Rural Credit Design, Management and Household Decision Making

A review of an FAO-financed savings and credit scheme in Bang Ca commune, Quang Ninh province

With statistical annex presenting econometric modeling of household credit and savings-related behavior

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Acronyms and Abbreviations

C&G Credit and Savings
VBARD Viet Nam Band for Agriculture and Rural Development
VND Viet Nam Dong (approximate exchange rate: US$1 - 11,000VND)

Acknowledgments

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INTRODUCTION

This report presents all the results of a one-week field survey of a credit and savings scheme financed by the project Watershed Management in Quang Ninh (GCP/VIE/019/BEL). The scheme has been operational since September 1996, when women in Bang Ca commune (Hoanh Bo district), under the guidance of project staff and a local management board, formed some 19 savings groups. After two months, in accordance with project rule, each of these groups received seed capital from the project, forming the basis of a revolving fund. A second, final injection of seed capital is anticipated within the next few weeks.

The present consultancy aims to prepare the groundwork for this second round by evaluating progress thus far and identifying management and design-relate difficulties in the scheme. Sections one and two present basic indicators of scheme coverage to date and an assessment of management performance. While savings and interest repayment discipline have in general been satisfactory, section two highlights several management weaknesses, such as intermittent external monitoring, which call for immediate consideration.

Section three follows with a socioeconomic analysis of scheme coverage and potential developmental impacts. Drawing on a combination of data collected from PRA household wealth ranking, household interviews over a three-day period and analysis of individual savings records, this section concludes that there is a group of what might be termed the 'hard-core poor' who are not participating in the project. The results of econometric modeling of household savings-and-credit (S&C) decision-making – including the decision to participate in scheme, and differential borrowing and saving behavior – are presented in a statistical annex.

Base on the preceding analysis of project performance and socioeconomic indicators, the fourth part revisits the primary features of scheme design, such as interest rates, group size, management fees and financial flows. It argues against revising already-established rules (e.g. regarding interest rates), however unpopular, while urging the need for immediate action on other areas presently falling into an administrative gray-zone.

1. OVERVIEW OF GCP/VIE/019/BEL CREDIT FUND

1.1. Summary of scheme as intended

The present scheme follows, with some notable exceptions (see 4.6), a design basically familiar to
Vietnamese credit and savings project. A short-term international consultant, and an experienced Vietnamese (the vice-chairwoman of the Quang Ninh provincial Women's Union) hired for a 1.5 year period to conduct training and monitor the project, cooperated with project staff and elected leaders from the saving circles to decide on scheme rules. A two-page document summarized the parameters of the scheme:

- **purpose of loan:** "Invest funds to further develop and bring to a higher level of efficiency household agricultural practice … present the destruction of forests and protect the watershed at Yen Lap".
- **savings component:** "All participants in the program must contribute saving of at least 3,000 VND or more each month to the scheme". One percent monthly interest is earned on these funds, 80% of which can be withdrawn by contributor after one year.
- **credit component:** "All households participating in the savings may take a loan from FAO at the rate of 1/10 (ten times more than the amount of saving". The project rules state that "[t]he level of borrowing is 500,000 to 2,000,000 VND for each round". However, a few loans of lesser size (and two of greater size) were given out, and participants in the scheme stated there was no minimum loan size. This correspond also to the international consultant's recommendation of 'no minimum", so it is unclear how the minimum made its way into the Vietnamese-language rules. "No loans will be given to those without the ability to repay".
- **seed capital transfer criteria:** In a document from the project issued on disbursement of the first credit in November, the project's Chief Technical Advisor noted that "[t]he second and final round will transfer the remaining credit funds based on the saving accumulated by each group by March 15, 1997, at the rate of 1/10 but subject to the condition that it not exceed 500,000 VND per household". The same rule was applied in the first round, resulting in the overall transfer being truncated from 94,010,000 VND (as it would have been based on the 1:10 ratio alone) to 68,300,00 VND (to fulfill the average 500,000 VND per household maximum at the group level. However, although all project and district-level staff recall the 500,000 VND maximum being debated and agreed to, the consultant could find no written record of this rule in relation to the first transfer; it did not make it into the Vietnamese-language guidelines. The intention behind the 500,000 VND per household average (calculated for each group) was to ensure that groups with a higher number of better-off members would not 'swallow up' the lion's share of the transferred capital with a few large loans.
- **repayment:** 'Interest is paid monthly, the principal gradually (goc tra dan) from April on". Length of loan as stated in the Vietnamese-language rules is from 6 months to a year, though the scheme in actual practice is based on a one-year repayment period. The ambiguous wording above regarding principal repayment is deliberately preserved here. According to the long-term Vietnamese consultant, this wording is meant to reflect fixed monthly 'interpretation' was not shared by borrowers and group leaders.
- **management and fund flows:** The management structure is multi-level. The lowest level are the 17 (originally 19) **individual S&C groups**, each of which has an elected group leader. These leaders, according to the Vietnamese-language scheme rules, "collect savings and approve the loans of each member of the group". One step above this are **11 hamlet coordinators** (one for each hamlet in the commune, with one of the group leaders playing this role). Funds from the project were transferred into bank accounts opened in the name of each of these 11 hamlet leaders, and it was assumed that these leaders would be the primary financial intermediaries between the VBARD (project credit) and the groups. A further step above this is the **commune management board**, consisting of all of the hamlet leader, the head of the commune Women's Union, and the president of the commune People's Committee. The scheme rules give the board a limited roles: "monitor monthly the activities of each group, master record book." Though not a formal level in itself, **external management inputs**, particularly those of the long-term Vietnamese consultant and the project's accountant, often have taken a de Facto leadership role in running the scheme.

1.2. Preliminary assessment of scheme design

Based on a review of existing documentation alone, one can predict a few of the troubles the scheme has subsequently encountered. There are some important holes in existing documentation.

One relates to the **mechanisms of fund transfer**. The dual rule — 1:10 savings-credit ratio, subject to the constraint of 500,000 VND average per household - is both absent from the Vietnamese-language rules, and appears to be not clearly spelled out elsewhere as well. In the CTA's memorandum accompanying the first transfer of funds, it is mentioned only with reference to the second round. Moreover, even then, it is unclear from the wording whether the 500,000 VND average per household applies to an average of only borrowers within groups, all members of groups, hamlets, or the entire commune (in fact, it applies to all members of groups).
Second, and dangerously, repayment mechanisms are unspecified. In fact, the rules state only that ‘principal is paid gradually’ (goc tra dan). Similarly, the timing and amount of management fee payments are left unclear.

