INTRODUCTION
I was asked to visit ActionAid Vietnam (AAV) by Elizabeth McCall, its Director. My Terms of Reference are given in Appendix 3.1 was to visit AAV's north-western Rural Development Area (RDA) in Mai Son District of Son La Province, where AAV has a programme of agricultural development focussing on improved use and conservation of lowland paddy fields and upland cropping areas, and has ambitions for work in other areas, including health, education, and savings and credit.

My main task was to help develop ways of collecting and using information on the social and economic relationships that exist in the villages of the RDA. This was an urgent requirement. AAV's earlier attempts at elucidating information, including a 'Rapid Rural Appraisal' mission in 1990, had been hampered by a number of factors including poor weather and communications, the lack of a base and of permanent partners in the area, by severe restrictions on the ability to move at will in the villages and talk freely to farmers, and above all by difficulties in explaining the need for such information - and the methods of obtaining it - to accompanying government officers. In any case, since 1990 there have been many important changes which have affected the lives of the villagers, as this Report will show. The result has been that AAV's knowledge of the economic and social realities of village life was barely enough to support its existing agricultural programmes, and clearly inadequate for further programme design. In particular AAV was anxious to know whether the technique known as 'wealth ranking' could be carried out, whether its results would be reliable, and whether middle and junior-level staff could be trained to use it effectively.

Depending on the outcome of this investigation, I was to help AAV staff assess whether they should move towards programmes offering financial services for the poor and if so, how they might go about their development. I was also to review the relevant experiences of other NGOs.

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I arrived in Hanoi on 17th October and travelled up to Son La on the 20th. I found that AAV's Agricultural Adviser, Sam Edwards, had recently begun to enjoy the freedom to travel to the villages without an escort from the Government of Vietnam (GOV), and - after a number of courtesy calls on local officials - that this freedom would be extended to me. These developments are in line with the current very rapid pace of change
I was therefore able to spend a total of nine full days (including local travel time) in the villages, including three night-halts. Mr Pham Van Ngoc, AAV's Programme Support Officer for Son La, was my main companion and interpreter, but I spent time in the field with all of AAV's current staff, including Elizabeth McCall, Sam Edwards, Mr Truong Van Am, the Son La Project Coordinator, and the three Field Coordinators of the three Communes. A key GOV officer, Mr Nguyen Tien Thanh, Vice Chairman of the District People's Committee (and Chairman of the Management Committee for AAV's Son La programme), also came to the field with me on two occasions.

In the nine days we collected a mass of information, much of it either new to AAV staff, or known to them but articulated for the first time. One of the main purposes of this Report is to present and comment on this information. With some important exceptions, most respondents were very willing to discuss quite intimate details of their village's economic and social structure with us. Wealth ranking proved not at all difficult to carry out, given the generally high standard of education of both respondents and staff. Rural Son La's human settlement pattern also helped, as it is characterised by villages with households grouped together close to their paddy land. The highly ordered village management system with its easily accessible lists of households, landholdings and other data, was also useful. In all we carried out thirty wealth ranking exercises in which all staff (and Mr Thanh) participated. Before leaving Son La I led a seminar in the Project Office which reviewed this experience. I returned to Hanoi on 3rd November.

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In Hanoi I drafted this Report, visited various NGOs who are - or who hope to be - active in credit, watched loans being disbursed at the Women's Union's interesting version of Bangladesh's Grameen Bank just outside Hanoi, discussed programme development with staff, and led a final review session on the contents of this Report. I left Hanoi on 14th November.

Note: the value of the local currency during the consultancy was approximately £ sterling 1 = 16,500 dong.

Stuart Rutherford

Bhola, Bangladesh
November 1992

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GUIDE

The Report has been organised as follows:

An Introduction briefly sets out the background to the Report including a summary of the terms of reference, and relates what happened during the consultancy in the broadest terms.

The Abstract, which follows the Contents page and this Guide, is a brief statement of the main thesis of the Report.

The information gathered during the consultancy is presented in the longest section, entitled What we were told... This organises what we learnt from villagers, staff, NGOs and other sources into certain themes. The themes are chosen with a view to their usefulness in project planning.

The mass of information leads to some Hypotheses, about what is happening in the villages and what may happen in the near future.

Next comes a section called Suggestions where ideas are presented for further research and some possible outlines for project design are discussed.

The Summary concludes the main sections.

The Appendices include an abbreviated transcript of field and interview notes (also indexed by themes, for greater usability), and notes on the wealth ranking exercises. There is a copy of the Terms of Reference for the consultancy, and a ‘diary’ showing how the time was spent.

ABSTRACT

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The Report describes the way in which the economic relationships typical of peasant capitalism in south and south-east Asia are re-emerging in the study area - three rice-growing Communes of Mai Son District in Son La Province - where previously collectivised agriculture has been abandoned in favour of the household as the basic unit of production.

Households who were doing well before the ending of collectivised lowland farming have held on to and improved their position relative to the poor. The stratification of households is growing sharper, with capital-rich food-surplus households enjoying rapid economic progress and diversification into new or expanded activities, including trading, while capital-poor households are becoming increasingly dependent on them in a relationship of debt. Day labouring is becoming common. The poor still work their allotted paddy land, but with increasing difficulty, and there are signs that they may begin to lose effective control of their land. Sharecropping out is poised to return. The poor are very vulnerable to adverse climatic conditions, such as the recent floods and droughts. Some social services - notably primary level schooling - may be in decline, especially for the poor. These developments are occurring in both the Thai and the Kinh communities, but at a different pace.

The process has important implications for ActionAid's current agricultural programmes, and will affect the shape of the proposed programmes in savings and credit, education and health. In particular, AAV should consider setting up a system of financial services for the poor based on small regular cash savings.

WHAT WE WERE TOLD

In the good old days...

We asked many villagers to compare aspects of their life now with the situation that existed before the 1986 reforms. Those reforms recognised the household as the basic unit of agricultural production and initiated a programme in which land previously held in common and managed by the village cooperative was allocated to individual households.

In the cases of three respondents we set aside whole interviews devoted to the theme of change since 1986, and conducted pairs of 'comparative' wealth rankings in which respondents were asked to rank the households in their village in the normal way, and then rank them again according to their condition in or around 1986 - before the reforms got underway.

The 1992 and pre-1986 rank orders were similar, and all three respondents agreed with the proposition that (setting aside new households formed since 1986) 'families which are rich now were rich in the days of the cooperative - the poor then are poor now'.

Before 1986 wealthy village families were constrained from any form of conspicuous consumption by the prevailing morality and by fear of police investigation. They stored their wealth in their livestock, bought and concealed silver (in the case of the Thais) or gold (the Kinh), and kept modest amounts in the 'Commune Banks' or Credit Unions, where they earned a modest return. The Credit Unions collapsed in or around 1988 when inflation caused the account-holders to withdraw their holdings, and they have disappeared from the scene.

We got some idea of the level of participation in this form of rural banking from our Chieng Mai respondent, who was able to recall who held accounts. Out of the seventeen households that existed in his village in both 1986 and 1992, eight had been Credit Union account holders. Their rankings in 1986 were 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, and 8th (i.e., eight out of the top ten), and in 1992 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, and 8th (i.e. still eight out of the top eleven).

Poorer families held no accounts in the 'bank' because they had no surplus capital. Indeed, despite the collective agricultural regime, they were often short of food, and had to borrow rice from the rich. Lending to poorer families was therefore another way in which the rich could invest their surpluses. However, our respondents told us that interest was much less often charged then as now, and where interest was charged, rates were much lower. The exact reasons for this are not clear: government price controls pre-1986 meant that interest rates did not have to allow for future inflation, and no doubt the real demand for loans was lower on account of the collective system of grain allocation. Public sentiment may also have been more strongly against usury then that now.
A small market for privately-produced agricultural surpluses existed before 1986. The sellers were the surplus farmers who exploited the small amounts of paddy land that were allocated to private households as ‘family land’ (or ‘5% land’, referring to the tax payable on its product), or successfully used upland holdings where there was more or less a free-for-all for anyone with the labour and capital to use it. The buyers were mainly state employees (teachers, local civil servants) whose rationed food did not satisfy them and who had small amounts of ready cash from their salaries. The state also bought these products, and sometimes announced quotas for the production of pork meat and the like, which families were supposed to meet before going to the private market. Most poor families raised rice, cassava or maize on their ‘family land’ and ate it or sold it to the cooperative in return for cash to buy kerosene, salt and tobacco from the state-run stores, or alcohol and items of household luxury on the private market.

