobilization by formal financial institutions in Vietnam is very low; it is estimated that more than 50% of savings are kept in cash (DUY & CARR, 1996) outside the banking sector. Therefore the informal financial sector must be looked at in more detail.

Traditional savings and credit mechanisms which could be identified during a field visit to Buon Dung village in Dak Phoi commune are:

- **Livestock**: small local pigs and chicken which are roaming the villages are sold or slaughtered for special events or emergencies; cattle are considered symbols of wealth and savings investments.
- **Food**: maize, paddy and other durable foods are stored in houses and woven storage silos. Rice or paddy is commonly used as a substitute for cash within the M'nong society as well as when trading with outsiders or for daily expenses in the village shop.
- **Cash** does not play a very important role as means of savings since most transactions are in kind (barter).
However, credit with the village shop is usually recorded in terms of cash. It is common that villagers pay off their debts at the village shop with the money they receive as grants through the 327 Program once every six months.

- **Labour exchange**: this is a social form of short-term "saving" that optimizes the allocation of village labour resources.
- **Social favors** are another form of social "saving". On special occasions (e.g. house construction or major repair, weddings, funerals, etc.) M'nong people cater for relatives and friends. Invitations are returned.
- **Investing in children** is also a form of social "saving" since a big family has more productive labour available in the long run; if the family can afford to send one or more children for formal education this may benefit them in the future. In the absence of pension schemes or long-term savings a big, healthy family becomes the parents' life insurance.
- **Borrowing of relatives** - mostly in kind - is quite common but usually only short-term (one month or less)
- **Buying on credit** at the local shop or with travelling traders is the most common credit mechanism in the target area. Interest rates per se are unknown but de facto the borrowers give back more than they had taken (this varies from case to case).
- The author could not find any signs of organized private money-lending although this would be difficult to find out since that practice is officially banned.
- There are no signs of the traditional Vietnamese "hội" or "phuong" system amongst the M'nong people ("hội" is a type of Rotating Savings and Credit Association) although this is difficult to verify since "hui" is officially illegal.

### 3.5 Summary results of a PRA mission to Buon Dung and Buon Bu Yuk (Dak Phoi commune, 1997)

**Ranked problems as perceived by the target group (summarized by the author):**

<table>
<thead>
<tr>
<th></th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Health</td>
<td></td>
<td>1. Lack of credit</td>
</tr>
<tr>
<td>Lack of knowledge and skills</td>
<td></td>
<td>2. Lack of irrigated rice land</td>
</tr>
<tr>
<td>Lack of investment capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of irrigated land for rice cultivation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Additional problems:**

- Fuelwood consumption high (15 - 40 kg/day/household)
- Shifting cultivation cycles shorten
- Deforestation increases
- Agricultural output is low
- Irrigation facilities lacking
- Malnutrition and hunger common
- Traditional social structures break apart
- Streams and lakes over-fished

**Proposed interventions:**

- provide agricultural extension and input supply
- facilitate access to production credits and savings scheme (esp. women)
- implement wood stove program
- form community development groups
- prepare community development plans
- erosion control, soil amelioration and reforestation measures
- health survey to formulate intervention strategy

### 3.6 Recommendation Domains

The recommendation domain describes a group of households that have similar access to and allocation-behaviors towards natural, capital and human resources.

For the purpose of planning microfinance interventions in the target area three recommendation domains can be identified:

- The "hungry" families.
- The "poor" families.
- The "better-off" families.

The "hungry" families are officially defined as those 308 families in the commune that have less than 180 kg of...
rice/capita/year; however, it appears that locals have a different understanding of "hungry" families, namely those that have a definite shortage of productive labour. They are often women-headed (widows) households. An unfavorable ratio of productive to unproductive labour may be caused by death, sickness, a large number of children below the age of ten and other "tragedies" (single un-married mothers, accidents, etc.). Families who have only recently immigrated to the area may not have access to sufficiently large or good lands close to the hamlet. The "hungry" families are rarely considered credit-worthy, even amongst their own people; therefore they cannot even get loans from the VBP. During times of food shortage they may sell their labour to near-by coffee-growers or receive food donations from better-off villagers. They also rely on wild forest foods which they collect or hunt. Of all groups they depend most on the "free" resource forest.

The "poor" families, officially those that have 180 - 204 kg rice/capita/year, are the majority of the population as far as the local definition is concerned: they are those who are on the "list of the poor", collated by the commune PC, but nevertheless considered credit-worthy because they have sufficient productive labour to produce a surplus in shifting cultivation; some own a small plot of irrigated rice and livestock. Hiring out of labour to near-by coffee-growers during the dry season is quite common.

The "better-off" families are those who have certain advantages or privileges regarding the access to resources. Office-bearers (village head-man, PC members, members of communist party, etc.), outstanding "war heroes" and families who have been in the area for a long time and therefore can claim good (fertile, close-by) ancestral lands for shifting and permanent cultivation are the typical members of this group. They are usually the first ones to learn about government programs and easily manage to access preferential loans and grants. Frequently they have large families with a favorable productive to non-productive labour ratio so that they can afford to divert some labour out of agriculture to off-farm activities. Since they have more and better information their advice is generally appreciated by other villagers, esp. the younger ones.

3.7 Problems, potentials and constraints in the recommendation domains

The following table illustrates that the members of the three recommendation domains experience different problems, potentials and constraints with regard to capital resources. Some potential solutions to address problems and internal constraints have also been given in the table.

Table 7: Problems, Potentials, Constraints and possible Solutions in the Recommendation Domains with regard to Capital Resources and permanent Agriculture

<table>
<thead>
<tr>
<th></th>
<th>PROBLEMS</th>
<th>POTENTIALS</th>
<th>CONSTRAINTS</th>
<th>POSSIBLE SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;HUNGRY&quot; HOUSEHOLDS</td>
<td>• perceived not credit-worthy</td>
<td>• 327 program &amp; land allocation</td>
<td>• lack of labour</td>
<td>• land allocation</td>
</tr>
<tr>
<td></td>
<td>• poor production base</td>
<td></td>
<td>• poor health</td>
<td>• loans for hire of labour</td>
</tr>
<tr>
<td></td>
<td>• lack of land</td>
<td></td>
<td>• lack of knowledge</td>
<td>• subsidized health insurances</td>
</tr>
<tr>
<td></td>
<td>• low agricultural productivity</td>
<td></td>
<td>• survival pressure</td>
<td>• extension services</td>
</tr>
<tr>
<td></td>
<td>• 'strapped' for cash or food</td>
<td></td>
<td>• no risk-taking ability</td>
<td></td>
</tr>
<tr>
<td>&quot;POOR&quot; HOUSEHOLDS</td>
<td>• poor access to short-term loans of VBP</td>
<td>• 327 program &amp; land allocation</td>
<td>• lack of knowledge</td>
<td>• land allocation</td>
</tr>
<tr>
<td></td>
<td>• lack of land</td>
<td></td>
<td>• risk-aversion</td>
<td>• extension service</td>
</tr>
<tr>
<td>&quot;BETTER-OFF&quot; HOUSEHOLDS</td>
<td>• difficulties to get medium-term loans &quot;officially&quot;</td>
<td>• 327 program &amp; land allocation</td>
<td>• lack of knowledge</td>
<td>• land allocation</td>
</tr>
<tr>
<td></td>
<td>• lack of land</td>
<td></td>
<td></td>
<td>• extension service</td>
</tr>
</tbody>
</table>

4. INSTITUTIONAL ANALYSIS OF ORGANISATIONS IN MICROFINANCE

The following institutional profiles summarize the information obtained during interviews based on the key questions listed in the annex.

4.1 Government departments and programs
Department of Agriculture and Rural Development (DARD - Dak Lak)

Sources of information:  
- Mr. Binh, Director DARD - Dak Lak  
- Mr. Thanh, SMR Project co-ordinator

Established in: 1995 (previously separate departments)

Legal status: Ministry of Agriculture and Rural Development

Funding: Central and local Government

Organizational structure: DARD is a recent merger of previously separate ministries and departments. It includes the following sub-departments: agriculture, veterinary services, water resources, extension services, sedentarisation/fixed cultivation, etc.

Objectives: Rural development

Activities:  
- agricultural extension service  
- member of HEPA steering committee  
- co-operation with 327 program  
- Management of nature reserves and forests  
- counter-part of various development projects, incl. SMRP

Savings & Credit scheme: DARD is not directly involved in S/C; however as member of HEPA and 327 program it supports or advises loan schemes. DARD has also some influence on VBP and VBA as member of an advisory council at the PC. Mr. Binh pointed out that DANIDA has proposed to allocate USD 1,351,000 for a rural credit fund with DARD by January ’97; the money should be handled by VBA to give farmers medium and long term loans; interest rates are less important to farmers according to Mr. Binh’s experience.

Recommendations: The Project should continue to meet with DARD officials on a regular basis to co-ordinate activities and exchange ideas. In particular, through DARD the Project may be able to take a more active role in the planning of HEPA and 327 Programs’ credit policies.

Department of Finance (DoF - Dak Lak)

Sources of information: Ms. Lien, Vice Director of DoF - Dak Lak

Established in: 1975

Legal status: Ministry of Finance

Funding: Ministry of Finance

Organizational structure: 1 Director + 2 Vice Directors; 7 Bureau’s: budget, administration & financial affairs, pricing, state property management, financial supervision, administration/organization, financial staff school; District offices

Objectives: Management of public monies

Activities:  
- accounting  
- financial supervision of other departments  
- partner of rural development fund

Recommendations: The Project should further investigate DoF’s role in the recently created Rural Development Fund in order to decide on future possibilities of co-operation.

Department of Labour, Invalids and Social Affairs (DoLISA - Dak Lak)

Sources of information: Mr. Linh, Director of DoLISA - Dak Lak

Established in: 1975

Legal status: Ministry of Labour, Invalids and Social Affairs

Funding: MoLISA; private, business and overseas donors.
Department of Land Management (DoLM - Dak Lak)

Organizational structure:
1 Director + 2 Vice Directors; 5 bureaus; 4 centers; 17 district offices. Member of provincial and district poverty alleviation steering committee.

Objectives:
Services to the jobless, elderly, orphans, invalids and other disadvantaged groups.

Activities:
- daily business of social services
- hunger eradication and poverty alleviation program
- job creation program (120 Program)

Savings & Credit scheme:
120 program and hunger eradication and poverty alleviation programs operate partly as loan and partly as grant scheme. Loans at or below 1% interest per month.

Recommendations:
The Project should discuss possible co-operation with DoLISA 120 and HEPA programs and how to best inform the target group about these programs in order to facilitate fair access to program funds.