Third, it is stated that only 80% of a contributor’s savings can be withdrawn after one year. When, then can the remaining 20% be withdrawn? This is more than a moot question, since any restriction on withdrawal of savings obviously diminishes its utility and could dampen enthusiasm for the scheme. Would the reader put his or her money in a savings scheme with such rules?

Fourth, financial flows are not specified in the rules: Most basically, who is to collect the principal? The simple question is not answered. The most logical answer would be group leaders, but their duties specifically cover only interest and savings collection. Hamlet leaders are to collect “savings and principal” (ostensibly from group leaders), but interest payments are not mentioned under their responsibilities (though group leaders are to hand over “savings and interest” payments to the hamlet leaders). If this sounds confusing, it is. Further, what is to be done with all these monthly payments, once the hamlet leaders receive them? This question is nowhere addressed in the documentation, and invites misunderstanding and a lack of transparency, at best, and at worst, abuse. Though participants may implicitly have understood what was intended, it is not sound policy to leave such basic responsibilities unspecified in the scheme rules.

How these ambiguities were ‘resolved’ in the course of project implementation in the subject of section two below. But first comes an overview of basic project indicators to date, which give cause for optimism despite lack of design clarity.

1.3. Basic indicators of project performance

Table one present the overall picture.

Participation

A total of 167 household – some 70% of all household in the commune – are participating in the scheme; 63 of these have borrowed from the scheme. It says much about community demand for S&C facilities that the project has been able to reach a large majority of commune residents within half a year. Eight members have joined since the first loan disbursements in December.

Group size

The original 19 groups have been reduced to 17 due to the consolidation of two groups (groups 19 and 15). Groups currently range in size from 7 to 14 members.

Loan disbursements

The original seed capital amounted to 68,300,000 VND. With a current loan portfolio of over 82 million dong, the fund has grown in size, through collection of savings, interest payments and some scattered principal repayments, by some 21% in only six months. Average loan size is rather high, at over 1,3 million dong. (Section three below examines the breakdown of lenders by village and household wealth ranking and savings behavior.).

Loan interest and principal repayment discipline

Interest payments have been uniformly met by all groups. A small number of borrowers (usually among those who had borrowed two million dong) have begun early repayment of their loans. Given the fact that interest and savings payment discipline appears to be strong, it is likely that the fund will continue to grow in size, and that overall repayment rates towards the end of one year will be in the high 90’s. The primary concern is that households do not yet fully understand that principal repayment, which are set to begin next month, are fixed and mandatory, not flexible and discretionary. Section 2.2. below deals with this important issue.

Savings performance

The previous international consultant was prescient in noting that the demand for savings scheme in Viet Nam, as in many other places, in even higher than that for loanable funds. Savings serves as a way to guard against contingencies, and to plan financially with a longer time-frame than can be easily done if money is
simply lying around the house for easy consumption. An overwhelming majority of the households intervie
wsted that they were pleased to have the opportunity to save with the scheme "It gives me the feeling I'm
building up all amount of money that will be considerable after a year or two," noted one saver in a typical
response. Interestingly, very few borrowers stated displeasure over the requirement that the savings could
only be withdrawn after one year, e.g. "If I took it out now, it would seem like nothing – you can't do anything
with it... but if I leave it in, who knows how much I can save over a year".

The figures in table one suggest savings accumulation has, however, slowed down considerably since the
first two months. Gross savings formation from December to February (March had to be excluded due to
incomplete records) slowed more than 50%, though the number of group members increased. In part, this is
due to the fact that some better-off household has contributed relatively large amounts in the first months,
believing (in the event, mistakenly) that they would be able to borrow at a 1:10 savings - to - capital ratio. It
may also be the case that the rules behind the second-round transfer (which is also predicated on a 1:10
ratio) are not well understood, and are thus not serving the expected incentive role. But on the whole, savings
activity is still widespread, fairly regular, and reaching a large number of people. Though some portion of
those who have not yet borrowed expect to do so in the near future, a significant fraction simply want to save,
without borrowing at all; this is to be welcomed. Again, section three below explores characteristics associated
with savings behavior in the scheme.

As a practical matter, the project intends to transfer the remaining 53 million dong to the groups within the
next few weeks. The consultant's understanding from personal communication with the CTA is that the criteria
for doing will be based on the 1:10 ratio (of savings accumulated since December), but, this time, without the
500,000 VND average loan constraint; if the fund this time exceeds the 1:10 ratio, the remaining amount will
be divided among groups in proportion to their accumulated savings. The figures in Table 1 suggest this
arrangement will not be problematic. With the inclusion of savings from March, the 1:10 ratio should (by happy
coincidence) be met almost exactly.

2. MANAGEMENT PROBLEMS AND ISSUES

As noted above, basic scheme indicators are on target, but certain holes were evident in the scheme's design
and initial documentation. This section looks at difficulties that have developed in the management of the
scheme, in part as a results of lack of clarity in the initial design. Sections four below follows with specific
scheme design and management-related recommendation.

2.1 Problem with fund transfer

The process by which funds were transferred in the first round generated some problems, despite good
intentions. Rather than strengthening community confidence in the scheme, several households, and even
apparently some members of the commune management board, felt, in the words of the head of the
commune Women's Union, that they had been "cheated". Why? The answer seems to be that the dual criteria
for transfer were both poorly understood and poorly communicated to households and credit leaders.

On the surface, the rule is not difficult to understand (though, reluctant to admit it though he may be, the
consultant is still not sure he has got it right). Savings were to be accumulated over two months, following
which seed capital would be transfer to hamlet-level groups, which would pass them on to individual S&C
groups through hamlet-level accounts, at the ratio of 1:10 savings-to-seed capital. This transfer would be
subject to the constraint that, for any group, the average amount of transferred capital per savings group
participant could not exceed 500,000 VND. In the event, this constraint was relevant for some, and not other,
groups. Overall, seed capital in the scheme's first round was restricted by about 34 million dong under these
rules.

Basically, households appeared not to understand or remember the second part of the transfer rule, while
national project management as well as commune-level S&C management (e.g. the head of the Women's
Union), who had been part of the decision-making, stated they had misunderstood or disagreed with the rule.
This is puzzling and, from a management point of view, troubling. Once a fund transfer decision had been
reached, with the participation of national project management, it is disturbing that it was not communicated
accurately – and in fact may have been misrepresented – to commune-level management and borrowers.
(And, as stated earlier, this problem may have been compounded by the lack of clear written rules on the
matter).
A separate issue concerns whether the rule was well-advised to begin with. The intention was to prevent most of the seed capital from going directly to a few better-off groups. Concern over group disparities in seed capital grew out of the assumptions, at the beginning of the scheme, that the funds would be permanently managed by each group (with little or no inter-group transfers). Figure one below explores group transfers of seed capital with and without the average rule stipulating a maximum average transfer per group member of 500,000 VND. In its absence of the rule, disparities are high (left hand bars). However, actual disbursements to groups (right hand bars) were not much less unequal, in part because the management board was forced to make some intergroup transfers, e.g. since one group (8) had no willing borrowers. Figure one suggests that the application of the average rule had little or no effect on inter-group disparities in fund transfer.