Day labour and share-cropping, two other common aspects of peasant agriculture, did not exist (or were very uncommon) before the 1986 reforms. However, share-rearing, especially of pigs, was more common than now, according to one respondent, and he claimed that the terms for the rearer had deteriorated. Under this system a farmer puts out surplus livestock to be reared by others - normally a poorer family - and the product (in the form of offspring, milk, draft-power, manure, or meat) is shared according to traditional contracts. He put the current decline in share-rearing down to growing poverty, as a result of which the poor can no longer afford to rear livestock: he felt that the levels of poverty and of indebtedness were less extreme before 1986 than now.

Land

We enquired in every Commune and most villages about how the land reforms had been put into effect. The allocation of land to households may have taken place later than in the delta Provinces, and was not complete until 1990. The paddy land has been fully allocated, though different villages used different systems. Box 1 summarises the situation.

<table>
<thead>
<tr>
<th>Commune:</th>
<th>Village:</th>
<th>Year and mode of allocation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muong Chanh</td>
<td>All Thai villages</td>
<td>First and only paddy land allocations in 1990, done on a per capita basis. The land was graded and households drew lots for a share in each grade. Results in fragmented landholdings. Here and elsewhere, government workers (including, for example, teachers) don't get any land allocated.</td>
</tr>
<tr>
<td>Ban Tre (Kinh)</td>
<td></td>
<td>Allocation of paddy land also done in 1990, but on a weighted basis, with adults getting 3 shares, children 1 each, and the elderly or infirm 1.5. This resulted in a share of about 500m² per adult. Kinhns reportedly not interested in the upland, which they believe cannot be farmed</td>
</tr>
<tr>
<td>Ban gia (Thai)</td>
<td></td>
<td>This village's paddy land allocation came to about 300m² per head, in theory producing an average yield of 100kg per head.</td>
</tr>
<tr>
<td>Camg Muang (Thai)</td>
<td></td>
<td>Paddy land allocation is about 500m² per head.</td>
</tr>
<tr>
<td>Chieng Mai</td>
<td>All Thai villages</td>
<td>First and only paddy land allocation 1989, done on the weighted per capita system. They are now about to reallocate the upland, having been to do so by the Province (no mention of this in Muong Chanh): this reallocation will incorporate a 'zoning' of the land according to the suitable crops. Details of method of allocation not yet clear but land may go mainly to 'those most capable of farming it'</td>
</tr>
<tr>
<td>Muong Bon All villages</td>
<td></td>
<td>First and only paddy land allocation in 1989/1990, using three different systems: per capita, per adult worker, and weighted per capita, depending on choice of village. Term of allocation also varied with type of land and household, and was decided by each village: some contracts are for 4.5 or 10 years.</td>
</tr>
</tbody>
</table>

About to reallocate upland (November 1992). Commune Chairman expects 'some difficulties' as 'some will gain, some lose'. Allocation will stress zoning, as in Chieng Mai.
The situation with regard to the upland is less clear, and is still in flux, with new allocations and 'zonings' about to take place this month (November 1992). In general, upland has been up for grabs, as it was before the reforms. Some Managers said that poor households are 'encouraged' to take more upland. In practice, it seems to be increasingly the case that poor families are less and less able to exploit upland, because of shortages of finance, manure, draft power, and, in some cases, labour. In some villages upland is in very short supply: in Ban Lyn for example, the rich are constrained from increasing their livestock production by a shortage of upland on which to grow fodder. By contrast, farmers in one Kinh village in Muong Bon Commune are looking forward to the upcoming reallocation of upland as an opportunity to divest themselves of it - they think it is not economical to farm and wish to be relieved of the tax burden it imposes. We heard that some villagers fear inter-village quarrelling when the land will be reallocated: others thought that village boundaries were so well established that this was impossible - that anxiety about it might be a smokescreen behind which leading families grab the land. Certainly in many villages richer families have recently established extensive new coffee groves, fruit orchards, and vegetable gardens on their upland holdings.

While the poor in some cases may be pulled or pushed off the upland, they are reluctant to lose their allocated paddy land, even if they find it hard to farm economically. When we asked about this, it was clear that everyone 'sees' paddy land as the key economic resource. Some people told us that a popular view held that there may never be another reallocation of paddy land, despite the original plans that called for five-yearly re-allocations. It seems that poor farmers may be willing to farm their paddy land even at a loss rather than loosen their hold on it by - for example - sharecropping it out.

### Rich and poor

ActionAid Vietnam is committed to working with the poor. An important task of this consultancy, therefore, and the main reason for the Director's interest in training in wealth ranking, was to devise reliable ways of distinguishing levels of wealth in the villages. In the event we used the technique, often extended into long interviews, to distinguish levels of wealth and to probe for their reasons and for the values that underlie the villagers' rankings. Because the villagers were so forthcoming, and so quick to understand the 'principles' of wealth ranking, we gathered a rich haul of information.

In general the kinds of reasons advanced for ranking a household above another did not vary much between Communes, nor between villages within the Commune, nor between the sexes. However, there were sharp differences between the two main communities (Thai and Kinh) and there were also differences according to level of education and status.

Among the Thai, the most frequent immediate reasons given for ranking were the **number and type of assets held by the household**, the **age of the household** (i.e. the time elapsed since the establishment of the household as an economic unit), the **labour composition of the household**, its **holdings of capital** and of **animal draft power** (particularly buffalo), **fate**, and the **management skills of the head of the household**. **Inheritance** was also mentioned. In general, the reasons given during the ranking process suggested cooperative, egalitarian and self-sufficient villages with small differences in wealth brought about by differences in the point at which a household stood in its life-cycle, and in the number, age and natural endowments of its members.

The Managers and Vice-Managers of Thai Village Cooperatives strove hard to present their villages to us outsiders according to this egalitarian and communal vision. Poorer householders appeared to share this perception, while contradicting it in many of their other statements. One respondent, elderly, relaxed, and among the better off, explained that Managers would regard admitting to the increasing polarisation of rich and poor - and the economic relationships that go with it - as indictment of their management. Nevertheless, the poor were more likely than the Managers to provide lists of assets as evidence for their rankings, and to cite the age of the household and fate as the main reasons for the quantity of assets. The Managers more often stressed labour, opportunities to invest capital, and the management skills required to do so.

### Box 2: Reasons for Ranking by a poor Thai woman

Mai Tien (Kinh) Village has 33 hectares of upland of which only 4 are productive. The ten households that cultivate those 4 hectares will want to return the land to the Commune at the upcoming allocation in order to avoid paying tax. (Information from Vice Manager).
Kinh respondents also frequently mentioned the age of the household and its labour composition. But both rich and poor Kinh were more likely than the Thai to cite financial as well as human characteristics as reasons for ranking. They stressed the existence or lack of business capital and the level of indebtedness. They were more likely to rank according to whether the household produced a surplus or deficit of rice and to quote the number of months per year during which the household had to borrow rice. (See Box 3).

We spent almost no time researching kinship in the villages. An impression gained from the names on the ranking cards, and a few casual questions, is that smaller Thai villages are like extended families, with sons finding their wives in the village or bringing them from nearby villages. The Kinh villages were established here as part of GOV's encouragement to plainsfolk to open up the 'New Economic Zones' in the mountains. We found that they tended to come all at the same time, from neighbouring home villages, but were members of a number of different families.

Box 3: Reasons for Ranking by a Kinh Village Manager

<table>
<thead>
<tr>
<th>Rank: H/hs in rank: Reasons:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= 1 Clever. Got early capital. Had a salaried job. Many contacts.</td>
</tr>
<tr>
<td>2= 4 Capital-rich, from inheritance or from early business success. Clever</td>
</tr>
<tr>
<td>5= 4 Have capital (two have bank loans), but have large families of small children.</td>
</tr>
<tr>
<td>10= 10 Have large' families of young children.</td>
</tr>
<tr>
<td>20= 9 Short of capital, so can't raise livestock or exploit land. Vulnerable to bad weather. Suffer from poor quality upland holdings. Rice deficit 3-months.</td>
</tr>
<tr>
<td>29= 11 No capital and little labour. Many are elderly or are new households. Rice deficit 4+ months. In constant debt.</td>
</tr>
<tr>
<td>40 = 15 As 29= but with additional burdens such as caring for elderly relatives etc.</td>
</tr>
</tbody>
</table>

Relations of production

We were interested to know how agriculture was managed under the new system of households as 'autonomous production units'. Our most general questions were met with positive answers: 'everybody', or at least 'most people' were happy with the new system, and 'almost everyone' was 'better off'.