Sources of information:
- Mr. Trung, Vice Director of DoLM, Dak Lak
- Mr. Hien, Head of Administration, DoLM - Dak Lak

Established in:
1975

Legal status:
Ministry of Land Management

Funding:
Ministry of Land Management

DANIDA: 40,000 USD for soil testing laboratory

Department of Planning & Investment (DPI - Dak Lak)

Organizational structure:
1 Director & 2 Vice Directors. 5 Bureaus: Administration, Land registration, Surveys & mapping, Land planning, Inspection.

2 Centers: Land documents; Survey & mapping.

District offices

Objectives:
Land use planning; Land allocation; Land registration

Activities:
- land surveys and soil tests
- mapping
- land use plan development
- issuing land titles
- advisor to 327 steering committee

Recommendations:
1. The Project should consider to approach DoLM for exchange of information on land use planning, also with regard to the implementation of 327 program.

2. The Project should lobby DoLM to accelerate the process of land title issuing to the Project’s target group as one of the major pre-requisites for a savings and credit scheme.

Sources of information:
Established in:
1996 (Department of Foreign Economic Relations merged with Planning Committee)

Legal status:
Ministry of Planning and Investment

Funding:
State Budget
Organizational structure:

1 Director + 2 Vice Directors; 7 Bureaus with 40 staff: administration, general, economics, socio-cultural, foreign economics, business planning, project evaluation; District offices with 3 - 7 staff each.

Objectives:

Advice Provincial People’s Committee on planning and investment

Activities:

- Collect data
- Prepare plans

Recommendations:

The Project should propose a dialogue with the DPI to discuss planning strategies that address natural resource management issues.

Hunger Eradication and Poverty Alleviation Program (HEPA - Dak Lak)

Sources of information:

- Mr. Binh, DARD - Dak Lak
- Mr. Linh, DoLISA - Dak Lak
- PC Dak Lak – report on HEPA program (25.12.96)

Established in:

1995

Legal status:

Central government program attached to MoLISA

Funding:

Investment in Dak Lak since 1995:

Central government: 42 billion VND

Dak Lak PC: 9.2 billion VND

Organizational structure:

PC, DoLISA, DARD, DPI and VBP form steering committees on provincial and district level which are also in charge of Sedentarisation & Fixed Cultivation and 120 programs. District PC chairman decides on loan application forwarded by commune PC. Financial side is managed by VBP.

Objectives:

Hunger eradication and poverty alleviation

Activities:

- identification of "hungry" and "poor" households
- provide low-interest loans to the poor
- support land allocation process

Savings & Credit scheme:

Between January 1995 and September 1996 25,115 households received loans (7.5% to "hungry" and 23.9% to "poor" families). In Lak district only one commune (Bong Krang) has received loans to the total value of 153 million VND. Average loan size: 1.67 million VND per family.

Interest rates: 0.9 - 1.2 % per month

Loan duration: 1-2 years ("hunger" loan); 3-5 years ("poverty" loan)

Strengths:

- large budget
- extensive organizational infrastructure

Weaknesses:

- loan disbursement delays
- "red tape"
- few "hungry" households are reached

Opportunities:

- existing organizational infrastructure and budget is potential for future interventions

Threats:

- low interest rates may impact negatively on other schemes with non-subsidized rates

Recommendations:

1. The Project should try to become a "consultant" to the HEPA steering committees in order to assist with the financing of NRM-related measures.

2. The Project could consider to use HEPA’s infrastructure to direct own funds towards NRM-related loan applications.
Subdepartment for Sedentarisation, Fixed Cultivation and New Economic Zones

Sources of information: Mr. Hung, Vice Director of the Subdepartment in Dak Lak

Established in: 1996

Legal status: MARD (merger of Department of Migration and New Economic Zone Development and Committee for Ethnic Groups, Sedentarisation and Fixed Cultivation)

Funding: MARD and Provincial PC

Organizational structure: The Subdepartment works in close relationship with district bureaus of Agriculture and Rural Development and is under the directive of provincial DARD and national Department of Sedentarisation, Fixed Cultivation and NEZ.

96 staff in Dak Lak province (64 in rural areas)

Objectives: Implementation of government programs regarding areas of migrant settlements

Activities:
- advice provincial PC, DPI and the DARD on planning for selected areas
- advice DARD’s extension service for selected areas
- implement government policies in selected areas
- study models of poverty alleviation

Savings & Credit scheme: As member of 327 program and Hunger Eradication and Poverty Alleviation steering committees the subdepartment can give recommendations to PC who should receive loans.

Recommendations: Since the subdepartment is not operating in the Project area (in order to avoid double-serving) the Project should regularly inform the subdepartment about its plans and activities.

Commission for Ethnic Minorities and Mountainous Areas (CEMMA)

Sources of information:
- Ms. Huyen, CEMMA - Department of International Co-operation, Hanoi
- Ms. Chuc, CEMMA, Hanoi

Established in: 1993 as independent ministry

Legal status: Ministry

Funding: State budget and ODA (e.g. UN)

Organizational structure: Minister - 2 deputy ministers - 5 advisers - 6 departments - provincial offices - district offices in some areas.

Objectives: Implement the government’s policy regarding ethnic minorities and mountainous areas.

Activities:
- savings and credit schemes
- community hall subsidies (nation-wide 500 p.a.)

Savings & Credit scheme: UNICEF funded a programme that is implemented with WU to provide S/C facilities to ethnic minority women.

UNDP funded a programme (see: UNDP)

Strengths:
- access to state budget and international donor
- links to WU

Weaknesses:
- little capacity for implementation

Opportunities:
- financial support for community projects in tribal areas

Threats:
- politically biased

Recommendations:
1. The Project should consider to lobby CEMMA to release some funds for
the Project area to construct community halls.

2. The Project should inform CEMMA about the progress of its work and the strategies it developed with regard to ethnic minorities.

Program 327 (Dak Lak)

Sources of information: Mr. Tuan, 327 Program Co-ordinator (Dak Lak)

Established in: 1992; revised in 1995

Legal status: Central Government Program

Funding: State Budget, Official Development Aid, Provincial People’s Council

Organizational structure: Central Steering Committee advises Provincial Steering Committee, chaired by vice chairman of provincial People’s Committee, other members: DARD, DoF, DoLM and DPI; District Management Boards are organized like provincial steering committees. Implementation by Forest Enterprises.

Objectives: Protection of forests and new forest plantations

Activities:
- identification of suitable areas for protection and reforestation
- issuing of land use rights (251,681 ha forest land to date, 76% of which to ethnic minorities)
- grants and loans to program participants

Savings & Credit scheme: 1.7 million VND program cost per ha reforestation of which 300,000-400,000 VND are allocated to participants as cash payments and remainder in kind (trees, land clearing). Participants have contracts of 30 - 50 years duration. Agriculture in the reforested areas can be done for approx. 8 - 10 years. A credit component for agricultural inputs is offered and handled directly by provincial steering committee and district management board. Land allocation to clusters of 15-20 families (200-300 ha).

30% of families in Dak Phoi participate. 14 families in 6 groups received 493 ha forest land.

Strengths: source of cash income for rural poor

Weaknesses: grants are paid half-yearly with no savings incentives

Opportunities: huge potential in terms of capital and land allocation

Threats: land allocation and grants and credit program may not have sustainable impact on the poor nor on natural resources because of illegal land sales and continuing shifting cultivation

Recommendations:
1. Land allocation and registration is the most important pre-requisite for a savings and credit scheme to be able to operate. The Project should consider lobbying the 327 Program to accelerate its land allocation program.
2. The Project should streamline future subsidy and loan interventions with the work of 327 program (e.g. on-farm trials for agro-silviculture, agricultural loans for 327 participants, etc.)

4.2 Financial institutions

People’s Credit Funds (PCF)

Sources of information: Microfinance in Viet Nam (UNDP)

Established in: 1993

Legal status: Government Decree 390/TTG
**Funding:**
Capital borrowed from State Bank of Vietnam (SBV), VBA and Central Credit Fund.

International Banks (WB, ADB)

Savings mobilization

Development International Desjardins (technical assistance)

**Organizational structure:**
Based on the caisse populaire credit union system in Quebec, Canada. 800 PCFs in 44 provinces with 300,000 members (more than 50% women) and an apex central people’s credit fund.

SBV and provincial PC propose areas for PCF initiation, invite people there to form groups and apply for permits to run a PCF.

Assembly of members appoint a Board of Control and elect the administration council which elects a Board of Directors. Small loan applications are decided by the Board of Directors; larger ones by the Administration council which also sets the interest rates, wages for employees and general rules.

**Objectives:**
Safe savings deposits and needs-based credits for shareholders (middle income class)

**Activities:**
- formation of local credit groups
- sale of shares
- credit management
- savings mobilization

**Savings & Credit scheme:**

Groups have up to 1000 shareholders each who have to buy a share at VND 50,000 before they can access loans (interest rate 2.2 - 2.5%); several savings products are open to anyone (interest on deposits around 1.5%). Savings are insured with State Insurance Bao Viet. No collateral needed for loans below VND 1 million. Groups are quite autonomous with regard to credit and savings products offered. Max. loan amount is 10% of group’s share capital.

In Dak Lak province: 17 PCFs (BMT:3; Krong Pack:6; Krong Buk:2; Eaka:2; Krong Ana:1; Cu Yut:1; Buon Don:1; Dak Mil:1) with total 7000 members; 4 PCFs run by Ede people, others by Kinh; approx. 15 billion VND capital (4 billion member contributions + 10 billion loan from SBV at 1.2% per month); 5% of member contributions are reserved.

**Strengths:**
- successful savings mobilization
- flexible credit lines with little “red tape”
- decentralized organizational structure
- financially and organizationally sustainable

**Weaknesses:**
- not suitable for the poor
- staff lack banking expertise

**Opportunities:**
- PCFs could be adjusted to also serve the poor

**Threats:**
- PCFs may exclude the poor from credit funds

**Recommendations:**
The PCF system is presently not suitable for the Project’s target group; and there are no PCFs in Lak district at the moment. However, PCF appears to be too successful to be ignored. Therefore, in the long-run the Project should consider to either initiate a PCF in the target area or to link the target group with an existing PCF. Either way the Project may have to sponsor (i.e. pay or lend to cover the entry share price) selected members of the target group into the PCF. Selected members could be e.g. successful farmers who need access to long-term loans.

**Vietnam Bank for the Poor (VBP - Dak Lak)**

**Sources of information:**
- Microfinance in Viet Nam (UNDP)
- Catching Up (UN)


- Mr. An, Chief of Bureau, VBP - Dak Lak province
- Mr. Quoc, Vice Chairman of PC, Lak District
- Mr. Y Bang, Chairman of PC, Dak Phoi commune
- Brief Overview of Rural Finance in Vietnam (1996)

**Established in:**
August 1995 (officially), early 1996 (operation)

**Legal status:**
Prime Minister decree 525/TTG
(part of the government’s Hunger Eradication and Poverty Alleviation program)

**Funding:**
State and Provincial Budget; mobilized savings and donations

**Organizational structure:**
Independent financial institution on national, provincial and district level. Agency agreement with VBA to make use of its infrastructure and staff.