Figure one also suggests that, while intuitive, the premise underlying the rule – that groups with more relatively better-off members would run away with the capital7 – was apparently unwarranted. Groups are ordered by the average wealth rank of their members (recall that higher rank means relatively poorer members). No clear trends - such as higher savings in the better-off groups-emerge. If anything, it appears that a fair number of the high-saving groups were on the poorer end of the spectrum. (This is a finding confirmed by econometric analysis; also see figure five in the statistical annex.) In short, the rule resulting in a reduction in the seed capital transfer of those groups which saved more than an average of 50,000 per person did not have the desired effect.

2.2 Lack of clarity in repayment mechanisms

Trite it is to note that the first thing a banker will make clear is the timing and amount of a lender's repayment. In the present scheme, such a banker may raise her eyebrows in question. As might be predicted from the lack of clear documentation on the matter of repayment (see section 1.2), borrowers (at the time of the field survey in mid-March) basically had either no idea, or the wrong idea, on how much they were supposed to begin repaying beginning in April. The long-term national consultant was annoyed to hear of this from the present consultant, insisted that the matter had been thoroughly covered during the initial training, and agreed to during the training session, and blamed the confusion on 'people's psychology'. This response is less than convincing. It is impossible to reconstruct what was covered during the training, and the Vietnamese-language rules hold nothing that could confirm the original intention of the scheme regarding the amount and flexibility of repayment. But even group leaders, who have generally acted responsibly in all their duties to date, were giving conflicting answers (non of which were 'correct' in the view of the long-term national consultant). This fact strongly suggests that the quality of management and supervisory inputs were less than adequate for the task at hand.

The 'correct' repayment regimen is fixed-installment repayment from month four, with interest calculated on declining balance. 8 The long-term national consultant accompanied the consultant to the commune on the final day of the field-trip, in part to clarify this with the assembled group leaders. This she accomplished, to their partial consternation; somewhat reluctantly, these leaders pledged, at her insistence, to do their best to put pressure on borrowers to repay the correct amount next month. It was not a pretty scene, and should certainly cause concern over repayment rates over the next few months, and, more basically, over the quality of management inputs to date.

2.3 lack of clarity in management fees

Unfortunately, confusion over repayment amounts was not the basic issue obscured both in the design documentation and in groups leader's minds. Consider the non-trivial responsibilities of group leaders, and the fact that 45% of interest collected monthly (0.8% of outstanding loan capital) is earmarked for management fees. It becomes striking that none of the group leaders had been paid to date, nor had any clear idea of how much they would eventually receive, and when.

Each savings and credit (S&C) group elected their group leader. These people are not performing their tasks for the money alone. All interviewed stated, sometimes shyly, that yes, some payment would be appropriate given their contribution; but all equally strong spirit of volunteerism is evident. This is common among mass organizations in Viet Nam, which, though in transition themselves, retain a broad appeal and strong grassroots character. Yet, credit and savings scheme will not run on goodwill alone, and for the long-term sustainability of the scheme, appropriate and fairly apportioned management payments will be necessary.

The training session apparently did not cover the mechanics of management fee payment. Group leaders generally recalled that 0.8% was to be set aside for that purpose, and were told that this would probably work out to about 20,000 VND per month. At some point, someone (apparently not the management board in its
entirely) decided that the all interest collected would be given out, in loans for the first few months (hence the rapid expansion of loans), and the issue of management fees would be revisited later.

Perhaps in response to the consultant's questioning on the issue, national management decided to settle the issue at the same meeting on the last day of the field survey. The way was done says much about the top-down character of management of the scheme generally. The project's accountant and the long-term national consultant (neither of whom have a formal management role under the Vietnamese rules) sat down together, worked out how much management fees amounted to over the past months, and devised their own way of dividing up the money. Under this scheme, each group leader would receive 20,000 VND per month served, each hamlet leader 30,000 VND, and the head of the Women's Union and commune People's Committee head 40,000 VND. A residual was accounted for by lunch at the training (which had been held several months earlier). This division was presented to the group leader for their approval, predictably, no objections were raised. Though this may be an appropriate outcome, the process at which management fees came, finally, to be apportioned suggests that the board is playing a rather passive role in comparison to external advisors at present.

2.4. Fund 'ownership': commune, hamlet or group?

The previous three management issues were straightforward problems, primarily related to poor management and communication. Under the present heading falls a cluster of more amorphous issues related to fund ownership.

Financial flows

It appears that the original intention of the scheme was to have each of the S&C groups (or - and this is somewhat confusing - each account-bearing, hamlet) be basically self-sufficient, collecting interest, principal and savings for lending out among group members. That is why each hamlet was to have its own bank account, instead of the seed capital being transferred to a single, commune-level account (as national project management apparently still prefer). This arrangement has led to problems in practice. One results has been an unforeseen de facto strengthening of the commune-level management functions in ways that may now be difficult (and, as section 4.6 argues, probably to undesirable) to change.

The hamlet-level Vietnamese Bank for Agriculture (VBARD) accounts caused some difficulty from the beginning. Hamlet leaders found they could not deposit accumulated savings during the first two months at the weekly VBARD branch in neighboring Quang La commune, as foreseen, but instead had to travel to the district town 18 km distant; such trips had to be repeated, of course, upon receipt of the seed capital. (Of course, the transport costs came out of their individual pockets, as management fees were not paid for several months). The whole experience was reportedly time-consuming, rather expensive and frustrating. Basically, group leaders could not understand why their money was not simply transferred to the head of the commune Women's Union (the recognized head of the commune S&C management board) for dispersal to individual groups. The answer from the project's side, which was not necessarily communicated or understood at the grassroots, was that this arrangement was intended to reinforce both the autonomy of hamlet-level funds, and to begin the process of bridging the gap between commune residents and the VBARD. (In practice, administrative requirements on FAO's side also played a role).

Following this rocky start came monthly interest and savings collection. Of course, there was no need to deposit these in the VBARD. Rather, the intention from the start had been to give these out in loans to group members. However, such an arrangement was not feasible, as the amount collected by individual groups each month (ranging from 10 - 125,000 VND) was too small for rereading. Instead, group leader were instructed to give the money to hamlet-level leaders (as per the rules), who then (in apparent violation of the rules) passed it on to the Women's Union head. This person then decided, in cooperation with hamlet leaders (who collected, via group leaders, household applications for funding), which individual in which group would receive the next loan. Such has the scheme operated since credit was disbursed in December.