The 'ideal model' of production, as presented to us by village Managers and others, is that of the self-sufficient farming household, using its own labour and its own animal power on its allocated land, and financing each crop from the previous harvest.

Detailed questioning about how each agricultural task was financed and carried out, however, revealed -that only a few better-off households conform to this pattern.

Not every household has a buffalo. Those that do, use it to plough and manure the paddy land (buffalos are not much used on the upland). Those without have to borrow a buffalo, and here again the reality is more complex than the ideal. In some cases, notably among smaller Thai villages, buffalos are loaned to poorer houses without payment other than the disadvantage of having to wait for animals to become available. Elsewhere the loan is repaid in various ways, including an agreement to rear or feed the animal for a given
period, or a share of the harvest or advance-sale of the crop at favourable terms. In larger Thai villages, among the Kinh, and among the very poor Thai in small villages, the poor are not seen as credit-worthy and cannot get access to animal power, and have to hand-hoe the land.

Well-to-do farmers keep back or buy seed, and finance purchases of fertiliser and pesticides from the state 'companies' by sales of paddy. Poorer households go into debt to buy inputs, and cut down on the amount of fertiliser and pesticides used (in Muong Chanh Commune pesticides appeared to be almost entirely absent). A minority of farmers have loans from the State Bank for Agriculture (VBA). In Muong Chanh Commune we were told by the Commune authorities that just. 18 farmers had loans. In Chiang Mai and (notably) Muong Bon Commune - the nearest to the Bank's office in Hat Lot town - there are more. In the Kinh village of Doan Ket in Muong Bon, 25 out of 26 households took bank loans last season: the village cooperative Manager has 'contacts' in the bank.

Box 4: Case Study

Mrs Ngau, widow, Ban Lyn

Mrs Ngou is a widow with five children. Their house is in almost derelict condition, and she describes herself as poor. She needs to borrow rice to get through the hungry season, but says that it is getting harder and harder to get loans. She now has to make advance sales of the paddy in her allocated land to richer families in her own village, and our calculations put the effective cost of her current loan at 50 to 701 per season. She recognises that this level of borrowing is unsustainable, but says that the rich-poor gap is inevitably widening, as the poor become more dependent on the rich through debt. She gets by sending be- daughters out day-labouring, in the new coffee groves being developed by richer families. They get between 5,000 and 7,000 dong per day, without meals. She says she cannot think how they would otherwise survive.

Borrowing rice to survive

For all but a few families, financing family consumption during the 'hungry period' just before harvest (especially April-May, and to some extent August-September) is a recurrent problem. The problem is not new, and in the pre-1986 period of collective farming the same poor families were in the habit of taking consumption loans from the cooperative and from private farmers. This was another area where village Managers were sensitive: some began by denying that more than a small number of households had to borrow rice, and by claiming that no interest was taken on such loans. Later most conceded the existence of interest-bearing rice loans, but some said that the lenders were from other 'from other villages' were it as clear that there remains a strong moral distaste for 'lending rice for gain, despite its prevalence. This is especially strong in the Thai community.

Box 5: Who said what about rice consumption loans

1. Muong Chanh, Commune Chairman: Usually small, short-term, free of interest. Sometimes30% interest payable for a loan for a whole season. A traditional system. Interest rates 'coming down'.

2. Vice-Manager, Ban Hia Village, Muong Chanh Commune: Always interest-free as the village is related and cooperative. But the rich don't lend to the poor if they won't be able to repay.

3. Upper-middle farmer, Ban Hia Village, Muong Chanh Commune: Rich men do not admit to taking interest.

4. Poor young man, Cam Muong Village, Muong Chanh Commune: Interest or rice consumption loans is very common.

5. Manager, Ban Luong Village, Muong Chanh Commune: Seven out of our eight households borrow. Interest rate is 20% for the season, and this rate is a new phenomenon. The rates are exploitative but most people are so desperate they are grateful.

6. Manager, Ban Den Village, Muong Chanh Commune: Interest paid to outsiders only: taking interest is frowned on. At a subsequent meaning he said he personally encouraged changing interest - free loans make the poor
Sharecropping out

The commonest form of borrowing, both for consumption and for financing paddy production, is by mortgaging the harvest on the household's allocated paddy land, in one of the ways described in the examples given above. On my second day in the field, in Na Ca Village in Muong Chanh Commune, we were told about the next logical step in the re-emergence of peasant capitalism - sharecropping out. The Manager told us that three or four households in his village had arrived at a state of permanent indebtedness and had concluded that the costs of production outweighed the benefits. They had therefore approached a richer farmer and agreed share-cropping terms with him, under which the rich household farmed the land, supplying all the inputs, and the two parties shared the harvest equally - though the poorer landholder had to pay the production tax. However, though I asked about this system in almost all subsequent interviews, it remained an almost isolated example.

Borrowing cash and taking credit

By comparison with the number of loans taken and repaid in rice, there appear to be few taken in cash (and repaid in kind), and even fewer taken and repaid in cash.

There is only one lender active in the formal cash-loan market. This is the government Agricultural Bank, which has a District branch in Hat Lot town with two small sub branches in Connoi (11km south) and Na Sa (15km north), covering a population of about 87,000 (about 15,000 households). The Manager told me they had 2,500 farming borrowers altogether, with 2bn dong dispersed in loans ranging between 500,000 and 2m dong (£30 - £120). Most are crop-loans, but a few are for farm machinery: in neither case does the loan period exceed 12 months. This represents 90% of the loan portfolio, the balance being loans to local businesses in the town. Physical collateral is sought were practicable, but in up to 80% of all cases is unobtainable and the loans are guaranteed by groups such as that represented-by the Doan Ket Manager and described in Box 6.

Loan approval is lengthy and complex. The borrower has to furnish approvals and recommendations from several sources including the People's Committee at Commune level, the police, the Farmers' Association and the Womens' Union. A site inspection by bank staff is mandatory. Son La Province is a 'priority area' and enjoys a discount on the official interest rate which has brought the rate down to 2.125% pm from October...
20th 1992. Repayment is good 'so far' - but the Manager has had to sanction some rescheduling recently. He cannot tell me the repayment rate since he is not required to calculate it: he merely reports disbursements and repayments on a receipts-and-payments basis.

Box 6: Who said what about cash loans

1. Commune Chairman, Muong Chanh Commune: Only 1% households at the Commune have VBA bank loans: there average size is 1m dong the has one. Cash loans within the village mostly short term and usually free of interest, but interest payable if of longer term. Cash taken from sources outside the village 'rate': in such cases the rate is normally double the bank rate.

2. Manager, Ban Luong Village, Muong Chanh Commune: Cash loans free of interest if small and of less than a month's duration. Above that rate is 10% per month. Such loans taken mostly as credit for shop purchases, or for school books, building work or medicines.

3. Poor women, Ban Luong Village, Muong Chanh Commune: Cash loans very hard to come by: the borrower has to demonstrate his/her creditworthiness by showing he/she has crops in the field. Interest normally paid. There is a great and unsatisfied demand for loans.

4. Elderly villager, Ban Ban Village, Chieng Mai Commune: Comments that 'only the rich can get formal loans: they thus benefit from cheap credit which they can reinvest at a great profit. The poor can't get cheap loans and are collapsing into permanent debt'.

5. Chairman, Chieng Mai Commune: In the time of French colonisation cash usury was common. Now cash loans for interest, shameful in Thai culture, have disappeared.

6. Tea-shop owner, crossroads market, Chieng Mai Commune: Was unable to get a loan for his tea-shop, which he financed by rearing and trading livestock over many years.

7. Poor household, Ban Vut Village, Chieng Mai Commune: Buys goods on credit from local shops and repays it rices at the harvest at an interest rate that reflects a premium to allow for the drop in rice prices at harvest. Has heard cash loans are given by Hat Lot traders at 20% a month. The greatest need of the poor is capital at affordable rates.

8. Chairman, Muong Bon Commune: 20% of Commune households hold bank loans, of six to eight months' duration, valued between. 500,000 and 2m dong taken for fishponds and livestock. 'Most' are successfully used & repaid.