In Dak Lak one of the VBA vice directors acts as director of VBP on provincial level; this system is duplicated on district level where VBP works with the Representative Committee of Administration. Commune level: Committees for Hunger Eradication and Poverty Alleviation and People’s Committee handle VBP business.

**Objectives:**
Poverty alleviation through not-for-profit credit supply

**Activities:**
- Identification of target households
- Facilitating formation of solidarity groups
- Credit supply to groups and loan monitoring

**Savings & Credit scheme:**
Solidarity groups of max. 10 households form in villages (approved by PC based on list of the poor); members elect head of group and apply for loans based on business plans. Committee for Hunger Eradication and Poverty Alleviation (People’s Committee, Farmers’ Union, Women’s Union and VBP) forwards the applications to Commune People’s Committee which screens and forwards them to the district VBP. VBP forwards the business plans to the Representative Committee of Administration (chaired by District People’s Committee vice chairperson) which gives approval. Loan disbursement and repayment is handled by VBP or PC staff. Head of group is responsible for proper repayments of his group members.

Loan conditions: 0.8 - 1.2 % interest/month; no collateral; max. loan/household VND 2.5 million; max. 3 years repayment period.

Dak Lak province: 34,000 households received total of 44 billion VND, Lak district: 2000 loans with average 2 million VND were disbursed in 1996 mainly for rice and pig production; all applicants are male. Dak Phoi commune: 250 loans (total VND 198 million) to 141 households in 28 groups were disbursed from 1995-1996; of 129 households classified "suffering hunger" 21 applied for loans and none received credit.

**Strengths:**
- extensive out-reach
- government support

**Weaknesses:**
- negative real interest rates jeopardize sustainability of VBP
- loan monitoring not efficient (some loans are mis-invested, e.g. for coffee or luxury items, or lent-on at higher interest)
- the poorest are not reached because the better-off and more powerful are attracted to the low-interest loans
- political influence on selection of borrowers
- no savings incentives

**Opportunities:**
- un-tapped capital available for credit

**Threats:**
- VBP is "crowding out" smaller schemes with more realistic interest rates (e.g. UNICEF, SCF, OXFAM)
- VBA staff who handle VBP business are in a conflict of interest
- ample of space for manipulation and corruption (e.g. in selecting the borrowers; informal on-lending of loans; etc.)

**Recommendations:**
VBP is highly controversial. Recent publications and evaluations in the field of micro-financing in Vietnam indicate clearly that VPB is perceived as a non-sustainable institution that poses a threat to other S/C schemes. It should be discussed with commune and district PC, DARD and VBP how extension and credit services can be streamlined so that borrowers receive timely and suitable loans plus services.
Vietnam Bank of Agriculture (VBA - Dak Lak)

Sources of information:  
- Catching Up (UN)  
- Microfinance in Viet Nam (UNDP)  
- Mr. Thinh, Vice Director VBA - Dak Lak province  
- Brief Overview of Rural Finance in Vietnam (1996)

Established in:  
1988 (officially), 1990 (operation)

Legal status:  
attached to State Bank of Vietnam

Funding:  
State Bank / Ministry of Finance

Savings deposits

Organizational structure:  
National Bank for Agriculture and Rural Development in Hanoi with Provincial Offices. 21,000 employees in 2000 branches and outlets. Dak Lak VBA has a board of five directors (including the director of VBP) and seven bureaus (administration, planning, credit, personnel, accounting, internal control, computing); 38 district branches which are also used by VBP.

Objectives:  
Support development of rural areas

Activities:  
- Direct and indirect lending (e.g. through WU and Farmers Associations)  
- Savings management  
- Mobile bank units  
- Support VBP

Savings & Credit scheme:  
7 million households received loans from VBA in 1995 with an average loan size of USD 118. VBA covers 90% of Vietnam’s formal rural financing.

Credit lines available (Dak Lak): short-term loan (max one year) at 1.25% interest per month; medium (1 - 5 years) and long-term (more than 5 years) loans at 1.35%. Savings deposits: 1% interest/month.

Loans for urban clients carry lower interest rates than those for rural clients.

Strengths:  
- professional staff  
- extensive formal outreach  
- trusted by clients  
- supported by government  
- large percentage of lending to private households  
- over 95% loan repayment

Weaknesses:  
- cannot compete with informal lenders (family, friends, moneylenders) which provided more than 70% of loans in 1992/93 although VBA’s interest rates are much lower than those provided by moneylenders  
- inadequate spread of 0.35% between lending and savings rates  
- clients cannot access loans without substantial collateral  
- "red tape” and travel to district branches disadvantages low-income rural clients  
- mostly short-term loans  
- little savings mobilization

Opportunities:  

Threats:  
- VBA depends on State Bank policies (e.g. on interest rates)

Recommendations:  
The Project should consider to negotiate with VBA to access loan capital for a S/C scheme implemented by an intermediary. The Project may have to deposit a guarantee fund with VBA.

4.3 Mass organisations of Vietnam

Farmers’ Association (FA - Dak Lak)

Established in:  
1975

Legal status:  
Government approved mass organization
Women's Union (WU - Dak Lak)

**Funding:** Central and local government

**Organizational structure:** Offices on national, provincial and district level. Farmer Associations on commune level closely linked to PC. In Lak district 60% of farmers are members. There the office has 3 permanent staff and 25 committee members; the chairman is M'nong.

**Objectives:** Support implementation of government’s farming policies

**Activities:**
- advisor to various steering committees (327 Program, HEPA)
- farming projects (e.g. cotton growing)
- mobilize savings for PCF in rural areas
- organize farmers and special events
- reconciliatory intermediary in land disputes between farmers
- intermediary for VBP and co-operation with DARD (extension service)

**Savings & Credit scheme:** Some FA groups have saved money to help members in emergencies. The influence of FA on the allocation of 327 Program funds is small although their members are affected by the Program.

FA is an advisory member of the HEPA steering committee. FA helps farmers to form groups to access VBP loans. The national FA was given 40 billion VND from VBP funds to lend to farmer groups. In Dak Lak 700 million VND were loaned to groups of poor farmers. Repayments are also monitored by FA staff who then hand over the money to VBP.

Since May 1996, FA is also member of the government-initiated Savings mobilization committees on district level. They call upon better-off families to donate or deposit savings with PCFs, VBP or VBA. 5% of the mobilized funds are paid as incentives to the mobilisers.

**Sources of information:** Mr. Tai, Chairman of Farmers’ Association - Dak Lak

**Recommendations:** The Project should consider to cooperate with the Farmers’ Association in a similar manner as it would be advisable for the Women’s Union.

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Women's Union (WU - Dak Lak)

**Sources of information:**
- Ms. Nguyen Thi Thuan, WU chairperson - Dak Lak province
- Microfinance in Viet Nam (UNDP)
- Evaluation of Credit Mechanisms and Impact (UNICEF)
- Mrs. E. Furniss (UNICEF, Hanoi)

**Established in:** 1975; since 1987 involved in Self-Help Programs

**Legal status:** Government approved mass organization

**Funding:** Various donors and government programs

**Organizational structure:** Cadres on all administrative levels: National - Provincial - District - Commune - Hamlet. Approx. 11 million members in Vietnam.

**Objectives:**
- Assist in implementation of government programs
- Organize women for self-help

**Activities:**
- more than 50,000 women savings groups in Vietnam
- more than 12 international partners in S/C schemes (e.g. CARE, UNICEF, SCF)
- collaboration with VBA, VBP, 120 program, etc.
- education for women

**Savings & Credit scheme:** WU volunteers or staff mobilize women on hamlet and commune level to form solidarity groups. Depending on the WU partner organization’s credit policy these groups either start with savings mobilization or directly gain access to loans; a number of schemes combines compulsory savings with loans.

Since 1995 Dak Lak WU started 21 S/C groups with UNICEF in five communes of Cumgar district for poor mothers of various ethnic groups. WU also handles some loans for the 120 program.
4.4 International organisations and projects

Afforestation in Lang Son and Ha Bac Provinces

Sources of information:
- Mr. Hubertus Kreienhorst
- Project in Brief (Afforestation...)  
- Project Feasibility Study (Afforestation..., 1994)

Established in:
November 1995

Legal status:
Co-operation between MARD (forestry) and KfW (Germany) with foreign adviser (GfA m.b.H. - Germany)

Funding:
KfW: 10 million DM; MARD: 1.629 million DM

Organizational structure:
National Project Steering Committee (MARD + Provincial People’s Committee) - Project Director + Foreign Advisor - Provincial Project Director - District Project Director - Field staff

Objectives:
Reforestation and sustainable forest management on about 12,000 ha of classified forest land in Lang Son and Ha Bac provinces

Activities:
- participatory micro land use planning
- forest tree planting
- savings scheme for land-owners
- fruit tree credit scheme (planned 1/98)
- livestock improvement scheme (planned 9/97)

Savings & Credit scheme:
Since MARD, MPI and KfW could not agree on the loan conditions for a fruit tree planting programme there is presently no credit scheme supported by the project. Land owners who are willing to plant forest trees on specified areas receive 200 DM per ha (max. 2 ha per owner) and free physical inputs. The money is paid on a savings account of which the owner is allowed to withdraw 10% of principal + all interest once a year in April (the savings would last at least eight years). The trees belong to the land owner.

Strengths:
- very clear project structure
- considerable financial input
- savings component attractive to land owners and promotes the feeling of forest ownership/responsibility

Weaknesses:
- little flexibility in the approach

Opportunities:
- the method “plant a tree & save” is innovative

Threats:
- the approach may not be suitable in remote areas with fewer human and capital resources.

Recommendations:
The Project should consider a visit to the Afforestation project area to learn more about micro land use planning and the method “plant a tree & save”. Program representatives of Dak Lak province should also be invited to come along.

Strengths:
- Very extensive outreach in rural areas
- Many years of experience with S/C schemes

Weaknesses:
- Credit management skills are lacking on district and commune level
- Some WU staff are politically motivated
- Dependent on external funding

Opportunities:
- WU is the “door” to women in rural areas

Threats:
- WU seems to have an over-load of S/C scheme obligations

Recommendations:
The Project should consider to contract WU to implement a S/C scheme in the Lak district which specifically addresses the target group’s needs and the Project’s objectives, i.e. combines NRM, educational, financial and health issues.
Sources of information: Paula Kelly, manager of CARE South Vietnam - HCMC office
Microfinance in Viet Nam (UNDP, 1996)

Established in: since 1991 in Vietnam

Legal status: International NGO

Funding: CARE Australia

Organizational structure: One office in Hanoi and one in HCMC with several expatriates and local staff. Mr. Brian Doolan is Country Director of Care Int. in Vietnam.