This arrangement did not grow out of any clear management failure, and has not been abused or mismanaged in the process by the head of the Women's Union, who seems to be doing a generally good job (at considerable time-cost to herself) It was not immediately obvious how the small amounts of savings and interest collected by groups each month could find a practical outlet in intra-group lending, even if adequate amounts had been collected, moreover, the fact remained that some groups had literary no willing borrowers, only savers.

From this point on, however, groups will be collecting significantly more funds each month, due both to the coming infusion of new seed capital and to the fact that principal repayment is set to begin in April. Assuming
willing group borrowers can be found, intra-group financial transfers (bypassing the commune-level) have become somewhat more feasible. Of course, the previous arrangement, with the commune management board assuming responsibility for allocating new loans arising from savings, interest and principal payments, will persist in the absence of intervention, and represent an undeniable departure from the original intention of more less autonomous hamlet- (if not group-) level funds. The present arrangement resembles much more a commune-level fund in which key management functions are devolved to groups and hamlets.

Section 4.6 present the consultant's recommendations on this issue. The main point here has been to present how the scheme has developed in a way significantly different from the original intention. Again, this represents an area of basic project design that could have been easily anticipated, but was not particularly well thought-out or designed. An obvious point bears repeating: the question of how exactly funds collected from interest, savings and principal repayment would be recycle should have been explicitly addressed in the scheme rules, not left to a de facto arrangement that in fact conflicted with other parts of those same rules.\(^9\)

**Complexity of management structure**

Aside from the specific issue of financial flows raised above, the multi-level management structure is arguably too complex. The previous international consultant note his concern that

this structure (especially the commune management committee) will prove unwieldy. Most S&C programs are based on the principle of local management, with relatively few higher level managers/coordinators. There is a danger that the commune MC will either: not be capable of making decisions (because of its size), or will micromanage group affairs.\(^10\)

In light of subsequent confusion over inter-group financial flows, this comment is quite prescient. Not mentioned here is the issue of hamlet-level accounts combined with individual S&C groups. Based on the formal rules, and the fact that hamlet leaders double as group leaders, it is not easy to tell the two functions apart. This is an area requiring some elaboration in the scheme rules.

**Top-down management style**

The top-down nature of management inputs, in particular by national project staff and the national consultant, warrants separate attention. Key design decisions, e.g. regarding repayment mechanisms, management fees and financial flows, were apparently made without the substantive involvement of group leaders, let alone scheme participants. What causes concern is not so much the strength as the weakness of the commune management board, which appears to take its cues from the long-term national consultant on basic scheme design issue. Ways must be found of strengthening the board's, more generally group leaders', input and sense of ownership of this community fund.

### 2.5. Retraining

Who needs what retraining was something of a contentious issue during the field survey; people switched positions, different suggestions were broached, and in the end it appeared that what was needed was less 'retraining' and more consensus on basic scheme parameters, such as repayment schedules. However, it was reported indirectly that there are a few among the group leaders who are genuinely having some difficulty managing the records, and who regularly rely on the support of the Women's Union head (with considerable experience in such schemes) to work things out. Most helpful for such leaders would be more regular support from the external national consultant as well as neighboring group leaders. The present consultant inspected all group books, and found that all were basically being kept in the same format and in an orderly manner. The claim, voiced for instance by the national project director and long-term national consultant, that the 'cultural/educational level' (muc van hoa) of commune residents is too low to run the scheme smoothly, appears to lack any basic in reality. Training-related recommendations are found in section 4.9.

### 3. ECONOMIC ANALYSIS OF PARTICIPATION AND LOAN USE

This part summarizes the results of a socioeconomic analysis of the credit environment in Bang Ca commune, and how the present scheme may fit into that. It proceeds in four sections. The first gives an overview of the various sources of credit currently available in Bang Ca. The second explores household decisions regarding whether to participate in the scheme, and further, whether to borrow money from the scheme. The third looks at the savings behavior of households. The final section examines loan use in the scheme. The details of the
econometric analysis presented herein have been confined to a statistical annex.

3.1. The credit environment of Bang Ca commune

Table 2 gives the primary sources of group credit available now and in the recent past in Bang Ca commune. It helps to put project credit into perspective. The FAO scheme, represent, in its entirety, a very large infusion of credit to the commune, approximately equal to all group sources of recent years combined. Basic scheme parameters, such as average loan size, repayment period and interest rates are not obviously out of sync with other group-based credit in the commune.

One interesting thing to note is that there is that even the Poverty Alleviation and Hunger Eradication program, which is intended to provide credit to extremely poor households at below-market interest rates, has an average loan per household of 1.1 million dong – not much lower than the FAO scheme. This reflects either the notoriously poor targeting of the Poverty Alleviation program, or the fact noted earlier that it is not at all easy to reach very poor households even with small loans at concessional interest rates.

Table 2: Credit Environment in Bang Ca Commune.

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Manager</th>
<th>Fund</th>
<th>Household</th>
<th>Average loan</th>
<th>Monthly interest</th>
<th>Repayment period</th>
<th>notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAO project credit</td>
<td>Individual groups/ commune Management Board</td>
<td>121 mill (two rounds)</td>
<td>63 borrowers (first round only)</td>
<td>1.3 mill (first round only)</td>
<td>1.8%</td>
<td>12 months (principal paid in installment from month 4)</td>
<td></td>
</tr>
<tr>
<td>WU/VBARD</td>
<td>WU</td>
<td>9.3 mill</td>
<td>19</td>
<td>0.5 mill</td>
<td>2.3%</td>
<td>9 months (principal repaid on 9th month)</td>
<td>This round completed about one year ago (hence the higher interest rate)</td>
</tr>
<tr>
<td>WU/VBARD</td>
<td>WU (no management fee paid)</td>
<td>42 mill</td>
<td>25</td>
<td>1.7 mill</td>
<td>1.75%</td>
<td>same</td>
<td>This round was completed recently (100% repayment)</td>
</tr>
<tr>
<td>WU/VBARD</td>
<td>WU (no fee)</td>
<td>30 mill</td>
<td>17</td>
<td>1.8 mill</td>
<td>1.9%</td>
<td>same</td>
<td>Repayment scheduled for March 1997</td>
</tr>
<tr>
<td>Poverty Alleviation and Hunger Eradication Fund</td>
<td>WU and People's Committee (?)</td>
<td>46 mill</td>
<td>42</td>
<td>1.1 mill</td>
<td>1.0%</td>
<td>36 months; principal paid on 36th month</td>
<td>This is ongoing repayment is due in September '97</td>
</tr>
</tbody>
</table>