9. Manager, Doan Ket Village, Muong Bon Commune: 255 of 26 households hold bank loans, value up to 1m dong, negotiated by him with 'contacts at the bank. Used mainly for fertiliser for upland crops. However, up to 80% of these have had to go to private moneylenders, who are traders and businessmen from other villagers charging double the bank rate. This is because of recent exceptional weather conditions.

10. Poor villager, Doan Ket Village, Muong Bon Commune: Confirms he holds a bank loan worth 260,000, got for hit by the Manager and delivered in the form of fertiliser. Has no hope of repaying it as he ah no assets left, no savings, no livestock, and his crop is wholly mortgaged to creditors. He holds 300,000 dong in private loans from three creditors, but has reached the limits of his creditworthiness.

11. Vice-Manager, Mai Tien Village, Muong Bon Commune: Reports that the deeply indebted have begun to flee: says two households have fled from Doan Ket Village recently.

12. Poor villager, Mai Tien Village, Muong Bon Commune: Additional costs in obtaining bank loans, including gifts and food for bank staff, can amount to as much as 30% of the loan value of a small loan.

The Manager agrees that demand ‘far exceeds’ supply, though he believes that this may change as the banking system is likely to enjoy better funding in future. (His disbursements have gone up 50% on last year). He confirms that usury is illegal but also that it exists: ‘people are willing to pay even high rates of interest if they think they can make a profit’.

The informal capital market

Although we were repeatedly told, especially by the poor, of the need for capital, the informal credit market does not appear to be supplying it in any quantity. Cash loans are 'increasingly difficult', 'very difficult' or
'virtually impossible' to come by. Even quite modest sums have to be built up by loans from several sources: the poor farmer from Doan Ket Village (quoted in Box 6) took his 300,000 dong (less than £20) from three different sources. While we found that the private credit market in consumption rice had developed a standard price of 20% per season, a rate quoted to us in many villages in all three Communes, we heard of no similar standard rate for cash loans. This may indicate a small or intermittent or localised market, as well as uncertainties about inflation. Moreover, loans taken in cash were often reported as being repayable in rice at the harvest.

Often when we introduced the subject of cash loans, respondents began by talking about taking credit from shopkeepers, suppliers, and tradesmen, which appears to be very common. Some shopkeepers offer local customers goods on credit that are repayable in rice at harvest: the price is adjusted to allow for the postharvest fall in the price of rice, so it was not possible to calculate any premium taken for the credit per se. On the other hand we were told in Hat Lot that wholesalers supply retailers with goods on interest-free credit 'to boost business', and that retailers offer interest-free credit to (a few known) customers for the same reason. Suppliers of items such as the currently very popular roofing tiles will take part payment for deliveries and collect the balance later at agreed additional cost, again often payable in rice (they will also accept payment for tiles in the form of firewood, and will allow casual workers to take their pay in the form of tiles). Tradesmen such as carpenters do the same: they make a lump-sum contract with conditions built in to allow them to charge extra for delayed payment.

We were not told of any Rotating Savings and Credit Associations. We did not always ask about them and they may be so much part of everyday life that people didn't think to tell us about them. Vietnam has had many ROSCAs in the past, and the Mennonite Central Committee Report\(^3\) describes the 'hois' found in their work area.

Other suppliers of credit

Although the VBA is the only supplier of formal cash loans, there are state-owned or state-run 'companies' that supply formal credit for specialist enterprises. In the AAV area the Tea, Mulberry and Coffee Company is active. It offers a package of seedlings and other inputs, extension work, and consumption support (in the form of rice) to farmers who develop upland areas for coffee. Some respondents hinted to us that the most popular part of the package is the consumption rice, which doesn't have to be paid for until the coffee comes on stream some three or four years later.

Savings, and capital formation

The VBA has only 8,000 customers who hold savings accounts, and the Manager told me that of these about a quarter are wholly inactive, and others dormant. He puts the average size of the accounts at 500,000 dong (less than £30). Most account holders are private householders. The interest rate (from October 20th 1992) is 2% per month. The Manager believes that demand for savings accounts will increase as inflation continues to stabilise, agricultural production grows, and the need for security becomes more apparent. We heard of no other formal savings facilities.

Wealth is stored, and capital for investment is developed, in a variety of informal ways. The tea-shop owner in Chieng Mai (Box 6), who couldn't get a loan, built up his investment capital by rearing and trading pigs. Thai villagers often told us that major purchases or investments such as housebuilding or rooftiling or fish-pond development were financed by rearing and selling large livestock, especially buffalo\(^4\). We know that people still hold wealth in gold and silver, but we have no estimates of the extent of this. In telling us about the growing gap between rich and poor one perceptive poor villager described the virtuous upward spiral which capital-rich households enjoy: they hold large' livestock which makes them manure-rich which leads them to above-average yields which they can invest in more livestock or move into new enterprises like fishponds, coffee groves, or vegetable gardening. The poor are excluded from the process and are unlikely to be able to join it without a fundamental transformation of their economic base.

The Thai people build enormous and expensive houses. The timber is collected from the forests by means of a considerable expenditure of labour, and the carpentry and the rooftiling is expensive to buy. Several of the poor families identified by the wealth rankings were said to be poor because they were young households that had just made this enormous investment, which seems an inescapable cultural imperative. When I speculated with a few. Thai families that their houses represented a store of wealth - in effect were a way of saving - the idea was rejected, and I was told that Thai almost never sell their houses or the timber in them. However, they do pass them on through inheritance to their eldest son, and those who can afford to do so build similar houses for their second and subsequent sons. Those who enjoy such an inheritance get an advantaged start to their independent life.
**Share-rearing** is one of the few ways in which poor households can buy some access to the surpluses enjoyed by the rich. But as mentioned above (page 12), we heard several reports that it is on the decline. In one village we were told that it was now only practiced within extended families to raise pork for the Tet festival: the poorer members of the family raise a piglet for a few months before Tet and then share its meat equally with its owner. More often we were told that the declining fortunes of the poor meant that they were no longer seen as reliable rearers - they couldn't be trusted to feed or guard the stock, or see to its veterinary care properly. Owners prefer to extend their own stockrearing facilities, with new concrete pens and the like.

**The labour market**

The move away from share-rearing towards more intensive livestock management by the rich points to increasing concentration and specialisation of activities. We were very curious to see what affect this was having in the deployment of labour. We found that this was another area in which Managers tended to disguise the truth, many of them preferring to maintain that no labour market exists, and that inter-household inequalities in labour supply and demand were overcome by reciprocal acts of free labour.

Given the enormous emphasis placed on a household's labour composition during the wealth-ranking exercises it was clear that households with little labour power were disadvantaged, especially because it limited their opportunities to exploit the (as yet unallocated) uplands. But it was also true that some labour-rich households had difficulties exploiting their labour effectively, especially in Thai villages where upland was in short supply. Men and women from such families spend time gathering firewood for the tile factory, or gathering common-property resources like wild tubers, simply to survive.

We were therefore not at all surprised to hear that a labour market does exist and appears to be gathering pace, even if it is still quite rudimentary. We heard more accounts of day labouring for women and girls than for men. The most common types of work were weeding coffee groves, collecting firewood, and watering vegetable gardens. Rates were fairly consistent across the Communes: from 3,000 dong plus food to 7,000 dong without food per day.

**Box 7: Who said what about the Labour Market**

1. Chairman, Muong Chanh Commune: There is no labour market in the Commune: families help each other out in their fields.

2. Manager, Ban Luong Village, Muong Chanh Commune: Many day labourers - mainly women - weed coffee groves, collect firewood. This is low-status work that has started since 1988. Some are now almost permanent day-labourers. Rates are about 3,000 dong (17 pence) per day plus simple meals.

3. Two young unmarried women of poor families, Ban Luong Village: are day-labourers and confirm what their village Manager says (above). Their marriage prospects will be damaged by this low-status work.

4. Manager, Ban Tre Village (Kinh), Muong Chanh Commune: Not much day-labouring here - though men go out: Directing firewood for payment.

5. Poor woman, Doan Kat Village (Kinh), Muong Bon Commune: Women day labour for 5,000 dong per day or 2kg of rice, weeding coffee groves and watering vegetable plots. Such work plentiful just now as the rich are in a hurry to set up coffee groves and vegetable gardens.

6. Poor widow, Ban Lyn Village, Muong Bon Commune: The day-labouring market is expanding. Her daughters go weeding in the coffee groves for 5,000 or 7,000 dong per day: ‘how else could we survive?’