Objectives: Improve living standards of the disadvantaged

Activities:
- Micro-enterprise development
- Savings and credit schemes
- Community development
- Institution strengthening
- Emergency and health projects (Dak Lak is considered for CARE’s malaria program)

Savings & Credit scheme: CARE stresses the importance of proper training and business planning in its S/C schemes. As a local partner it usually works with Women’s Union and their women’s savings groups (10-15 members per group). WU staff on district level generally has a good understanding of S/C but on commune-level a lot of training is needed. Marketing is one area where they have to learn much. Experience with ethnic minorities in S/C are encouraging, however they generally need more training and support to start with. Compulsory savings have been successful. Interest rates for loans are higher than with banks but people accept this because they can get the loan when it is needed. Also, people lend their own money at much higher rates (approx. 3% per month). No collateral are needed. For credit funds USD 40,000 is allocated per selected disadvantaged district. In some projects this capital is withdrawn after a certain period.

Business planning is essential for a good S/C scheme. Most women groups apply always for the same activities and the same loan amount. Therefore, CARE encourages “new” ideas without compromising on economics: low risk, early pay-back, favorable cash-flow.

CARE developed their own M+E system for S/C schemes and publishes business planning manuals.

Recommendations: The Project should consider to cooperate with CARE in developing and implementing a NRM-based savings and credit scheme in the target area. Ms. Kelly already expressed interest. In particular, the business planning aspect should be of interest to the Project.
environmental conservation projects

Savings & Credit scheme: Presently two S/C schemes are on-going in co-operation with Vietnam Women’s Union. In both programs a guarantee fund of USD 50,000 was deposited with either the Vietnam Bank of Agriculture or the Vietnam Bank for the Poor to reduce their risk in lending to target women groups initiated and advised by the WU. More than 16,000 loans have been facilitated. A detail description of the AusAid funded “Vietnam Family Planning Project” is available: program components include family planning, community health, human resource development, information / education / communication materials, agricultural extension and household economic development (women savings groups for individual and community loans: agriculture, medical supplies, production input supplies)

Strengths:
- extensive experience with women’s health, food security and income generation projects in rural Vietnam.
- partner of WU and YU as well as a number of international donor organizations.
- experience as an intermediary in Loan Plus Services schemes.
- professional staff on national level

Weaknesses:
- financial sustainability depends on external funding of projects
- integrated community development measures in remote areas require a “broad spread” of personnel.

Opportunities:
- existing links of PDI to local organizations could be most valuable to the Project.
- PDI’s experience and knowledge in terms of integrated community development and environmental conservation could be very compatible with the Project’s objectives.

Threats:
- PDI personnel may spread themselves too thin in terms of qualifications and project areas.

Recommendations: The Project should consider to hire the services of PDI to investigate the potential linkages between health and NRM issues in Dak Phoi commune. PDI should give recommendations how microfinancing could impact on health related measures that would directly improve the management of natural resource or vice versa.

Save the Children Fund (UK)

Sources of information:
- Ms. Trinh Thu Huong
- Project Profile: North Central Programme - Savings and Credit Programme (SCF, 1996)
- The Impact of Credit and Savings (SCF, 1996)

Established in: 1989 in Vietnam

Legal status: International NGO

Funding: Save the Children Fund United Kingdom of Great Britain:
100,000 British Pounds for 1996/97

Organizational structure:
Head Office in Hanoi; programme implementation with District Women’s Union; Commune Management Boards; Women Savings Groups in villages.

Objectives: Improve the quality of life of poor women and their families.

Activities:
- mangrove protection scheme (flood mitigation)
- savings and credit scheme
- educational stipends for children of poor families

Savings & Credit scheme: 5135 families supported in three districts of North Central Vietnam since 1993. 3188 children received educational stipends financed from interest earnings.

5 - 6 women form a solidarity group which meets monthly; compulsory monthly savings of min. 5000 VND per member; loan applications are discussed in solidarity groups and forwarded to Commune Management Board (Women’s Union representatives) who decides on loan disbursement; monitoring by District Women’s Union and SCF staff.
Loan capital provided by SCF for income generating activities and group savings for emergencies; loan ceiling of 1 million VND per borrower repaid at the end of the loan period (first loan may be only 500,000 VND); max. loan period 12 months; interest 2 % per month paid monthly after one or two months grace period; interest earnings are used for inflation fund (1% per month), administration costs (0.5% per month), risk fund (0.3% per month) and educational stipends (0.2% per month).

Additional services: technical training and savings and credit awareness building.

SCF withdraws 50% of capital after three years.

Strengths:
- low cost and easy-access S/C scheme
- positive impact on poor women and their families

Weaknesses:
- few women graduate to formal financial institutions
- limited outreach because of small budget

Opportunities:
- SCF has valuable experience with ethnic minorities
- SCF has close ties with Women’s Union

Threats:
- women may become dependent on the support of SCF
- investment loans for women cause greater work-load

Recommendations:
1. The Project should consider hiring the services of SCF to research children’s and women’s problems in the project area and develop strategies how these problems can be addressed in the context of natural resource management. This should be done in collaboration with PDI.
2. The Project can learn from SCF’s experience with shifting cultivators: land ownership and permanent agriculture are pre-requisites for successful savings and credit schemes. Furthermore, there is a need for savings and credit awareness building as well as technical training with ethnic minorities.

United National Development Programme (UNDP)

Sources of information:
- Mr. Dzung, UNDP National Programme Officer, Hanoi
- UNDP and Microfinance: Summary of Activities 1996
- Mr. Servaas, UNDP adviser, Dak Lak province

Established in: 1989 (Vietnam)
Legal status: co-operation with Committee for Ethnic Minorities and Mountainous Areas (CEMMA) and 4 provincial People’s Councils (including Dak Lak)
Funding: United Nations
Organizational structure: UNDP expatriate advisors have been sent to four provinces where they work with a government department (Sub-department of Sedentarisation and Fixed Cultivation in Dak Lak)
Objectives: Poverty elimination amongst ethnic minorities
Activities:
- Strengthen capacities of ethnic minorities (e.g. micro-financing for food security projects).
- Introduce participatory planning to existing government structures (People’s Councils).
- Improve teacher training.

Savings & Credit scheme:
PRA is initiated in villages of a selected commune; villagers plan a savings and credit scheme together with a consultant; UNDP, provincial People’s Council and villagers contribute to the credit fund; loan conditions are developed by villagers; loans are managed and monitored by solidarity groups; UNDP monitors programme; Provincial, District and Village Development Boards (representatives of Women Union, Youth Union, People’s Council and target group) give input to planning.

In Dak Lak province: 21,000 USD available for S/C scheme in four communes.

Strengths:
- professional staff
- sustainable funding
Opportunities:

- Village S&C schemes could be entry point for natural resource management programme

Recommendations:

Project should initiate regular meetings with UNDP staff on provincial and national level to exchange experiences and co-ordinate measures.

UNICEF

Sources of information:

- Mrs. E.R. Furniss, Senior Project Officer
- Evaluation of credit mechanisms and impact (UNICEF 1996)

Established in: 1989 (Vietnam)

Legal status: Government of Vietnam and United Nations

Funding: United Nations

Organizational structure: Head office in Hanoi with expatriate advisors and local support staff. Regional cooperation with WU.

Objectives: Implement "Facts for Life" programme to improve health and education of the poor.

Activities:

- health education
- communication training
- improving children’s school attendance
- savings and credit schemes

Savings & Credit schemes:

In co-operation with Women’s Union solidarity groups are initiated in selected communes (presently in 25 provinces). Each commune receives USD 6000 as credit capital for 200 women members. Loan conditions: 12 months maximum period: first loan = VND 400,000; second loan = 500,000; third loan = 600,000; fourth loan = 600,000; interest rate 2% per month. Repayments: first and second month = interest only; third to last month = even instalments interest + principal.

Interest earnings are used: 30% for inflation fund; 40% for incentives; 20% for administration; 10% for risk/emergency fund.

Savings are compulsory: 5% of loan amount at loan disbursement; 2000 - 5000 VND/month/member; additional voluntary savings possible; savings interest rate 1.5 - 2%; savings are managed by groups and lent directly to members at usually 2 - 3.5%

In Dak Lak: S/C scheme with WU in Cumgar district

Strengths:

- positive impact amongst target group
- savings mobilization up to 60% of loan capital

Weaknesses:

- Ethnic minorities are generally a greater loan risk since they show less initiative for productive investments and are reluctant to borrow on interest.
- Women’s Union’s qualities as partner vary between provinces
- Women are generally reluctant to use their group emergency fund to help group members in dire needs
- Selection of target groups is handled by WU who do not always adhere to the selection criteria

Opportunities:

- wealth of experience with rural microfinance, also in relation to ethnic minorities, health and education.

Threats:

- governmental interest rate policy is likely to destroy UNICEF’s and other NGO’s attempts to introduce the poor to sustainable and realistic credit pricing.
- WU has a huge impact on the success of the programme but is also politically motivated

Recommendations:

1. The Project should consider to co-operate with UNICEF/WU to develop a strategy how to address health issues and S&C needs for ethnic minority shifting cultivators (in Lak district e.g.)
2. In any future S/C intervention by the Project it should be taken into
Vietnam - Sweden Mountain Rural Development Programme (MRDP)

Sources of information: Mr. Bui Dinh Toai, MRDP Extension Co-ordinator - Hanoi

Established in: 1991 (Vietnam Sweden Forestry Co-operation Programme) 1996 (Mountain Rural Development Programme)

Legal status: Co-operation of SIDA with the MARD (Forestry) in North Vietnam

Funding: Swedish government grant and MARD. 1991 - 95: 4 billion VND for credit scheme 1996 - 2000: 24 billion VND allocated for credit scheme

Organizational structure: Central Steering Committee - Provincial Management Boards (in five northern provinces) - District Management Boards - Village Management Boards (village-elected representatives and departmental extension staff); every Management Board has a Credit Management Group; 10 - 15 families form a trust group; several trust groups form a Village Credit Management Group.

Objectives: Re-establishment of green productive uplands and maintenance of ecological, social and cultural diversity. Land should be managed in a sustainable way by healthy farmers who have secure land tenure.

Activities:
- facilitate participatory land use planning and land allocation
- facilitate a demand-driven and cost-effective agriculture / forestry extension system
- facilitate a viable rural finance system
- develop methods / policies to ensure gender balance
- build up market information networks and promoting interesting business ideas
- strengthen capacity of involved organizations
- strengthen MARD for dissemination of information and for providing a communication channel from farm level to the ministry

Savings & Credit scheme: Co-operation with VAB as intermediary was difficult because of high administrative costs and access problems for the target group. The Project started its own S/C scheme making use of village trust groups and village credit management groups. Capital is provided by the Project. Later village credit management groups mobilize savings of members. 50% of interest earnings are used to pay into a risk fund, cover administrative costs and salaries to credit officers. Annual village development plans (based on PRA) are the basis for credit planning. All plans are collected at the Project Steering Committee which disburses credit funds to village groups or directly to families. Trust groups apply for loans with the village groups who have the power of loan application decision. Loan ceiling is 2 million VND per family; savings are compulsory (min. 3000 VND) at 1% interest per month; repayment of loan interest is monthly and principal is paid at the end of the loan period.