3.2. The decision to participate in, and borrow from, the scheme

Who is participating in this scheme, intended, as it is, to be both broadly participatory and inclusive of the relatively poor? Fortunately, the project has conducted a household wealth ranking exercise whereby all commune households were classified into one of four categories. These categories were based on specific indicators for household food security, physical assets and land, access to loans, and productive potential. Although separate criteria were developed for each of the three village communes, they are almost identical. Table 3 is a translation of the Vietnamese-language criteria.11

Table 3: project wealth ranking criteria, and actual classification, for all households in Bang Ca commune

<table>
<thead>
<tr>
<th>Rank</th>
<th>Basic of classification</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food security</td>
<td>housing</td>
</tr>
<tr>
<td>1</td>
<td>Enough to eat, or short one month short</td>
<td>Well constructed main and supple-mental houses</td>
</tr>
<tr>
<td>2</td>
<td>Short 1 or 2 months</td>
<td>Main house constructed</td>
</tr>
</tbody>
</table>
Combination of the above household classification with individual S&C group records (in a tedious procedure the consultant hopes he never must repeat) yields table four below. On first glance, the table suggests that the large majority of households not participating in the scheme fall into the poorest two categories. Econometric analysis confirms this (Model 1.A.1 in the Statistical Annex). Households of rank 2, 3 and 4 were, respectively, 14%, 70% and 80% less likely to participate in the scheme compare with households of the first rank.

Table 4: Extent of participation in scheme, by household wealth rank

<table>
<thead>
<tr>
<th>Household wealth rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-participants</td>
<td>16</td>
<td>12</td>
<td>24</td>
<td>27</td>
<td>79</td>
</tr>
<tr>
<td>Savers only</td>
<td>25</td>
<td>22</td>
<td>18</td>
<td>21</td>
<td>86</td>
</tr>
<tr>
<td>Borrowers, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowed &lt;= 1 mill</td>
<td>12</td>
<td>13</td>
<td>3</td>
<td>8</td>
<td>36</td>
</tr>
<tr>
<td>Borrowed &gt; 1 mill</td>
<td>9</td>
<td>8</td>
<td>3</td>
<td>7</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>228</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* There are 244 households in the commune: therefore information is missing on 16 households (7% of total)

Table 4 further indicates that households of ranks one and two may have been more likely than those of ranks 3 and 4 to participate in the scheme. (Again, econometric analysis bears this out [Model 1.A.2]). In fact, fully 47% of participating first and second rank households decided to borrow from the scheme, compared with only 35% of third and fourth rank households.

A slightly different econometric model (1.B.1), which draws only on sampled households and thus is able to compare other indicators, refines our understanding of the decision to borrow. Rank, it seems, is not the important factor. Rather, a borrower's level of education, and previous loan experience (from other group schemes or the bank directly), stand out as the most significant predictors of the decision to borrow (once a household has joined the scheme). Specifically, each additional year of education (of the female participant) increases the odds of choosing to borrow from the scheme by some 46%. But the effect of having borrowed before dwarfs all others. Those who had borrowed from another sources before are almost 15 times more likely to borrow from the scheme than those who had never before done so.

The mechanism by which education influences the decision to borrow is probably knowledge of and confidence regarding investment opportunities. This mirrors findings in many sectors, such as farmer extension generally, and family planning. It also makes sense that prior borrowing experience is directly linked to borrowing from the scheme. After all, maximum loan size, at two million dong, is still large enough to attract most well-off households, the scheme is meant to be broadly participatory; and sources of credit in the commune are assumed to be quite limited. Thus, those with previous credit experience are not likely to refuse the chance to borrow from the project.

Returning now briefly to Table 4, a final question is whether there is a link between the size of loan a borrower chooses to take out from the scheme, and the household's wealth rank. A quick glance at Table 4, as well as econometric modeling (1.A.3), reveal no systematic relationship between the size of the loan and the wealth ranking of the household. This is an interesting finding. It suggests that once a household has decided it can make productive use of credit, it's level of poverty does not strongly constrain it from borrowing relatively large sums. Note that this holds only within a ceiling of 2 million dong; much beyond this, the effect would almost certainly be different, with only well-off households daring to borrow very large sums. This may be taken cautiously as justification for a (relatively high) two millions dong loan size ceiling. Lower credit ceilings would
likely have the effect of being more self-targeting onto poorer households (which would be appropriate if a project wants to target, specifically, the poor, excluding the non-poor). However, on this (albeit limited) evidence, credit ceilings lower than two million dong would also limit a significant number of poor households from making some investments they themselves deem productive and profitable.

3.3. Savings behavior in the scheme

As shown in table one, there is a large observed variation in the average amount saved per month at the group level (from 7-31,000 VND/person/month); of course, the variation among individual savers, shown in Table 5 below, is large still. Why? The two most obvious answers would be that savings behavior of households is closely linked to their wealth, and that those households which wished to borrow from the scheme would save more (since they might hope to borrow at the 1:10 ratio).

Table 5: Average saved per month for individual borrowers, by household rank

<table>
<thead>
<tr>
<th>Household wealth rank</th>
<th>Average saved/month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1-4,000</td>
<td>7</td>
</tr>
<tr>
<td>4-10,000</td>
<td>8</td>
</tr>
<tr>
<td>10-25,000</td>
<td>6</td>
</tr>
<tr>
<td>26,000+</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

There are 167 savers in the scheme; therefore, information on wealth rank is missing from 26 households.

Both of these variables play some role, both at the individual and group level. As a quick look at table four suggests, relatively poorer households are under-represented among the highest two categories of savers (a finding also suggested by Model 2.A.1). At the group level, the opposite appears to be the case (see Model 2.B). Group with a higher average wealth ranking (i.e. relatively poorer groups) actually saved more; each step up the wealth rank (e.g. from 2 to 3) is associated with 9,000 VND more in average savings per group member (see figure 5 in the statistical annex for a graphical depiction). This is one of the most surprising findings of the statistical analysis. It suggests that savings discipline is being embraced just as eagerly (indeed, perhaps more eagerly) by those groups which have relatively poorer members compared with those with a larger number of better-off members. (However, this should not obscure the basic, and more intuitive, relationship between wealth and savings drawn from table four). Finally, a strong, statistically significant effect on savings of borrowing from the scheme is clear (and pictured in figure three of the statistical annex).