7. Middle-aged men and women, Doan Ket Village (Kinh), Muong Bon Commune: A strong labour market has emerged in the last three years, for men, women and children. Rates are 2,000 to 4,000 per day for women, 5000 to 7,000 for men, without food. ‘The gap between the rich and the poor is growing on cheap labour’. The women calculate that the rates represent a cross underpayment when compared with the value of the labour if the poor household owned its own Coffee groves.

8. Elderly villager, Ban Ban Village, Chieng Mai Commune: Day labouring is now quite common in all the villages, for both men and women. There is a strong demand for work from poor families and this is keeping rates low - all about 5,000 to 7,000 dong per day. Such work is available on the land, and also some portering and other jobs for trades.
Markets

In the middle of Chieng Mai Commune, at a crossroad, stands a thriving little market. A dozen or more stores sell household items including batteries, fish, salt, tobacco, sweets and biscuits, groceries like packeted noodles, and petrol and kerosene, drugs, and clothes. There are several restaurants which are also teastalls and bars. Mechanics' workshops, for servicing and spare parts for bicycles and motorbikes, are available. The buildings are in various stages of upgrading from provisional shelters to well-built tiled-roof timber-framed shops. Some are moving on to cement-based construction.

None of this was there before 1989, when it sprung into life as a result of the reforms. Nearby stand memories of older days - the Post Office and a state-run food and general store are still running. Our sample of one teastall owner suggested that stallholders own their buildings, and by virtue of this have secure tenure of the land: we did not hear of a landlord class, though one may be in the making. There is a building boom everywhere, in the towns and in the villages. Much of its seems to have been fed from the 'hidden wealth' of families who were well-to-do before the reforms, and it remains to be seen whether these buildings function in the economy as a consumer luxury or as a productive trade-promoting investment.

This is the only such market in Chieng Mai, and neither of the other two Communes in the RDA have an equivalent. But Muong Bon is close to the main road and only just outside Hat Lot, the District town: its dirt tracks are busy with heavily loaded bicycles and motorbikes carrying vegetables and livestock to the Hat Lot market. Muong Chanh is much more remote. By foot, it is closer to Son La, the Provincial capital, than to Hat Lot, but motorbikes and cars can get in only from the Hat Lot side, over a steep pass difficult in poor weather. A few tiny stalls have opened up along its tracks, offering the most basic goods in very small quantities. But we were told by the Chairman that, at harvest, private traders come in from outside, and that most farmers now prefer to sell to them than to the state.

Elderly state-owned buses ply the main road which links Hanoi to Son La through Hat Lot, but a motley collection of privately-owned vehicles, including old Russian jeeps, serve as buses or as collective taxis. Young men with motorbikes also offer their services as taxis. Private and state-owned trucks keep the main road moderately noisy.

Workloads

AAV staff told us that all except the heaviest agriculture work was done mainly by women, and this is consistent with what we observed and with the reports of an emerging day-labouring market for women and girls. We didn't enquire closely into how work was shared between family members nor into the total work load, but we did ask whether women's work had changed in type or quantity since land allocation. Most answered that things hadn't changed much. Some said that 'everyone worked harder' now, and that women felt more responsibility now that households were in charge of their own farming. Despite these changes, women said that they hadn't noticed much change in jobs like carrying grain to be milled (though mechanised milling has reduced women's work - perhaps by as much as an hour a day). Domestic chores like cooking, child-care and fetching water hadn't changed at all.

Emergencies

During our discussions the floods of 1991 and the drought of early 1992 were mentioned several times. Some GOV relief aid was made available after the floods. Although this was reportedly only a very small quantity, it was mentioned as if to imply that the state was ready at any time to bail out any village that got into trouble. I wondered if this was wishful thinking, but could find no words to express the question. Other villagers explained recent difficulties as the result of these emergencies, and again I wondered if there was an element of self-delusion in this. Could the high level of indebtedness be really attributable wholly to the poor harvests caused by the drought? The only clear understanding I came away with was that the economies of poor households are especially vulnerable to fluctuations in the climate. As Tao, a poor man in Doan Ket said, 'under present conditions, the rich will get richer without doubt, but the poor will only improve if the weather and their health stays good'.

Other observations

Our focus was very much on establishing the economic relationships in the villages, and we had little time to look into issues such as health and education. Our casual observations can be noted here in a few lines.
Each Commune has a Primary and a Secondary School. The Primary School also has feeder classes in the villages to cater for the youngest children. We saw several of these feeder school buildings, which are all simple constructions but vary in size and in their state of maintenance: we were told that this is because it is up to the village to provide the building, and we heard of parents contributing to village funds for building and furniture. Parents also have to buy school books, but fees are not paid, as the teachers are all state employees. In one village the peripatetic teacher had refused to attend the feeder school because it was so dilapidated. Chieng Mai Commune was at one time a war-time temporary seat of the District Administration and has one of the only two post-secondary schools (i.e. a school catering up to 12th grade) in the District. The Women's Union in Hat Lot told us that attendance at primary schools was in decline: we didn't look for evidence in the villages to confirm this. Some of our respondents said that primary school attendance was still good, others that children increasingly tended to drop out of school, especially after completing the feeder school classes. We were told by AAV staff that in the urban and delta areas many teachers have turned to private tuition, but on the few occasions we asked about this in the villages we were told it didn't exist here.

At the Director's request we made some brief enquiries in two Communes (Chieng Mai and Muong Bon) about water supply and sanitation. Both Thai and Kinh villagers collect water from springs or from wells (women's work). None of the springs have been protected with permanent materials but have been for the most part developed with small earth embankments and bamboo pipes. AAV staff do not recall seeing any protected springs in the three Communes in the RDA, but they say there are some in the District. The wells are unlined and shallow. The water is carried to the home in galvanised buckets and stands on the veranda of the house. Water used to wash vegetables may be recycled first by using it for dishwashing, and then fed to livestock. Water supply was not expressed as a problem to us by anyone we spoke to on the subjects. Some springs dry up in the dry season, but villages have several springs or wells to choose from. People bathe in streams or ponds.

Thai villagers told us that despite a GOV campaign and efforts by the Women Union, households rarely dig latrines: at most they mark off the area which is to be used for defecation with a simple fencing. We were also told that while many villagers are aware of the connection between feces, contaminated water and disease, most still regard ill health as a visitation of the devil and turn to prayer for relief. In the only Kinh village where we enquired, we were told that most households have now dug a shallow (in deep) latrine pit, capped it with bamboo poles or a timber cover, and fenced it off.

Beyond the observation that children looked more healthy than those I am used to seeing in Bangladesh, I have nothing to contribute on health.

HYPOTHESES

We gathered a mass of information very quickly on a wide variety of subjects. Much of it was new to AAV, or articulated for the first time. We cannot draw firm conclusions, but we can present our hypotheses in a logical order which will assist further research and programme planning. This section aims to do just that.

It is obvious that conditions in the RDA are neither homogenous nor static. There are clear differences between the lifestyles and economies of the Thai and Kinh communities, and both are in the midst of an extraordinarily rapid economic transformation. While the main lines of that transformation are clear enough, its depth and its consequences can only be guessed at. AAV will therefore have to operate with unusually short planning horizons until they are able to complete more careful research or until the situation stabilises.

Households which only four or six seasons ago were part of a collectivized agricultural system in which food security was guaranteed in return for centrally-directed contributions of labour now find themselves entirely responsible for their own livelihoods. At a stroke they have had to relearn the skills of seasonal planning, purchasing, financing and marketing, and all this at a household scale very different from that of the Cooperative unit. Except in the case of a nationally-recognised emergency, there are no formal safety-nets if they fail.

Not surprisingly, some households are doing better than others, and our hypothesis is that on the whole the achievers are those that have been better off all along: households who held reserves before 1966, had members who filled management roles in the local People's Committee or other organisations and had built up good contacts, and were traditional patrons to the poor in that they were used to lending to them. It may even be that some of these relationships go back to before socialism.
As the gap between high and low achievers opens up, some very familiar mechanisms are coming back to mediate between them. Chronic indebtedness is already well-established. Day labouring is coming up fast. Divestment of land by the poor is just starting - in the form of the first examples of share-cropping out, and in the threat posed by the new 'allocation' of upland. Share-rearing is giving way to specialist stockraising - by the rich with the poor reduced to the role of fodder-gatherers. The fact that these mechanisms are at different stages of development may indicate only that the transformation is still in its early days: watch out for more dramatic developments in the very near future.