The scheme operates quite successfully (80-90% repayment rate) and is appreciated by the target group because it is easy to access and processes application quickly. Some groups started voluntary emergency loan funds. In future the Project plans to strengthen village groups to enable them to fully self-organize the S&C scheme. Another option is to link the groups with commercial banks (e.g. credit co-operatives, People's Credit Fund, Bank for the Poor).

Strengths:
- long experience with S/C scheme in combination with natural resource management and ethnic minorities

Weaknesses:
- so far the MRDP plays a very important role in maintaining the S/C scheme
Interview: Ingrid Knutson, CIDA Development Co-operation Advisor:

CIDA’s emphasis in Vietnam is to support the formation of a sustainable rural financial sector. It closely co-operates with Development International Desjardins (DID) which gives technical assistance to PCF movement. CIDA also has links to GTZ regarding PCF support. Ms. Knutson advised to contact the following persons for further information regarding microfinancing in Vietnam: Andre Hotte and Donald Caissy (DID), Bernard Kervyn (consultant, HCMC); (when I phoned Bernard Kervyn he further recommended Dr. Tri (Center for Country Health - Long An - 072/826228) as resource person regarding ethnic minorities.

Interview: Mr. Thang, World Bank - Hanoi

Only little information on World Bank’s involvement in rural S/C schemes could be obtained from Mr. Thang (Operations Officer, Hanoi). WB has provided USD 1.3 billion credit to the State Bank of Vietnam since 1995. It is involved in modernizing the financial sector of Vietnam and finances various infrastructure and other development projects. As far as the Project is concerned no opportunities of co-operation with the World Bank can be seen at present.

Discussion with Mr. Landolt, GTZ/VINA Cafe, Dak Lak province

The author presented the above strategy for resource-poor families. We talked about the role of subsidies and subsidized credit. Mr. Landolt concluded that subsidies should mainly be used for non-productive investments, e.g. schools, health centers, etc. We further discussed the People’s Credit Funds which Mr. Landolt would be interested to initiate in his target area. Information gathered by both parties regarding microfinance was exchanged. Further exchanges are recommended to SMRP.

5. POSSIBILITIES OF MICROFINANCING NATURAL RESOURCE MANAGEMENT IN THE DAK PHOI COMMUNE

5.1 Recommended instruments and interventions

As discussed earlier four main microfinance instruments are available to the Project: subsidies, savings, credit and insurances.

The Project is not in a position to organize a S/C or insurance scheme. However it may find ways of supporting directly or indirectly microfinance measures that will contribute to the Project’s overall objectives.

In particular the following interventions can be identified:

1. Initiate and subsidize a health insurance scheme, in particular for those who have been allocated land recently in order to counteract the phenomenon of land sales due to health emergencies.
2. Subsidize savings accounts for participants in rehabilitation and conservation measures (model "plant a tree & save")
3. Subsidize or facilitate loans for clearing of agricultural land (esp. labour-poor families)
4. Subsidize veterinary services (e.g. vaccination).
5. Subsidize on-farm trials to introduce technical innovations
6. Subsidize agricultural and NRM demonstration plots on farms
7. Subsidize early innovators, i.e. those who already tried out innovations (e.g. fertilizers, pesticides, hybrid-seed/animals) on their own.
8. Subsidize the formation of grain storage banks
9. Support the introduction of a savings and credit scheme through an intermediary
10. Subsidize farmer-to-farmer training

Opportunities:
- MRDP’s experiences could be useful to the Project

Threats:
- MRDP’s S/C scheme may not prove sustainable after project withdrawal

Recommendations:
1. The Project should consider a field visit to MRDP project area and study in detail the linkages of natural resource management, capacity strengthening of ethnic minorities and S/C schemes.
2. In particular the Project should consider MRDP’s experience that a S/C scheme only works for shifting cultivators after they have settled to do permanent agriculture.
5.2 Potential partner organisations and intermediaries

The Project should consider to apply primarily the Broker model in its attempt to link credit and savings instruments to natural resource management. The selected partner financial institution(s) should be committed to the best practices and principles of micro-financing and combine the following models in their approach: Board-driven Solidarity groups with the option to evolve into either Revolving Credit and Savings Associations or Credit Co-operatives.

Based on the above institutional analysis the following potential partner organizations and intermediaries have been identified:

1. VBA as the main financial institution. VBP as a second option.
2. Existing government programs as pseudo-financial institutions (327, 120, HEPA programs)
3. WU and FA as the most suitable intermediaries between financial institutions and the target group.
4. International organizations (esp. UNICEF and CARE) as support for WU and FA in the implementation of S/C schemes
5. Government departments (esp. DARD) in their role as service providers

It would be the Project’s role to co-ordinate and support all of these institutions in such a way that the target group gets access to the available capital resources.

The following chart describes the proposed institutional landscape.

**Figure 5: Potential Project partners and intermediaries in the context of microfinancing natural resource management measures**

5.3 Loan Plus Services

The heart of any microfinance system is a sustainable savings and credit scheme. Loans alone, however, are not sufficient. There have to be supportive pre- and post-credit services, in particular when considering the Project’s target group (the same applies to the implementation of subsidies). These services are:

1. Support in the formation of credit groups
2. Support with the preparation of business plans and loan applications
3. Support with the monitoring of loan usage and repayment.
4. Training and extension services for particular agricultural activities
5. Support with the introduction of innovations
On one hand services should be demand-driven; on the other hand the Project's target group has very little experience with "modern" agricultural practices and services; thus most of these practices and services must be considered innovations for the target group. Considerable effort will be necessary to introduce the target group to these innovations.

Planning is another innovation that will have to be supported. The sample crop and livestock profiles listed in the annex are only guidelines for the preparation of individual business plans. It is essential to plan with and not for loan/subsidy applicants since they know their particular situation best. The agricultural profiles in the annex will give extension staff directions as to the potential productivity of labour, land and capital: e.g. green bean cultivation has a high labour productivity (Gross Margin per labour day) whereas maize production is a smaller risk (Benefit-cost ratio above 2).

The following charts outline the possible services in a loan and a subsidy scheme.

**Figure 6: Loan Plus Services for resource-poor rural households**

![Loan Plus Services for resource-poor rural households](image)

**Figure 7: Subsidies in NRM - Activity flow chart**

![Subsidies in NRM - Activity flow chart](image)
ANNEX

Annex 1: Terms of Reference

TERMS OF REFERENCE

for

Mr. Helmut Grossmann

hereinafter referred to as the Consultant

1. The Consultant will work in close relationship with the Mekong River Commission / GTZ (Vietnam), hereinafter referred to as the Project.
2. The Consultant will work in close relationship with a short-term consultant researching gender-specific questions in the target area. They are both obligated to co-ordinate their field work, final recommendations and presentations.
3. The Consultant will contact financial and private sector promoting organizations to gauge their potentials for co-operation with the Project.
4. The Consultant will research the Project’s target group’s specific needs as far as financial capital is considered by using a Farming Systems Research Approach.
5. The Consultant will develop, report and present one or more "Loan Plus Services" packages specifically based on the needs and resources of recommendation domains within the project area.
6. The Consultant will develop, report and present a proposed system of co-operation between the Project, the target group and identified organizations in order to implement the above "Loan Plus Services" packages.
7. The Consultant will develop, report and present a concept outlining the strategies, methods and instruments that can be used to develop and implement target-group-specific and sustainable Savings and Credit Schemes; these schemes should also address issues related to disadvantaged groups and natural resource management as encountered in the Mekong River catchment area.

8. The Consultant will prepare a "product line" (chronological processes involved) for the Project to document the proposed approach.

9. The Consultant will document all resources needed to elaborate strategies and their future implementation.

Annex 2:

Report of Field Visit to Dak Phoi commune (8. - 10.4.1997)

Purpose of the visit:

1. Meet Agriculture and Rural Development officers
2. Meet Agricultural extension staff
3. Meet Chairman of PC in Dak Phoi
4. Meet Vice-Chairman of PC in Lak district
5. Talk to some key persons in Buon Dung village regarding financial sector (e.g. shopkeeper, village headman, VBP borrowers, 327 Program participants, etc.)
6. Identify farming systems and recommendation domains
7. Assess agricultural potential of Buon Dung village vicinity

8.4.1997:

Meeting with Mr. Hoan, head of Agriculture and Rural Development Office in Lak district:

Which crops and livestock are suitable for Dak Phoi commune?

Coffee is the most promising crop. Also irrigated rice, maize and to some degree cashew and cassava. Green beans, chili and tobacco are grown to some extent. Fruits are only grown for home consumption. Chicken, pigs and beef-cattle are the most popular livestock. Aquaculture (carps) is not practised. There are a few goats.

How do people in Dak Phoi earn their living?

Almost all of the people are subsistence farmers. A family needs at least 1 ha upland and 0.5 ha irrigated paddy which yields on average 1500 kg in the district. People sell cattle manure and often their lands if suitable for coffee growing (red basalt soil). Many work as casual labourers on coffee plantations.

Where can the people of Dak Phoi buy agricultural inputs and sell their produce?

Lak town market and shops sell seeds, fertilizers and agro-chemicals for coffee, rice and maize production although very few farmers from Dak Phoi buy any inputs. Coffee is bought by private traders who travel through the villages. Rice and maize are rarely sold and there are some rice mills in Dak Phoi. Hybrid maize is sold in Lak town market for production of animal feed, beer or instant noodles.

Meeting with Mr. Quoc, Vice Chairman of PC Lak district:

What is the situation of the VBP in the Lak district and Dak Phoi commune?

- VBP has no outreach into the communes. It started two years ago in the district with three priorities: low-interest loans, without collateral to the poorest and the poor. Interest rate is 1% per month. In 1996, 2000 loans were disbursed in Lak district (some families got more than one loan); in Dak Phoi 250 families received loans. Average loan size is VND 2 million. Loan duration depends on activity that is financed (max. 2 years). Repayment rate is approx. 80%. Most people want loans for pig raising, rice and maize production and very few non-agricultural enterprises. All loan contracts are signed by men because they are the household-leaders and women are illiterate. Credit groups have less than 10 members each with a head who is responsible for collecting repayments. Business plans and loan applications are screened by Chairman of commune PC which forwards it to district PC; if they approve the borrower can go to the district VBA where VBP has its office and collect the loan. The system works very well because there is a list of the poor compiled by members of the district Poverty Alleviation Steering
What are the problems the poor face?