3.4. Loan use among surveyed households

An attempt was made as per the TOR to ascertain the uses to which project credit have been put at the household level. Given that a substantial amount of time during the four days spent in Bang Ca was devoted to management issues, an in depth farming systems analysis at the household level was not feasible. Rather, the field survey simply attempted to identify the primary productive activities to which project credit could be positively linked. Figure two below presents the results.

The results confirm what one might broadly suspect. Pig raising, orchards and purchasing fertilizer were the three activities attracting by far the largest share of investment. It may be of interest that several interviews suggested a link between project activities in other areas (such as construction of model pigsties; orchards; and anticipated demand for additional fertilizer and buffaloes due to the introduction of double cropping in village three [made possible by a project-supported dam]). While difficult to quantify, such complementarity of credit provision and other project activities can be expected to increase with the further development of project supported extension models over the next two years.
4. SUMMARY AND RECOMMENDATIONS

4.1. Overall scheme indicators

Basic indicators suggest the scheme is performing adequately. Following the initial seed capital installment of 68.3 million dong, the fund has grown over 20% in (nominal) value in less than four months. It is, moreover, broadly participatory, with 70% of households participating in one of the 17 S&C groups, and fully a quarter of all households having borrowed from the fund. Gross savings formation has slowed significantly since the initial two months, but continues at a steady pace. Roughly all the remaining project seed capital can now be allocated at the foreseen 1:10 savings-to-capital ratio. Interest payment and savings contribution discipline have been generally excellent.

4.2. Initial scheme design and documentation

The scheme suffers from a lack of clarity on some basic aspects of project management and design, which partly can be traced back to poor specification and communication in the initial design phase. Four important gaps are identified in the initial documentation. The criteria for the initial transfer of seed capital were discussed and apparently agreed to by the main players, but documentation apparently does not exist regarding the specific rules, which later caused some trouble. Both repayment mechanisms and management fee payments are left unspecified in the Vietnamese-language project rules. Rules regarding when savings can be fully withdrawn by contributors are ambiguous. And financial flows between the three levels of commune management are only partially identified; specifically, the mechanisms by which interest, savings and principal payments may be recycled into new loans is not addressed.

Recommendations:

1. A new, more complete list of project rules addressing all points raise above (as well as some below) should be drawn up with the participation of all stakeholders, in both Vietnamese and English. The intention should patently not be to revise those rules that are currently clear, but, remedially, to clarify those that currently fall into an administrative gray-zone. In the process of doing this, participants should be clear that some current practices (such as the commune management board having responsibility for inter-group financial transfers and loan approvals) contradict the initial rules that were agreed to.

2. If possible, all stakeholders (including group leaders) should put their signature to the newly specified rules, indicating their agreement and commitment to proper implementation.

4.3. Criteria for transferring funds

The initial fund transfer caused problems. Though insufficiently documented, the criteria were reportedly discussed thoroughly, and agreed to. In the event, the second, constraining part of the criteria – which held that the average seed capital per participant at the hamlet level could not exceed 500,000 VND – was poorly communicated to commune residents and group leaders, resulting in some resentment when the initial transfer of funds did not match the expected 1:10 savings-to-capital criteria.

Criteria for the second round may be similarly unclear; a memorandum states that the second criteria will continue to be operative, whereas personal communication from project staff indicated that it will not, i.e. all remaining funds will be disbursed without reference to the average capital/participant criteria.

Recommendations:

1. Criteria for the second round should be clarified in writing at the soonest possible date, and communicated to households prior to actual disbursement.

2. In the future, rules of the type A-subject-to-constraint-B should if possible be avoided, especially if the constraint B is something not easily evident to individual households. While the intention (to help keep loan size relatively small and thus pro-poor) was sound in this case, the transfer criteria were not an effective means of doing this.

4.4. Repayment mechanisms

One of the most serious management shortcomings of the scheme lines in the lack of clarity among borrowers and group leaders alike regarding the repayment regimen. Almost all borrowers interviewed thought the rule was: pay as much as you want, when you want (as long as everything is repaid by the end of the one-year
This is both 'incorrect' in terms of the previous agreement (according to the long-term national project consultant), and a dangerous departure from best practice in the savings and credit sector. The long-term consultant attempted to clarify the situation in discussions with group leader at the end of the field survey; in theory, they now 'remember' the original agreement and have pledged, somewhat reluctantly, to try to collect the first installment of principal repayment beginning, as scheduled, in April.

Recommendations:

1. It is doubtful that all households know their repayment obligations at this point in time. The project should consider sending a letter to all households (perhaps the same one outlining criteria and scheduling for the second round transfer) detailing the expected repayment regimen. The project should be aware that a large number of borrowers and group leaders feel that beginning repayment after four months is both difficult and basically unnecessary. Whatever the merits of his view, the scheme should stick to the original rules. Tamper with these now, and a bad precedent will be set.

2. All project staff associated with the scheme should pay particular attention to repayment discipline over the next two months, which will be crucial in determining whether the project

4.5. Payment of management fees

Until this month (and the conclusion of the field survey), group leaders had little idea both when and how much they would be paid for their considerable investment of time and energy in the project. Timely payment of management fees should be considered vital to sustainability; any scheme can run on good-will only so long. Despite belated action on the part of the project's accountant and the national consultant (neither of whom have formal management responsibilities under the Vietnamese-language rules), a specific set of guidelines relating to the use of funds collected for management do not exist.

Recommendations:

1. As part of the reformulation of scheme rules recommended above, create a formal plan for the allocation of the management fee portion of interest payments. Some of the following aspects might be considered:

   a. Rather than an ad hoc, fixed payment (e.g. the scheme has x amount this month, so group leaders should get about 20,000 each), as is the case at present, a percentage system (e.g. group leaders receive x% of the management fee collected) may be both more appropriate and may serve as an indirect incentive to secure repayment of interest.

   b. Basic functions of group management must be performed regardless of outstanding loans within the group and the number of members, and simplicity of allocation criteria is important; therefore, management fees should be divided equally among all groups leaders.

   c. Finally, group leaders should probably be paid monthly, not quarterly, to reinforce their responsibilities and give everyone an incentive to show up to the meetings on time.

4.6. Financial flows

The scheme originally envisioned S&C groups that would be largely autonomous. Seed capital would be transferred to hamlet-level accounts, increasing the sense of local control over and accountability for 'our' fund. Savings, as well as interest and principal payments, would recycle to other group members, increasing peer pressure for repayment as well as providing incentives for careful group monitoring of loan use. The intention was specifically not to have a commune-level management of funds.