And yet ... Sitting round the fire in a Thai household, with rich and poor dropping in for a chat and a smoke, it is still easy to believe in another world. In this world the tiny village of twenty or thirty households is one extended family. No-one has a job outside the village. The capital-rich and the labour-rich help out the poor with free loans or even gifts of rice and work, because everyone knows that the rich are so only by virtue of their age. They too were poor once, when their new household was full of small children and they had gone into debt to build their house. Through the pipe-smoke and the haze of rice-wine I can sense that these villagers - rich and poor - genuinely believe in this ideal, which is an important part of their culture and which they are very happy to have their leaders articulate.

The Kinh, by contrast, are all newcomers. They left families behind in the delta ten, twenty or thirty years ago. Many - as many as half according to one source - failed to adjust and went back. Those that remain are adapters, and they have adapted in different ways. In Muong Chanh, the villagers of Ban Tre farm their allocated paddy land but scorn the upland (the natural home of the Thais) as a wasteland not worth to farm. They are putting all their spare labour and capital into other pursuits, including acting as trading agents for the agricultural production of the Thais, and supplying the Thais' retail needs. (Trading, one urbane old Thai told me, was a contaminating and disrespectful occupation: it necessarily involves cheating and is best left to the Kinh and the Chinese). The Kinh have no cozy village tradition to defend, and have a much more open attitude to the mechanisms of the market. They know that rich are rich because they enjoy an unequal access to capital, for whatever reason.

The point of these (maybe highly unreliable) character-sketches is that we must expect different developments for (and between) the Thai and Kinh communities. The traditional values of the Thais may well hold back the processes released by the reforms, and it may even be that some villages will remain quite close to their egalitarian ideal for many more years, constantly adjusting their village's economy to fend off novelty. The Kinh are more likely to let the waves of reform crash down on them, and therefore adapt to them more quickly.

In the immediate future we can safely predict a capital famine. Despite the VBA Manager's hopes, it is unlikely that a 50% improvement on an already meagre disbursement will satisfy the probable rate of economic growth. Bank loans will in any case become harder to obtain because so many of this year's loans will be in default and the Manager will take fright at lending to the villages and will start to deflect loans towards businesses in Hat Lot town. Thus, some Hat Lot businessmen will find themselves with cash in their pockets just as demand for loans from the villages reaches a crescendo. Some of them will become moneylenders, with informal agents in the villages. Interest rates will rise, collection procedures will become harsher. Distress sales of homes will become common, and pressure will steadily grow on the land's capacity to act as collateral. Rights to farm paddy land will become tradable, and some Hat Lot businessmen will find themselves de facto absentee landlords. They will sharecrop this land out to successful farmers, who will employ the newly landless as day labourers. The transition to peasant capitalism will be complete.

Or perhaps not. The point is that the scenarios that I can imagine all have some key points in common: a continuing shortage of formal credit, an enlarged informal market for credit, pressure on land cultivation rights leading to actual or de facto divestment of land by the poor, increasing concentrations of village wealth in the hands of a successful minority - and considerable distress for the poor.

In the next section we turn to what this might mean for AAV's programme planning process.

**SUGGESTIONS**

A continuing shortage of formal credit, an enlarged but expensive informal market. for credit, pressure on land cultivation rights leading to actual or de facto divestment of land by the poor, increasing concentration of village wealth in the hands of a successful minority - and considerable distress for the poor.

These are the hypotheses with which we ended the previous section. The task of this section is to discuss
their implications for AAV's current and prospective plans, and to express these in the form of recommendations.

The first recommendation is easy:

1. **AAV should devote an unusually high proportion of its energy to research**

Outside war-torn countries, no other ActionAid programme works in such as rapidly-changing economic environment. Moreover, favourable conditions for detailed research at village level have just come about. AAV has now established a permanent office in the-country, and a project office close to the RDA. It has a small permanent workforce in the RDA of very able men (and at least one woman in prospect). Above all, political developments in Vietnam have made it possible to work intimately at household level in the villages, and the present consultancy has shown that the attitudes and educational level of the villagers is conducive to such research.

Therefore,

1.1 **The RDA team should carry out the 'wealth ranking' exercises in all the villages, both to establish a preliminary listing of poor families, and to learn more about the villagers' values and their economic life**

The three Field Coordinators should train their nine Agricultural Technicians to carry out basic ('rapid') ranking, while the FCs themselves should develop their skills in using wealth-ranking as a learning exercise. The Project Coordinator should work with the FCs to develop suitable recording systems.

1.2 **The RDA team should stay in close contact with the authorities at Provincial and District level in order to be sure of keeping up to date with all relevant changes of policy and practice.** During our visits to the villages, we discovered that the Province has recently issued new instructions to Commune and Village managers about upland allocations. Important developments like this should be taken into account at the earliest moment. Banking law is another area with which it will be important to keep up-to-date.

As it becomes more established, the Hanoi office will also be able to fulfill other research roles, such as keeping up to date with developments by other NGOs, and maintaining a library. The London office should continue to collect international publications.

During the consultancy we have discussed some of the implications of the research for the existing agricultural programme. The design of the scheme of demonstration plots (which are intended to promote contour hedging for improved soil management and - in the long term - better yields) was neutral with regard to the economic status of the villagers on the grounds that everyone, rich and poor, farms the upland. Indeed, it was hoped that poorer households might benefit most since they are (or were) proportionately more dependent on upland farming. However, we now know that some communities may wish to get out of upland farming. Others who want to farm the upland may be prevented from doing so if they lose their rights to it to other more 'capable' farmers, or may not be able to farm effectively for want of investment resources. It seems clear, then, that

2. **The upland demonstration plot programme should take account of the economic status of plotholders and target adopters.** This could be done as part of the proposed series of wealth-ranking exercises, supplemented by detailed case-studies of a representative range of households. Special note should be taken of the linkages between the economic activities of poor households, such as the proportion of upland they use for food, or for animal fodder, and how the associated activities are themselves financed. The results can lead to a review of the programme, and possibly to

2.1 **Modifications of the demonstration plot programme to ensure that all intended beneficiaries have a realistic chance of benefiting.** This might mean intervening with special inducements for marginal households, or with credit, either specially designed for the programme or as part of a broader credit programme. There could be a case for advocacy work if it appears that poor households are losing rights which should be guaranteed by law: if so, this would offer an opportunity to test out AAV-GOV relationships, and also potential partners such as the Farmers Associations or the Women's Union.

The Terms of Reference or this consultancy (Appendix 3) raise questions about the appropriateness of a programme of financial services for the poor. The hypotheses advanced in the last section imply that financial services will be crucial if the poor are to avoid a plunge into inescapably chronic poverty, and it is likely that
neither the formal nor the informal credit market will meet their needs adequately.

Foreign agencies, including NGOs, have some experience of credit provision in Vietnam, but very little of savings or other financial services. During the last few days of this consultancy I have been able to visit a number of these agencies and notes on them appear in Appendix 1. Since much time can be saved by a thorough study of other people's experiences, it is obvious that

3 AAV staff should study other financial services programmes preferably by spending time at their operational sites observing their procedures and interviewing staff and customers. Later, if appropriate, training visits can also be arranged for potential customers form the Son La RDA.

NGOs running credit programmes have been faced by a number of issues which arise from the special national context of Vietnam. Some of these, such as the difficulties of working as a donor with very little opportunity to influence or even to know in detail the design of the programmes, have disappeared as a result of recent political development and will not effect AAV. Another issues has been the choice of an implementing partner (or indeed whether to have a partner or to manage the programmes directly): since this issues doesn't affect the assessment of the need for financial services, and since AAV is already committed to a particular kind of partnership with the Provincial and District Government, the discussion is deferred to the end of this section.

Another issue has been the historically high rates of inflation and the impact that has on the possibility of running savings schemes, and on whether credit should be advanced and recovered in cash or in kind. This goes right to the heart of the need for financial services, and is a good place to start our discussion.

We all know that poor people face multiple demands on the few resources they have. The young family in Doan Ket (interview 30, Appendix 1) know they can't service their many loans, yet they face decisions every day over whether to buy food or spend out to educate their children. Common sense says that a cash loan to a family like that would be throwing good money after bad: it will just rescue them for a few more weeks at the cost of pushing them deeper into debt and disgrace. A loan in kind, such a pig to raise or a sow to breed, seems equally foolish: like the rich families in his own village, we would fear that they would be unable to raise the animal properly, and would be strongly tempted to sell or eat it. We could do what some charitable organisations often have done - give them the loan and then take a 'compassionate' view when they fail to repay - but would that really do any good? How could we follow up such assistance once they'd eaten the pig? Give them another one? To how many poor families can we give pig after pig?