- There is a lack of suitable land and capital for inputs. Although land sales are illegal without the district PC's permit ethnic minority people sell their lands before a red book is issued.

Are the people able to fill out business plans and loan applications for VBP?

- Business plans are filled by the group together with experts. Information for business planning is available through Poverty Alleviation Steering Committee.

9.4.1997:

**Buon Dung village survey:**

Outskirts: talked to a Kinh woman whose husband had received 5 million VND loan from VAB at 1.2% interest per month. They mortgaged their motor-cycle. They used to work for Forest Enterprises, now they have more than one hectare coffee.

Met Mr. I Bang Lieng (previously ranked “better-off” during a household survey) who received 1 million VND from 120 program. Two years duration at 0.5% interest per month. He doesn’t know yet how much he will have to pay back in September 1998. He bought three local cows and will sell calves at VND 700,000 each to pay back the loan. This is the first time he borrowed money and owned cattle (he only had pigs and chicken). At this stage he cannot afford to take another loan which he would need for his 600 coffee trees. He also needs money to clear 1.5 ha for coffee. - Livestock diseases are a big problem and he had his pigs treated in the district hospital (?).

Met Mr. Y Chong, member of the Fatherland Front, in the paddy fields, guarding his almost mature rice against birds and rodents. In July 1995, his younger brother, the chairman of the commune PC, received 4 million VND as three-year loan (0.5% interest per month) from 327 Program and gave 1.8 million to him. He cleared 0.3 ha to grow gravity-irrigated paddy; also grows 0.4 ha coffee (his priority). He has two hybrid cows from 327 Program and gave 1.8 million to him. He cleared 0.3 ha to grow gravity-irrigated paddy; also grows 0.4 ha coffee (his priority). He has two hybrid cows from 327 Program; they will take back the cows and give him some money or keep the calves.

Met Mr. Y Thur, the typist of the commune PC. He received 3 million VND loan from 120 program. Two years duration at 0.5% interest per month. He doesn’t know yet how much he will have to pay back in September 1998. He bought three local cows and will sell calves at VND 700,000 each to pay back the loan. This is the first time he borrowed money and owned cattle (he only had pigs and chicken). At this stage he cannot afford to take another loan which he would need for his 600 coffee trees. He also needs money to clear 1.5 ha for coffee. - Livestock diseases are a big problem and he had his pigs treated in the district hospital (?).

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Met Mr. I Bang Lieng (previously ranked “better-off” during a household survey) who received 1 million VND from 120 Program for rice cultivation and 3 million VND from HEPA Program for coffee cultivation (5 years duration, no interest). He said that of the 63 households in Buon Dung 22 received loans. Most people are afraid of taking loans. There are two VBP credit groups and a third is being formed around the school-teacher who recently moved into his new wife’s home. - In Mr. Lieng’s group of six members most people have not enough cash to pay back loans and applied for loan duration extensions so that they can invest into coffee (although the loans were given for rice production). The VBP people know the problem and have invited the group for a discussion. They usually pardon a loan defaulter once but he won’t be able to get another loan if he defaults a second time. Even though the VBP demands no collateral in reality people who have no property can get only 1 million VND as loan.

Met shop-keeper of Buon Dung. She goes to Lak town every day on her bicycle and buys the things people ask for in the shop, including fertilizers (although she doesn’t sell much of it because the HEPA Program disburses loans 50% in fertilizer and 50% in cash; some who do not get loans buy the fertilizer on credit). She said that people often buy on credit; one family is 400,000 VND in debt to her. When people get their money from 327 Program, once every six months, they pay back their debts. Many pay by giving rice and she makes rice-wine of the surplus which she sells in her shop (rice-wine is used as a “relaxer” and for special occasions by both men and women). She also raises chicken which the villagers buy for special feasts. - She considers the villagers very honest people because they have strict laws amongst themselves against stealing; nevertheless she wants to move back to Lak town and rent the shop out. - She thinks that people most urgently need irrigation water since they have land.

Met shop-keeper family in Lieng Ke (neighboring village to Buon Dung) who are Kinh. They came here to plant 4 ha coffee
three years ago. VBA gave them 5 million VND loan at 1.7% interest per month for three years. They already paid back 3 million VND. Family needs approx. 15,000 VND for daily living expenses; that is what he pays his coffee plantation workers. - Shop is only temporary income generating activity which the wife looks after. The shop is not open every day, only 20-30 customers per day. List of goods and prices: see table below. They rarely give credit, max. 4 kg of rice per family and they take the same amount back. Most people pay in rice: 4 tins = 1 kg = 3000 VND. He goes to Lak every day on his bicycle to buy things for the shop. Villagers only go to town when they have - e.g. - hunted a boar which they sell on the market. - He wants to move back to Lak town when his youngest child is old enough to go to school. Both their younger children already live in Lak with relatives. - There are four licensed (by PC) shops in the vicinity and people compare prices so one cannot make much profit. - When asked what he thinks is the most urgent thing people need he said: iron roofs for their houses.

10.4.1997:

"Mud"-mapping of Buon Dung village and vicinity
(see hand-drawn maps)

Meeting with Mr. Y Bang, Chairman of PC, Dak Phoi commune

What is your role in the VBP?

I consider loan applications (decide which amount the applicant is actually able to lend and to repay) before I decide to reject an application or to forward it to the district PC.

I am also involved in preparing the list of the poor according to which the VBP selects borrowers.

How many VBP groups are there and how many loans did they receive?

There are 28 groups in Dak Phoi, each with less than 10 members. Between 1995-96 141 "poor" families received loans worth 198 million VND. Of the 129 "hungry" households 21 applied for loans but none received any.

What are the loans for?

Most people want loans for coffee and rice production. Some don’t dare to borrow money because their soil is not fertile. The poor families only get short-term agricultural loans. The better-off families can invest in coffee and pay back the loans by using other income. They also offer collateral in form of property.

Are there any women in the VBP groups?

There are no women groups but in some groups there are widows. Usually, only the head of a household joins the group.

Are there any cases of loan abuse?

Some people take a loan for rice production and invest it into coffee, bicycles or radios. However, they will pay back somehow because the commune PC makes sure they do. Loan repayment is 100% in this commune. Ethnic minority people are very honest and afraid of loans (sic!).

How does the 327 Program operate in Dak Phoi?

It only gives money for cashew plantations and 32 families received loans for hybrid cattle. The PC gives directions to 327 Program.

How does the 120 Program operate in Dak Phoi?

10 war-hero families received support (loans?), 1.8 million VND per household.

What is the contact VBA has with Dak Phoi?

There are some borrowers of VBA here. PC gives recommendations to VBA. If someone cannot pay back a loan the PC will assess the validity of his reasons.

How do people save in this commune?:

Nobody has spare money to deposit with a bank.
### Prices for goods and services in Dak Phoi commune and Lak market (4/97)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>UNIT</th>
<th>PRICE PER UNIT (VND)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGRICULTURAL PRODUCE:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>paddy</td>
<td></td>
<td>1000</td>
</tr>
<tr>
<td>rice (1.7 kg paddy = 1 kg rice)</td>
<td></td>
<td>3000</td>
</tr>
<tr>
<td>milling of paddy</td>
<td>kg</td>
<td>50</td>
</tr>
<tr>
<td>food maize</td>
<td>kg</td>
<td>1500</td>
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<tr>
<td>cassava (dried)</td>
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<td>500</td>
</tr>
<tr>
<td>banana</td>
<td>hand</td>
<td>500 - 1000</td>
</tr>
<tr>
<td>firewood</td>
<td>20 sticks/ 2m</td>
<td>1000</td>
</tr>
<tr>
<td>coffee</td>
<td>kg</td>
<td>13,000</td>
</tr>
<tr>
<td>Litsea bark</td>
<td>kg</td>
<td>200</td>
</tr>
<tr>
<td>local pig</td>
<td>25 - 30 kg LW</td>
<td>80,000</td>
</tr>
<tr>
<td>calf</td>
<td>1 year old</td>
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</tr>
<tr>
<td>cattle</td>
<td>80 - 100 kg</td>
<td>max. 1 mio</td>
</tr>
<tr>
<td>egg</td>
<td>each</td>
<td>1000</td>
</tr>
<tr>
<td>chicken</td>
<td>adult</td>
<td>max. 30,000</td>
</tr>
<tr>
<td></td>
<td>kg Live Weight</td>
<td>15,000</td>
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<tr>
<td><strong>PRODUCTIVE INPUTS:</strong></td>
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<td></td>
</tr>
<tr>
<td>hired labour</td>
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</tr>
<tr>
<td>pump hire</td>
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</tr>
<tr>
<td>fuel for machines</td>
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<td>4000</td>
</tr>
<tr>
<td>rice seed</td>
<td>kg</td>
<td>2500</td>
</tr>
<tr>
<td>maize hybrid seed</td>
<td>kg (VN 10)</td>
<td>22,800</td>
</tr>
<tr>
<td></td>
<td>kg (DK 888)</td>
<td>33,800</td>
</tr>
<tr>
<td>urea</td>
<td>kg</td>
<td>2600</td>
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<tr>
<td>superphosphate</td>
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<td>1600</td>
</tr>
<tr>
<td>potash</td>
<td>kg</td>
<td>1200</td>
</tr>
<tr>
<td>NPK ready mixed coffee fertilizer</td>
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<td>2700</td>
</tr>
<tr>
<td>cattle manure</td>
<td>20-25 kg bag</td>
<td>4500</td>
</tr>
<tr>
<td></td>
<td>cubic meter</td>
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</tr>
<tr>
<td>Bazan insecticide</td>
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</tr>
<tr>
<td>Azorin pesticide</td>
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<td>12,500</td>
</tr>
<tr>
<td>B 58 pesticide</td>
<td>250 ml bottle</td>
<td>15,000</td>
</tr>
</tbody>
</table>
Conclusions from field survey:

1. Coffee has captured people’s minds. The big hopes do not match reality (coffee price fluctuations, poor management due to lack of water and other inputs). Many loans given for food production actually subsidize coffee growing.
2. Cattle is the most favored livestock (sign of wealth) and many people would like medium-term loans to invest into cattle.
3. People do not generally distinguish between various government programs and banks but the borrowers know where they got loans from.
4. The “better-off” (in relative terms) have far more access to loans and subsidies than the “poor” and “hungry” families.
5. A number of short-term loans are used for medium-term investments, thus indicating a real need for more flexible credit products.
6. Anecdotal evidence suggests that loans are sometimes split between family members and/or different investments.
7. The poorer members of the target group, in particular, are afraid of taking loans. In order to reach these people in a S/C scheme confidence-building measures would have to pre-curse the actual scheme.
8. The target group is considered honest and repayment discipline appears to be good.
9. Formal saving could not be observed.
10. There are innovators in the villages. The Project should make use of them.
11. Livestock and veterinary services are needed very much.