As might have been anticipated, groups could not possibly collect sufficient funds from interest payments and savings contributions in the initial four months two allow for viable intra-group lending. In the absence of a plan in advance, the commune management board (particularly in the visage of the Women's Union head) stepped in and basically assumed control of funds collected monthly. When combined across groups, these funds were enough for one or two additional loans per month. This essentially changed the character of the scheme, for better or worse.

The scheme now faces an important decision. In the absence of intervention, things will continue as at present. This option is not a bad one. The consultant knows of no microenterprise programs predicated on
funds managed continuously by groups of 8-15 people, some of whom do not intend to borrow. The idea that such small group can be financially sustainable fund managers appears to be based on a misunderstanding of the small group principal employed, not as ‘microbanks’ recycling loans among themselves indefinitely, but as a viable management unit (e.g. for depositing savings) and/or a group of lenders bound contractually to each other for a specified period, and who thus ultimately put pressure on each other to repay, as a group, a third party. Even hamlets, with an average of just over 20 households each, are not viable ‘microbanks’ in this fashion. (Villager - perhaps; communes - yes)

There are two alternatives to maintaining the scheme as an essentially commune-level fund, the management of which is devolved to individual groups. One is to encourage intra-group lending where feasible. Thus, if the management board or individual groups have approved a loan request, and if the loanable fund become available through intragroup interest and principal payments and savings, the funds could be loaned out immediately to this person, bypassing the commune. This option has some problems, mainly associated with bookkeeping. Some of the groups would be giving some of the money collected to the management board for redistribution among groups (e.g. if a willing borrower is not present, or if intragroup funds are insufficient to lend out). Keeping track of such flows would be time-consuming. And where would ultimate responsibility lie? As it is, it lies implicitly with the commune, which has the administrative clout to ensure repayment. Of course, if the fund truly ‘belongs’ to the individual groups, peer pressure will play some role in assisting repayment, but an enforcing role for the commune authority would still arguably be necessary. The point is that such arrangement would be both more complicate and ultimately less transparent than the existing (as yet not formalized) one.

The second alternative is to bring control of the funds to the village level, and essentially not allow inter-villager redistribution via the commune. (Of course, smaller groups within the villager could - and should - continue to function as at present; the change would simply move current hamlet-level functions to the village level). This would be a major redesign of both current practice and the original intention. The consultant feels that villages are the lowest level at which the funds can be financially sustainable as autonomous units, but it is uncertain how such an arrangement would sit with existing political/institutional arrangements in the commune. Institutional sustainability is obviously as important as financial sustainability, and the project would need to weigh the costs and benefits of this partial devolution to the local level carefully.

Recommendations:

1. The original intention – to have mainly autonomous hamlet - or sub-hamlet S&C groups of 8-15 people which would indefinitely recycle their own fund - is not viable, appears to be unprecedented and should be abandoned. Actual fund ‘ownership’ probably should lie either at the village- or (more predictably) commune-level. Small groups are employed as administrative agents (as at present) and/or as contractual borrower groups (as in the Grameen Bank Model).

2. After careful consideration, the consultant recommends that current practice be formalized and legitimized. Essentially, the fund should be administratively and, if possible, legally ‘owned’ by the commune management board. In the present arrangement hamlet heads (all of whom double as group leaders themselves) serve as the intermediaries who collect, if necessary (i.e. if there is more than one group in their hamlet), the monthly savings, interest and principal payments in their hamlet, and bring them to the monthly commune management board meeting. There, based on the recommendations of group leaders and application forms, decisions are made on who will receive the next round of loans. Formalizing this arrangement by amending the project rules is the least disruptive course of action, and makes both economic and administrative sense.

3. Of course, the concern is and has been that a commune-level board will i) prove unwieldy; ii) prove susceptible to undue influence from external actors (e.g. on political grounds); and or iii) will generally distort scheme objectives (e.g. of reaching relatively poor households). All of these concerns are valid. The way to address them is to take care regarding the composition and capabilities of the management board itself, and carefully to consider fund borrowing rules, rather than bypass the commune level. At present, the danger is that the management board, whose composition seems basically sound (though the presence of the People’s Committee chairman could be questioned), is acting too passively, especially in the presence of external, and in terms of the scheme rules unspecified, management inputs (particularly the long-term national consultant).

4.7. Loan size
Presently, rules stipulate a maximum loan size of two million dong, with no minimum. The previous international consultant felt the maximum size to be considerably too much, and unlikely to be pro-poor in its focus. A careful review of loan use, and household characteristics associated with it, suggests that the current rules may be appropriate. Relatively poor borrowers are well represented among those who have chosen to borrow two million. In fact, for some types of investment that may, depending on the context, be pro-such as purchase of a bull, construction of a better pig-pen, or planting orchard on currently unused land - demand relatively large amounts of capital. However, analysis suggests there is indeed a sub-group of the very poor that is not participating in the scheme at all. Such has been the experience worldwide with microenterprise lending – it is exceedingly difficult to reach the very poorest segments of the population, which may lack the complementary inputs (labor and cultivable land among the foremost) to make productive use of credit.

Recommendations:

1. Current rules regarding loan size are appropriate and should not be revised, upward or downward.

2. Groups should be encouraged to lend small where possible. A Possible measure would be to stipulate, informally or formally, that applications for credit should in general be funded in ascending order of loan size, for instance; alternatively, that loan applications should be funded in descending order of household wealth ranking (from relatively poorer to better off). In general, however, these might be objectionable measures, as they tend towards micro-management of project credit. More self-targeting measures – such as a substantially decreased maximum loan size – create their inefficiencies and are not compatible with a scheme that explicitly aims to include as many households as possible. Ultimately, it is inevitable that some household at the very well-off and very poor ends of the scale will not participate in this scheme.

4.8. Interest rates

Almost nothing is more universal than the borrower's dislike of high interest rate, and the saver's love of the same. With one or two exceptions, all borrowers interviewed stated that the lending interest rate, at 1.8%, was 'rather high'. A few non-borrowers, including some relatively poor ones, noted this 'high' interest rate was a constraint on their willingness to borrow. Most noted that the VBARD rate of 1.3% would be much more to their liking. (No one complained that the interest rate on savings was higher than that of the VBARD).

Of course. However, to revisit the interest rate issue now is to ask for trouble. The interest rate is one of only a few basic scheme parameters that is universally understood and has been formally agreed to. If it can be changed mid-course, borrowers may reason that anything can. And the alternative to lowering the interest rate for everyone is to lower it for second round participants only – an administrative nightmare that should not be seriously considered.

It is possible that the current interest rate is high relative to inflation, which at present is assumed under scheme rules to be appropriately 15% per year. If inflation once again remains in single digits this year, the issue might be revisited next year, following repayment of credit in its entirety. (This would not, however, avoid the problem of creating multiple interest rate within the scheme, since new borrowers each month are borrowing under the same rules, presumably on a one-year rolling basic).