Pig - or piggy bank?

Better to start from a different perception of their family economy. Poor people have difficulty getting and using credit. But they often have even greater difficulty making savings. Established banks rarely accept them as customers: they have both formal and informal ways of dissuading the poor. The informal financial markets offer loans - but not savings facilities. Wealthier families sometimes live remote from savings banks too, or are debarred from using them by literacy qualifications, but they can store cash at home and convert it into something more inflation- proof (land, precious metals, livestock) to suit their convenience. The poor find it almost impossible to store even the smallest amounts of cash at home: even if they have the will-power to save, it is difficult to resist appeals from even worse-off neighbours or relatives, disapproving remarks from the in-laws about the state of the children's clothes, or demands from their creditors.

This materially affects the usefulness of what funds they have. If you are a frugal but poor housewife there's nowhere to invest the few hundred dong made this morning from selling the cabbages, since you can't buy a pig or even a share in a pig with that kind of money, but common sense - and fears of inflation - push you convert the money to something useful before it gets squandered or spent outside the household. In fact, best to eat it. For a labouring family, food is a productive investment.

But when there is an utterly safe spot to hide those small amounts of cash (or even those handfuls of dry rice), women, children and men (and especially the first two) regularly use it. They do so for a rational economic reason: its potential value is greater than its current expenditure value because the future offers a wider range of profitable expenditures than the present. This is true even if the children are malnourished, their mother has no warm clothing, their father has TB, and the family has debts of 500,000 dong: since 200 dong can solve none of these problems, there is no better use than eating it - except saving it, if you have the chance.

The next recommendation, then, is that
3.1 AAV should develop a savings-based financial service for the poor, designed for women and children

Let us consider the objections to that strategy. The first is, 'we are dealing with a rural' non-cash subsistence economy: poor people just don't have cash to save'. That is almost certainly not true, though this view needs to be verified. If we look at the notes in Appendix 1, we see that the poorest families are precisely those whose women have started day-labouring, for cash (3,000 to 5,000 dong a day was the average wage mentioned in most interviews). This is true even in the most remote Commune (Muong Chanh, interview 10). Note that poor children, too, are cash earners (interview 14).

The second objection might be: 'people wouldn't save in cash: they'd be scared that the value would be quickly eroded by inflation. The memory of the failed Credit Unions is fresh in everyone's minds'. There are at least three very different kinds of answer to this objection. The first is that prospects for lower or at least stable inflation appear good: the Bank Manager in Hat Lot (interview 2) anticipates growing demand for cash savings accounts, and a positive rate of interest is now less than 3% per month. We may be entering a period in which cash deposits again become sensible. The second answer is that ActionAid might use its position to link savers to the international market, by holding their deposits in dollars for them: this may well not be possible under local law but AAV should investigate it. The third answer leads to the next recommendation:

3.2 Established savers should be offered advances against future savings

If you have followed the argument so far, you might be inclined to shout 'foul!' at this point. An 'advance against future savings I is nothing but a loan under another name. True - but I developed the argument in this way to avoid other common objections to a cash loans programme.

Traditional banking practice strongly recommends that loans be vetted for their likely profitability and their repayment schedules be tailored to suit the likely cash flows engendered by the loans. But such advice contains many assumptions about the nature of the borrowing enterprise that are not true of poor rural households, which do not act as single-track business units but are complex entities in which there are no fixed boundaries between domestic and business cash-flows. In particular, the function of any asset changes with the seasons and with the circumstances of the family. These differences make traditional banking practice inappropriate. An example will help to make this clear:

In Bangladesh there are many NGOs offering credit for small livestock. Some offer the credit and require it to be paid back in regular weekly installments, starting the following week. Others, hoping to tailor their loans more carefully to the needs of the poor, argue that repayments cannot be made until some income is produced, and require the loan to be paid back in full when the animal is matured and marketed. Curiously (at first sight) this 'more sensitive' second schedule tends to fail more often than the first.

The reason is that for a poor rural family a goat (say) is not just a marketable product. It is also an insurance policy and a saving. That is, it is an asset that can be cashed in and used when opportunity calls or when need arises. Poor rural families very rarely sell their livestock at an age and weight that businessmen would consider 'optimal', but still optimise its sale in the context of their household economy. Thus, often, the moment the goat matures is the very last moment that the borrower wants to cash it in and repay the loan: she is more likely to want to trade it up for another asset, or to move into another business (maybe paddy is cheap just now), or to cash it in for medical expenses.

The borrowers who repaid the loan in weekly installments before the loan generated any income were, in fact, saving, since they were finding the repayments out of their normal household cash, unaffected by the loan. That is why it is reasonable to call such loans 'advances against savings', and why such a scheme should suit the poor households in the RDA by solving the problem of their having no opportunity to save.

The women who earn 4,000 dong a day in the coffee groves may well want to save 750 of it given a chance. Assuming they get such work four days a week, that gives them a weekly saving of 3,000 dong, or 150,000 dong a year. Offered an advance against these savings, there is likely to be an incentive to increase the savings rate dramatically. In Bangladesh, with levels of poverty and of indebtedness as great or greater than those in the RDA, poor households 'miraculously' step up the amount of cash they manage to save each week to five or even ten times their normal savings when offered an advance. Note that in the example given above an advance of twice the annual basic savings rate (of 150,000 dong) would clear the Doan Ket family's private debt of 300,000, and an advance of four times would clear both their formal and informal debts. They might welcome a chance to clear these debts by a weekly payment of 12,000 dong (three day's labour per week for one person) for a year. The desire and case capacity to save of poor rural households was, until recently, one of the most unappreciated development tools.
Clearing existing expensive debts is one use that such advances would be put to (a 'liberation advance'). Another would be building food-stocks. The third main category of use might be acquiring assets or starting or extending small businesses - livestock, probably, but our researches revealed other profitable options (fishponds, vegetable gardens, small shops).

**Scheme design**

How would such a scheme be organised? One model would be that of the Grameen Bank, which can be examined at leisure just an hour's drive from Hanoi, where the Women's Union, helped by the Japanese NGO 'Asia Community Trust' (ACT) is reproducing an almost perfect replica. However, the Grameen Bank model incorporates a number of other principles (group ownership of funds, 'peer collateral', a regime of rather authoritarian 'group discipline' which are still unproven in their country of origin (Bangladesh) For that reason the model should not be copied wholesale by AAV, which intends to stay in the RDA for at least ten years and has the time to develop a model which responds to the particular features of rural Vietnam.

However, if a programme is too experimental it risks being see as too 'soft' and undisciplined, and being abused. A good compromise, then, would be to develop a series of 'best hypotheses' about the key elements of scheme design, and to do this during the next few months as fresh information generated by the new emphasis on research comes in. These 'key elements' would include:

a. Membership criteria: should membership of the scheme be inclusive or exclusive? (a problem about targeting). Should the unit of membership be a person or a household - or an even larger unit? Should Membership be limited with regard to sex or age?

b. The forum at which savings and advances transactions should take place: should individual customers come to a 'bank', or should there be user-groups at household, hamlet, village, or Commune level? Should fora be gender- or age-specific?.

c. Savings level: should there be a minimum periodic savings commitment? If so, what period - and what level? How and when could it be changed, and who decides?

d. Advances level: when can a Member draw an advance, in what sum, and under what conditions? How and when could this be changed, and who decides?

e. Interest rates: what rate of interest should banked savings, and advances, attract? How and when could this be changed, and who decides?

f. Composition and ownership of the advances fund: what mix (if any) should there be between Members' and Donor's share of the advances fund? (Are Members likely to accept that their savings are circulating as another Member's advance?).

Thus:

3.3 Scheme design should be done alongside the continuing research programme, and should include guidelines for making alterations

The research that is done may suggest opportunities for additions to the scheme design. Three possible candidates (among others) that might be suitable are:

**ROSCAS:** Although we identified none during our visits to the villages, we know that Rotating Savings and Credit Associations are part of the indigenous informal credit system of Vietnam. (See, for example, the MCC Feasibility Study, pages 82-3). Indeed they may well already exist in Mai Son, 'but are so much a part of normal life that they escaped our notice. If they exist, it may be possible to imagine ways of building on them, or on their groups. If they do not exist, AAV might find out why, and might consider introducing them.