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Price</th>
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<tr>
<td>rice herbicide</td>
<td>250 ml bottle</td>
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</tr>
<tr>
<td>coffee seedling (8 leaves)</td>
<td>each</td>
<td>1000</td>
</tr>
<tr>
<td>hybrid sow (Landrasse or Yorkshire)</td>
<td>kg LW</td>
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</tr>
<tr>
<td>pig fattening concentrate</td>
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<tr>
<td>vaccination</td>
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</tr>
<tr>
<td>hire 2-wheel tractor for transport</td>
<td>7 km</td>
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**GOODS SOLD LOCALLY:**

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<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Price</th>
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<tbody>
<tr>
<td>dried fish</td>
<td>kg</td>
<td>8000</td>
</tr>
<tr>
<td>washing powder</td>
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<td>1000</td>
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<td>soap</td>
<td>bar</td>
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<td>incense</td>
<td>packet</td>
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<tr>
<td>kerosene</td>
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<tr>
<td>brown sugar</td>
<td>kg</td>
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<tr>
<td>white sugar</td>
<td>kg</td>
<td>7000</td>
</tr>
<tr>
<td>cooking oil</td>
<td>100 ml</td>
<td>500</td>
</tr>
<tr>
<td>instant noodles</td>
<td>packet</td>
<td>1000</td>
</tr>
<tr>
<td>MSG</td>
<td>2 spoons</td>
<td>750</td>
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<tr>
<td>green tea</td>
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<tr>
<td>rice wine</td>
<td>litre</td>
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<tr>
<td>local tobacco</td>
<td>100 g</td>
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</tr>
<tr>
<td>cigarettes</td>
<td>packet</td>
<td>750 - 1600</td>
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<tr>
<td>razor blade</td>
<td>item</td>
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<tr>
<td>examination at health center</td>
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</tr>
<tr>
<td>medicine from health center</td>
<td>item</td>
<td>10,000</td>
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</table>
Annex 3:

Best Practises and Principles: Micro-Financing

Organization & Administration

1. Sustainable micro-financing institutions operate with each sub-branch being treated as an individual profit center.
2. Administration and paper-work should be kept at a minimum, yet a basic monitoring system is necessary.
3. Simplicity, transparency, standardization and decentralization are essential.
4. Access to credit on a long-term basis is more important than low interest rates.

Credit management

1. Subsidized credit is not sustainable. Subsidies and loans should be clearly separated. Credit subsidies discourage savings mobilization.
2. Small loans should be provided to the working poor on the basis of the creditworthiness of an existing or planned enterprise.
3. Borrowers are selected by the same people who are responsible for collecting the loans.
4. Loans are made to individuals and/or to self-formed groups of borrowers who guarantee mutually.
5. The loan amount should be directly related to the financial assessment of the enterprise.
6. Proper repayment of loans should be rewarded (no restriction on number of future loans, raising loan ceilings, direct transfer of cash or gifts).
7. The loan officer’s role is to assess creditworthiness and monitor loan repayments, not to give business advice.

Loan conditions

8. The spread between interest rates on loans and deposits is sufficient to cover the non-subsidized financial, operating, risk and inflation costs.
9. Loans should not be tied to specific purposes.
10. Loans should be short-term and mostly for working capital.
11. Repayments should be made as regular installments and grace periods should be kept as short as possible.

Savings management

12. Lower-income people generally do not need to be taught to save; they already save in one way or another (cash, livestock, grains, etc.) and have massive demand for institutional savings services.
13. Savings and credit must be closely integrated.
14. Savings should be voluntary. Clients will deposit their savings with a financial institution if they feel certain that their money is safe and easy to access.
15. Savings and credit instruments (products) should not be down-sized from commercial banks but tailor-made for client groups.

Subsidies

16. Subsidies should be clearly separated from savings and credit instruments.
17. Subsidies must enhance the beneficiaries access to markets (for services, inputs and outputs) rather than distorting prices and markets.
18. Subsidies should only be available to people who deserve them. Target-group screening is essential and time-consuming.
19. Subsidized services in a competitive service market are generally less effective than subsidies for services (i.e. the beneficiaries can choose which services they need and these services are then paid for by the donor).
20. Subsidies are difficult to monitor because they tend to attract non-deserving users.

Sources:

3. Bank Rakyat Indonesia: Lessons learned (BRI publication, undated)
MICRO-FINANCING IN NATURAL RESOURCE MANAGEMENT
(by Helmut Grossmann, Consultant)

LOCATION: Sustainable Management of Resources in the Lower Mekong Basin Project (SMRP), Buon Ma Thuot - Dak Lak Province

DATE & TIME: April 24, 1997. 08:30 - 11:45

PRESENT: Ms. Rita Gebert (consultant)
Ms. Lindsay Ratcliffe (CARE)
Ms. Hien (CEMMA/UNDP)
Mr. Michael Glueck (SMRP)
Mr. Tran Ngoc Thanh (SMRP)
Mr. Tran Huu Nghi (SMRP)
Mr. Duy (translator, SMRP)
Mr. Nguyen Vu Khoi (CARE)
Mr. Thomas Schwedersky (consultant)
Mr. Su (CEMMA/UNDP)
Mr. Maurits Servaas (CEMMA/UNDP)

Summary of presentation:
The presentation started with a brief overview how micro-financing based on resource assessment and land use planning fits into a NRM project.

The planning process of micro-financing for resource-poor target groups in a NRM project was explained in terms of macro (land use) and micro (individual household economy) planning.

Based on the consultant’s results from interviews with organizations managing savings and credit programs in Vietnam a model scheme was explained and discussed, stressing the importance of credit group formation, loan planning and repayment monitoring. Furthermore, supportive service measures as possible project interventions to emerging schemes were discussed.

The presenter, then, briefly outlined some of the best practices and principles of micro-financing referring to organization and administration, credit management, loan conditions, savings management and subsidies.

As an example of proper loan planning the consultant presented an Agricultural Activity Profile for hybrid-maize production. The profile summarized crop-specific details important to producers and planners, including natural resource requirements, input and output markets, sources of information and further services needed as well as a gross margin and cash flow calculation arriving at a loan recommendation.

Finally the group discussed the consultant’s proposal how the Project could intervene to improve the target group’s sustainable access to micro-financing services. Some of the ideas that were gathered during the discussion are:

- Project could support the formation of credit groups to make sure that the poor have access to the scheme.
- It is very difficult to find suitable intermediaries for a credit scheme in remote areas.
- It may be necessary to build up intermediary groups on commune level; this will require a lot of training.
- Target group should be asked who they trust as intermediary; this may be a different organization from village to village and even from one social group to another.
- Different intermediaries are needed for different credit lines.
- Project must cooperate with 327 program: credit and subsidy components should be clearly separated; technical advice in NRM could be given by Project; Lak Forest Enterprises would be the partner to deal with; support them to start program in Project area a.s.a.p; Department of Land Management needs financial and technical support to accelerate land use plan and issuing of land certificates (at least temporary certificates which can be used as collateral at Bank for the Poor = VBP)
- Hybrid maize spark measure loan repayments could be used to build up a guarantee fund with the Bank of
Agriculture (VBA).
- Bankers and village must get together for talks to create trust and break down barriers.
- Plant protection department is doing free rodent control and should be asked to serve the Project area.
- Co-ordination of government programs needed; Project should find out more about Hunger Eradication and Poverty Alleviation program (HEPA), co-ordinated by MOLISA, DARD, VBP, Department Planning and Investment).
- People's Committees have Emergency Relief fund for remote areas for health measures and agriculture; how can it be accessed?
- Project should try to become consultant to the District Steering Committee for Poverty Alleviation.
- Project should run agricultural and NRM experiments on commune level to give recommendations and demonstrations to PC and people.
- Project should encourage the formation of Community Development Groups to strengthen people's capacities to access loans, subsidies and services.
- aim: improve people’s access to resources and ensure the sustainability of these resources.
- find out what are the services potentially available to the target group.
- link up with organizations and programs that manage these services.
- enable the target group to access these services (e.g. information, help with applications, support groups, etc.)

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**Annex 5: Agricultural Profiles**

*(Data: Agricultural Extension Service, Dak Lak)*

**Crop profile**

Name of activity: Green bean cultivation

Land size (ha): 1

Intensity level: medium

**Climatic requirements:**

- temperature range (max./min.): 15 - 25°C
- annual water requirement (mm): approx. 600 during vegetation period
- humidity requirement (%): approx. 70%

**Soil requirements:**

- nutrients: high in P, K and trace elements
- texture: sandy to sandy clay; ideal: loam
- depth / drainage: well drained to a min. depth of 0.7 m
- pH: 6.5

**Agro-ecological zones recommended:** fertile soil on flat land in medium rainfall tropical highland areas

**Cultural details:**

- plant spacing in row / between rows: 0.3 x 0.35 m
- vegetation period: 60-65 days

**Where can I get advice and information ?**

Department of Agriculture and Rural Development

**Where can I get related services ?**
Where can I get financial assistance?
- Bank for Agriculture
- Bank for the Poor

Where can I buy the inputs?
- Local markets
- Seeds available at Agricultural Offices

Where can I sell my products?
- Local wholesalers
- Local market

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<tr>
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<td>days</td>
<td>30</td>
<td>20</td>
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Gross Margin: VND 2,936,800.00
Gross Margin per labour-day: VND 332,631.00

FOR EVERY DONG I SPEND I WILL GET IN RETURN: VND 1.96

(= Benefit/Cost Ratio)

Crop profile

Name of activity: Hybrid Maize cultivation (LVN 10)

Land size (ha): 1

Intensity level: high

Climatic requirements:
temperature range (max./min.): 15 - 35°C

annual water requirement (mm): approx. 800 during vegetation period

humidity requirement (%): approx. 75%

**Soil requirements:**

- nutrients: high in N, P, K and trace elements
- texture: sandy to sandy clay
- depth / drainage: well drained to min. 50 cm depth
- pH: 6.5
- type: loam

**Agro-ecological zones recommended:** fertile soil on flat or slightly undulating land in medium rainfall areas of tropical highlands

**Common pests and diseases:**

<table>
<thead>
<tr>
<th>NAME OF PEST / DISEASE</th>
<th>RECOMMENDED TREATMENT OR PREVENTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stem borer</td>
<td>pesticides</td>
</tr>
</tbody>
</table>

**Cultural details:**

- plant spacing in row / between rows: 0.3 x 0.7 m
- vegetation period: 110 days

**Where can I get advice and information?**

Department of Agriculture and Rural Development

**Where can I get related services?**

Department of Agriculture and Rural Development

**Where can I get financial assistance?**

- Bank for Agriculture
- Bank for the Poor

**Where can I buy the inputs?**

- Local markets
- Seeds available at Agricultural Offices

**Where can I sell my products?**

- Local wholesalers
- Local market

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<th>JULY</th>
<th>AUG.</th>
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</table>
Crop profile

Name of activity: Rice cultivation

Land size (ha): 1

Intensity level: high

Climatic requirements:

- temperature range (max./min.): 15 - 35° C
- annual water requirement (mm): approx. 1000 during vegetation period
- humidity requirement (%): approx. 85%

Soil requirements:

- nutrients: high in N, P, K and trace elements
- texture: clay
- depth / drainage: puddled
- pH: 6.5
- type: alluvial clay

Agro-ecological zones recommended: fertile alluvial soil on flat land in high rainfall tropical areas
Common pests and diseases:

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<th>RECOMMENDED TREATMENT OR PREVENTION</th>
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<tr>
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<td>pesticides</td>
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<tr>
<td>various fungi</td>
<td>fungicides</td>
</tr>
</tbody>
</table>

Cultural details:

plant spacing in row / between rows: 0.1 x 0.15 m

vegetation period: 100 - 120 days

Where can I get advice and information?