Recommendations:

1. Do not revisit the issue of interest rate until just prior to the completion, in both rounds, of the first year's credit recovery. The long-term national consultant agreed to this principle as well, and emphasized it in speaking to the group leaders - no change in this basic scheme parameter for the remainder of the year. (Of course, at a latter date, a review of all project rules - including interest rate - would be entirely appropriate).

4.9. Retraining of group leaders

One issue brought up at the beginning of the field survey by national project staff was their perception that group leaders needed some form of retraining. A thorough review of the bookkeeping in individual group revealed no systematic problem. However, there are allegedly a few group leaders who as yet feel uncomfortable in their duties.
Recommendations:

1. What is needed in this scheme is not so much retraining, as a thorough review of administrative and design issues (identified above) that appear never to have been consistently communicated at all. This, of course, should be done at the earliest date.

2. For individual group leaders who may be having trouble, a combination of increased assistance from external staff (e.g. the long-term consultant) and, more accessibly, neighboring group leaders, would seem an appropriate, targeted solution. Going through the ABC’s of interest calculation for group leaders who have been doing this competently for several months would not be a particularly helpful exercise.

4.10. Socioeconomic analysis

Credit environment

FAO credit is currently the largest among several group-based credit schemes run by the Women’s Union and commune People’s Committee over the last few years. Basic parameters of the current scheme (loan size, interest rate, etc) are within the typically observed range for other scheme. One might note that the only large observed difference is the project’s notion of fund ownership at the group level.

Household decision to participate in scheme

Almost three-quarters of commune residents are participating in the scheme at present; it can thus be judged to be relatively participatory. However, relatively poor households are over-represented among those who declined to participate. The odds of participating in the scheme are 80% lower for households with the poorest wealth rank, compared to those with the richest rank. This suggests that there is, indeed, a group of the ‘hard-core poor’ which may be very difficult to incorporate into the scheme.

Household decision to borrow from the scheme

Some 25% of commune residents (38% of scheme participants) chose to borrow money from the scheme in the first round. Well-off households were somewhat more likely to borrow than relatively poor households, though the difference is relatively small. The two attributes most strongly associated with the decision to borrow from the scheme are: i) education level of the female participant in the scheme; and ii) a household’s previous credit history. Specifically, each additional year of education (of the female participant) increased the odds of choosing to borrow from the scheme by some 46%. The effect of having prior experience with credit was even greater. Those who had borrowed from another sources in the past were almost 15 times more likely to borrow from the scheme than those who had never before done so.

On the other hand, a household’s wealth rank appears, at least in this scheme (with its maximum loan size of two million), to unrelated to the decision over how much to borrow. There were several households of the poorest rank who nonetheless chose to borrow the management amount from the scheme. This may serve as indirect justification for having this (relatively high, compared with most NGO-funded schemes) maximum loan size.

Household savings behavior

Predictably, relatively better-off households also saved, on average, more than poorer households in the scheme. But this effect is not strong; and, if one looks instead at group-level savings formation, appears to be reversed: groups with a higher average wealth ranking (i.e. poorer groups) actually tended to save more than groups with a large number of well-off households. In other words, savings discipline is being embraced across the board in this scheme, by both relatively poor and rich households and groups.

4.11. Loan use

Project credit has been put to productive use in a number of areas. All surveyed households used all or part of this credit to invest in livestock, usually pigs. Other productive use included investments in orchards (29% of surveyed households), purchasing fertilizer (33%) and starting up small, commercial businesses (such as selling wine, or knitting - 13%). Interestingly, project activities in other areas – such as farmer extension – appear to be increasing the demand for credit.
4.12. Areas for further investigation

Two important issues are missing from the above analysis. One is the link between the current credit scheme and the formal banking system. This forms the task for the second half of the consultancy, and will be covered under a separate cover. The second is a more detailed analysis of how loans relate to the household farming systems. Farming systems research in the project area is the subject of a different consultancy. It will, indeed, be interest subsequently to link the two topics, but this goes well beyond the scope of the present consultancy.

4.13. Towards the second round transfer of seed capital

It is appropriate to conclude this report by stressing that the scheme, despite some important design - and management - related problems to date, is bay some crucial indicators off to a healthy start. In terms of generating an outlet for savings and providing an important input for household investment, and being broadly based within the project commune, the scheme is fully meeting expectations. Given excellent savings and interest repayment discipline to date, and the generally competent and responsible leadership at the group level, the scheme is beginning to take the first, if faltering, steps towards both financial and institutional sustainability.

Given this generally acceptable performance, the most important overall recommendation of this report is that the second round transfer of seed capital begin as soon as possible. Practically, this means transfer should begin once the first few recommendations above (relating to an clarification of basic project rules and communication of the transfer criteria to households) are accomplished.

1. Found in "Qui Chi Hoat Dong Du An Tin Dung Tiet Kiem Cua FAO Tai Xa Bang Ca", issued by the commune management board (no date).

2. "Thong Bao v/viec cap von moi cho cac nhom tin dung tiet kiem", memorandum from Bart Dominicus to the People's Committee of Ban Ca, the S&C management Committee of Bang Ca, and all household in Bang Ca (copied to the long-term Vietnamese consultant to the scheme), date 29 November, 1996.

3. Ibid, point 5, Note that I have translated all the above from Vietnamese back into English, as the memo was dictated in English and translated directly in to Vietnamese.

4. The rule appears to have grown out of a suggestion in the first international consultant's report: "loan size limited to 10 times the average savings balance over the previous 6 months".

5. Table 1 was constructed from the 'bottom-up', using individual group accounts, not the commune or project master-records. In fact, it differs slightly in some places from these, as is noted at the bottom of the table: these (rather small) discrepancies should be checked, but should probably not be cause for alarm.

6. This is different from what is stated in the CTA's memorandum of 29 November, which kept the condition of 500,000 VND average per household.

7. However, even in relatively poor groups, one or two particularly rich members could have dominated the group and taken a large amount of the credit available; this possibility is not reflected in the use of average household wealth ranking in figure one.

8. The principal is divided by 9 (the months remaining in the scheme): the resulting amount is the installment on principal to be paid monthly for the remainder of the term. Interest is of course calculated on the basis of this declining balance.

9. The arrangement contradicted the stated role of the commune management board, which was not intended to be involved in inter-group redistribution of capital.

"Ket qua phan loai kinh te ho gia dinh: Xa Bang Ca", Project Document. Criteria shown are that for first villager, but are very similar to those for the other two as well. Results section for entire commune.