**Share-rearing:** Share-rearing is a traditional system in Mai Son and can be of great value to the poor, because it allows them access to a valuable asset without prior or future payment beyond the costs (and associated risks) of caring for the animal. Our research suggested that it is declining, not because the poor no longer find it useful, but because the rich are less and less willing to engage in it. It might be possible to imagine a scheme in which AAV acts as a share-rearing principal to poorer households: AAV's share of the product (which might be economically set at less' than the traditional 50%) could be share-reared out to successive households7. Links with AAV's veterinary and livestock programmes could be envisaged. Share-rearers might use savings advances to finance the costs of raising the animal.

**Hire-purchase:** Hire purchase, like share-rearing, is another way of reducing the financial risk to poor households who may be wary of taking out a large advance (or loan) against the purchase of a 'lumpy' asset (for example, a piece of machinery such as a diesel grain mill) that they need to develop a small business.
Under such a scheme AAV (or its partners) would buy and own the mill (for example) and hire it by the week to the prospective businessperson. If the businessperson faces difficulties, he or she can return it at any time with no loss of face and little cost. If the enterprise looks promising, however, the businessperson can go on hiring the asset, or buy it under an agreement which allows a fixed percentage of the hire fee paid to date to be deemed a down payment on the sale. Such a purchase might be financed with a savings advance.

**The problem of project partners**

The problem of choosing none, one or many project partners is not peculiar to the terms of this consultancy, and is to do with AAV’s overall policies. However, there are a few observations I should like to make.

First, I am impressed by the partnership that AAV has already created with the seconded government staff who act as its Field Coordinators. AAV is a pioneer here, so it is good to see its courage rewarded. I say this as someone who was very sceptical when first shown AAV’s project structure.

Second, my assumption when I arrived was that partnerships with mass organisations such as the Women’s Union or the Peasants’ Association had been forced on NGOs rather than chosen, and had then been justified, post-hoc, by the fashionable objective of ‘institutional development’. I feared the worst. But what I hear on all sides is that such partnerships are improving daily. If these mass organisations really are going to survive the reforms and transform themselves into dynamic and independent actors in society, there is a very good case for working with them.

Third, several international NGO staff have commented on the exceptional speed with which good projects can be taken up and ‘owned’ by project partners.

Whether or not AAV extends its current experimental stance into a partnership with these mass organisations, it should certainly

**3.4 monitor the progress, nationally, of the mass organisations such as the Women’s Union and the Peasants’ Association, and review their suitability as project partners.**

**SUMMARY**

An Introduction tells of my trip to AAV’s RDA and of how it proved possible to work intimately with villagers and to conduct wealth rankings quickly and effectively. AAV staff were trained in the technique and a seminar on the subject was held. Back in Hanoi I visited a number of NGOs working in the field of credit, drafted the Report and held discussions and a final seminar with AAV staff.

The Abstract summarises the main thesis of the Report - that after the reforms that ended collectivised farming economic relationships typical of ‘peasant capitalism’ - like chronic indebtedness, day-labouring and incipient landlessness - are coming back fast. This has enormous consequences for AAV’s programmes.

‘What we were told...’ recounts what was learnt from villagers, staff, other agencies and literature. Interviews with older villagers, and wealth-rankings which compare the situation now with that of pre-1986, suggest that households that were doing well before 1986 have held on to and strengthened their position. They had contacts, bank accounts, and stores of wealth. Day labouring and share-cropping did not exist.

In 1989 and 1990 paddy land was allocated to households. Upland, an important resource in the RDA, remained free to those households who wished or had the resources to farm it. Currently (November 1992) upland is being ‘zoned’ (for use) and reallocated, but the precise consequences of this are not yet clear.

Wealth ranking exercises revealed differences in values between the Thai and Kinh groups. Thais tended to stress the ownership of assets and the age of the household in assessing wealth, while Kinh more often saw access to capital as the main determinant.

A few households - a capital-rich or labour-rich elite - are able to finance their paddy land farming from sales of the previous crop. Everyone else has to borrow draft power or inputs, usually repaying in kind at the harvest. Most households also have to borrow rice to get through the ‘hungry season’. While small loans from relatives are often free of interest, many households pay a standard rate of 20% a season, (or 10% if they
have access to a scheme run by the District authorities). Much higher rates were also quoted to us. Village leaders were often reluctant to discuss the prevalence of usury with us. Many poor people see debt as the main engine of their economic decline and of their dependence on the rich.

In a few cases, the poorest have given up trying to farm their allocated paddy land and are share-cropping it out to richer farmers.

There is only one source of formal credit in the District, the Vietnam Bank of Agriculture (VBA). Very few households in the RDA have secured bank loans, except among (mostly Kinh) villages in Muong Bon Commune, the closest to the District town. There is a very strong unsatisfied demand for these loans. The informal sector in cash loans is also small, though it may be growing. Rates are at least 5% per month, often 10% or more (bank rate is 2.125%). Most informal cash loans are repaid in rice at harvest. Credit from shopkeepers suppliers and tradesmen is common. A state-owned Coffee Company offers cheap credit to coffee producers, and consumption support while the trees are maturing.

The VBA has 8,000 savings accounts though many are inactive and most are small. Village households store wealth in livestock and gold and silver, and buy consumer goods like radio cassettes and motorbikes. Thais build splendid large timber houses.

Share-rearing is popular among the poor, but fewer and fewer rich households are now willing to share-out to the poor, preferring to develop their own livestock and fearing that the poor are no longer solvent enough to rear successfully.

The labour market was another area that village leaders were reluctant to talk about. In fact the market is already large and is growing. Men women and children (but mainly women) labour in coffee groves, vegetable gardens and firewood collection at rates of around 3,000 to 5,000 dong per day.

Market places are beginning to develop, or small shops in the remoter’ areas. A building boom is much in evidence in both towns and villages.

Women reported that their workloads had not changed much since the reforms, though their sense of responsibility had grown. Mechanised milling is saving them labour.

A factor that was often quoted to us as being responsible for much hardship was emergencies: especially the floods of 1991 and a drought in 1992.

The section closes with a few observations on primary schooling and on water and sanitation in the RDA.

The section called 'Hypotheses' begins with observations about conditions in the RDA, which are neither homogenous nor static. An economic transformation of extraordinary rapidity and depth is going on. AAV will have to review its programmes at unusually short intervals to keep up with the changes.

Households have had to make rapid adjustments, and some are doing better than others. The achievers are mainly those who had privileged positions before the reforms, and are now able to exploit their access to capital. The shift in the relationship between rich and poor is shown by growing chronic indebtedness, day labouring, and hints of emerging landlessness.

Despite this, many Thai villages still have a strong communitarian spirit, and this cultural tradition may enable, them to fend off the affects of the changes longer than the Kinh, who seem to be embracing the changes much more openly.

Likely 'scenarios' all include inadequacies in both formal and informal credit supplies, pressure on land cultivation rights, increasing concentrations of wealth in the hands of a small ma.nority, and considerable distress for the poor.

The first Suggestions are about AAV's research stance: it should devote an unusually large part of its energies to keeping up to date with and understanding the changes that are taking place. Suggestions are made about the role of wealth-ranking in this. The current agricultural programmes should be reviewed in the light of new information about unequal access, to land or to resources to exploit it.

A long section then explains why a programme of financial services based on savings and savings-advances
should be considered, and describes how its design should be approached. Additional financial services such as promoting ROSCAS, intervening in share-rearing, or offering hire-purchase agreements, are also discussed. Finally there are a few notes on the problems of working with project partners in which - somewhat to my surprise - the report recommends that AAV should keep at least an open mind!

Notes

1 Examples of rankings are given in Appendix 2.

2 In this section all unqualified statements, such as this one, report what we were told by respondents: they are not statements of Verified fact.


4 I watched with amusement as a man and his wife debated, during a wealth ranking session, the exact comparison it vote between Mr A.'s house and Mr B's buffalo.

5 But see the references in Appendix 1, Field Notes

6 Michael Etherton, the Oxfam UK Director, tell me that in some mountain areas collectivisation itself was never on paper.

7 Since writing this I have been told about Oxfam's recent scheme in Ky Anh District (in Ha Tinh Province) which is similar to what I have suggested here.