Department of Agriculture and Rural Development

Where can I get related services?

Department of Agriculture and Rural Development

Where can I get financial assistance?

- Bank for Agriculture
- Bank for the Poor

Where can I buy the inputs?

- Local markets
- Seeds available at Agricultural Offices

Where can I sell my products?

- Local wholesalers
- Local market

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<th>JUNE</th>
<th>JULY</th>
<th>AUG.</th>
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</table>
Crop profile

Name of activity: Robusta Coffee cultivation

Land size (ha): 1

Intensity level: high

Climatic requirements:

- temperature range (max./min.): frost-free / max. 35°C
- annual water requirement (mm): 1800 - 2000
- humidity requirement (%): 65 - 90

Soil requirements:

- nutrients: high in N, P, K and trace elements
- texture: sandy to sandy clay
- depth / drainage: well drained to min. 150 cm depth
- pH: 5.5 - 6.5
- type: sandy loam

Agro-ecological zones recommended: fertile soil on flat or slightly undulating land in high rainfall areas of tropical highlands

Other natural resource requirements:

(e.g. wind-protection, pollination requirements, chill hours)

- wind protection is advantage

Common pests and diseases:

<table>
<thead>
<tr>
<th>NAME OF PEST / DISEASE</th>
<th>RECOMMENDED TREATMENT OR PREVENTION</th>
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</thead>
<tbody>
<tr>
<td>Coffee rust (fungus)</td>
<td>fungicides</td>
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</tbody>
</table>
Cultural details:

- Plant spacing in row / between rows: 3 x 3 m
- Vegetation period: 15 years in the first cycle (coppicing possible to add another 10 years)

**Where can I get advice and information?**

Department of Agriculture and Rural Development

**Where can I get related services?**

Department of Agriculture and Rural Development

**Where can I get financial assistance?**

Bank for Agriculture

**Where can I buy the inputs?**

Local markets

Seedlings available at Agricultural Offices

**Where can I sell my products?**

Local wholesalers

**Physical Inputs and Cash Flow (Robusta Coffee): in 1000 VND**

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<td>120</td>
<td>120</td>
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<td>Cash flow</td>
<td>-</td>
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<td>-94050</td>
<td>-11055</td>
<td>-95700</td>
<td>23820</td>
<td>34710</td>
<td>32370</td>
<td>44370</td>
<td>44700</td>
<td>42360</td>
<td>40020</td>
<td>37680</td>
<td>35340</td>
<td>33000</td>
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For every Dong I spend I will get in return: VND 1.96
MY INVESTMENT RETURNS A MONTHLY INTEREST RATE OF: 3.60 %
MY INVESTMENT HAS BEEN RECOVERED AFTER: 7 YEARS

Livestock profile

Name of activity: Hybrid Pig rearing
Size: 1 sow
Intensity level: medium (feeding of household scraps + concentrates)

Common diseases:

<table>
<thead>
<tr>
<th>NAME OF DISEASE</th>
<th>RECOMMENDED TREATMENT OR PREVENTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coccidiosis</td>
<td>Vaccination</td>
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</tbody>
</table>

Where can I get advice and information?
Department of Agriculture and Rural Development

Where can I get related services?
Department of Agriculture and Rural Development - Livestock extension officer

Where can I get financial assistance?
- Bank for Agriculture
- Bank for the Poor

Where can I buy the inputs?
- Local markets
- Pigs available at Agricultural Offices

Where can I sell my products?
- Local wholesalers
- Local market

<table>
<thead>
<tr>
<th></th>
<th>price/unit</th>
<th>unit</th>
<th>1.-2. month</th>
<th>3-4.</th>
<th>5-6.</th>
<th>7-8</th>
<th>9.-10.</th>
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<td>OUTPUTS:</td>
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<td></td>
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<td></td>
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<tr>
<td>pigs</td>
<td>12000</td>
<td>kg</td>
<td></td>
<td></td>
<td></td>
<td>700</td>
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<td>8,400,000</td>
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<tr>
<td>INPUTS:</td>
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<td></td>
<td></td>
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<tr>
<td>sow</td>
<td>1.5 million</td>
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<td></td>
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<td>1,500,000</td>
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<tr>
<td>feed</td>
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<td>kg</td>
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<td>120</td>
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<td>veterinary</td>
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<td></td>
<td>8</td>
<td></td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td>labour</td>
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<td>days</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>50</td>
</tr>
</tbody>
</table>
Gross Margin: VND 5,456,000.00
Gross Margin per labour-day: VND 109,120.00
FOR EVERY DONG I SPEND I WILL GET IN RETURN: VND 2.85

Annex 6: Key Questions for Institutional Analysis

INSTITUTIONAL ANALYSIS

Objective: Learn from organizations’ experiences with savings and credit schemes in rural development and natural resource management.

Key questions:

Name of Organization:

Place / Date / Time of Interview:

Organization’s representative interviewed:

1. What is the age and legal status of the organization’s S&C scheme?

2. What is the organizational structure of the S&C scheme (functions, staff, decision-making process)?
   - client contact
   - preparation of business plans and loan applications
   - decision on loan applications
   - loan disbursement
   - loan repayment monitoring
   - follow-up support (technical, managerial advice, etc.)

3. What are the objectives and main services of the organization’s S&C scheme?
   - managerial advice and training
   - technical advice and training
   - loan agreement re-negotiations
   - physical input supply services
   - marketing support services

4. How do S&C scheme staff cooperate amongst themselves and with outsiders (name of partner organizations, memberships, working groups)?

5. What is the organization’s personnel policy (rewards, sanctions), esp. with regard to field staff in rural areas?

6. How is the credit scheme financed and what is the infrastructure available for credit related services?

7. What are the professional achievements of the organization in the area of rural development and financing?

8. What are the indicators used for scheme monitoring (copy of annual report if possible)
INSTITUTIONAL ANALYSIS

Objective: Identify organizations able to cooperate in the implementation of Loan Plus Services schemes for rural target groups.

Key questions

Name of Organization: .................................................................

Place / Date / Time of Interview: ................................................

Organization’s representative interviewed: ..................................

1. What is the age and legal status of the organization?
2. What are the objectives and main activities of the organization?
3. What is the organization’s structure (functions, staff, decision-making)?
4. How do people in the organization cooperate amongst themselves and with outsiders (name of partner organizations, memberships, working groups), esp. in regard to rural development and financing?
5. What is the organization’s personnel policy (rewards, sanctions), esp. with regard to field staff in rural areas?
6. How is the organization financed and what is its infrastructure available for rural development and financing?
7. What are the professional achievements of the organization in the area of rural development and financing?

Questions to Mr. Binh (Director, DARD Dak Lak)

1. Which programs is DARD implementing in the Lak district and what are DARD’s plans for the future in the Lak district?
2. Who co-ordinates and monitors these programs?
3. Are there any records, reports or evaluations regarding these programs and can the interviewer (Mr. Grossmann) have a look at them?
4. Is DARD working with any bank (e.g. VAB) or mass organization (e.g. Women’s Union or Farmer’s Association)? If yes, in what way and for which purpose?
5. According to your experience and knowledge how could DARD improve its services to ethnic minorities in Dak Lak province?
6. According to DARD what are the most pressing issues in Natural Resource Management for Dak Lak province?

Annex 7: Sources & resources

1. Literature available at SMR Project offices in Hanoi and/or BMT:
   - Microfinance in Viet Nam (UNDP/CGAP/WB, Hanoi 1996)
   - Financial Systems Development and Microfinance (H.D. Seibel, gtz)
   - Participatory and Self-Help Approaches in Natural Resource Management (Schwedersky & Siebert)
   - Catching Up - Capacity Development for Poverty Elimination in Vietnam (UN, Hanoi 1996)
   - Revolving Funds (Netherlands Ministry of Foreign Affairs, undated)
   - Sustainability, Scale and Linkages for the Save the Children Fund/UK Credit and Savings Programme (Beth A. Porter, Hanoi 1997)
   - Brief Overview of Rural Finance in Vietnam (Nguyen & Nachuk, FAO 1996)
   - Preliminary Assessment of Present and Potential Land Use Systems of Dak Phoi Commune; Lak District (Dr. P. Deturck, 1997)
   - Sustainable Management of Resources in the Lower Mekong Basin - Project Outline (Mekong River Commission Secretariat, 1996)
   - Vietnam NGO Directory (1995/96)
   - Where credit is due (Joe Remenyi, 1993)
   - The New Paradigm: Sustainable Financial Intermediation (M. Robinson, 1995)
   - Bank Rakyat Indonesia: Lessons learned (BRI publication, undated)
   - PC Dak Lak - report on HEPA program (25.12.96) Project Profile: North Central Programme - Savings and Credit Programme (Save the Children Fund/UK, 1996)
   - The Impact of Credit and Savings (Evaluation for the Save Children Fund, 1996)
   - Project in Brief (Afforestation in Lang Son and Ha Bac Provinces)
   - Project Feasibility Study (Afforestation in Lang Son and Ha Bac Provinces, 1994)
   - Population & Development International (PDI, December 1996)
2. Further literature

- Vietnam Discovery (The Statistical Publishing House, 1997)


- Paula Kelly, manager of CARE South Vietnam - HCMC (8650232)
- John Kelly, consultant HCMC (8439823)
- Ms. Ingrid Knutson, CIDA - Development Co-operation Advisor, Hanoi (8235500)
- Mrs. E.R. Furniss, Senior Project Officer, UNICEF Hanoi
- Mr. J.R. Kurtf & Mr. D.J. MacNeil, PDI - Hanoi
- Mr. Stefan Nachuk & Mr. N.X. Nguyen, Oxfam/UK - Hanoi
- Andre Hotte and Donald Caissy, Development International Desjardins - Hanoi
- Bernard Kervyn, consultant - HCMC (8940797)
- Dr. Tri, Center for Country Health - Long An (072/826228)
- Mr. B.D. Toai, Mountain Rural Development Programme - Hanoi (214773)