The Vietnam - Finland Forestry Sector Co-Operation Programme

The Department of Agriculture and Rural Development of Bac Kan Province

TECHNICAL REPORT NO. 4

STUDY ON OPTIONS FOR INCENTIVE / CREDIT SCHEMES

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The Vietnam-Finland Forestry Sector Co-operation Programme in brief

The Programme started in March 1996 and the first phase will last three years. The Programme is financed jointly by the Governments of Finland and Vietnam. The geographic coverage of the Programme is concentrated in the mountainous regions of Bac Kan Province where forestry is taken as a key potential activity which could contribute to social and economic development. Local population, mainly people from different ethnic minorities, suffer from social and economic problems due to lack of income generating opportunities. At the same time the mountainous regions are facing severe deforestation and forest degradation due to mismanagement and non-optimal use of the resources. The development objective of the Programme is to contribute to sustainable rural development in the mountainous regions of Vietnam, through the integration of forestry activities in the rural land-use and economy. The target groups of the Programme are rural households, ethnic groups, professional personnel at province, district and commune level and in national forestry administration. The Programme strategy is to introduce and disseminate sustainable forest management and other farm-forestry practices as viable alternatives to shifting cultivation and other forms of unsustainable land use. The Programme implementation will be a continuous process of participatory learning and application. The following Programme components form the implementation strategy (i) community development, (ii) capacity building, (iii) dissemination and (iv) monitoring and evaluation. The immediate objectives respective to the above components are (i) established and tested mechanism to assist farmers/forest owners at the village level, (ii) improved capacity of the existing institutions in providing services for forestry extension, (iii) transferred practical experience from the pilot villages/communes to neighbouring areas, province level and finally national level and (iv) established monitoring and evaluation system at different levels. The implementing agencies of the Programme are Department of Agriculture and Rural Development in Bac Kan Province and Ministry of Agriculture and Rural Development, while the People’s Committee of Bac Kan Province and the Ministry of Agriculture and Rural Development are the competent authorities of the Programme. The supporting consultant is Indufor Ltd. in partnership with Enso Forest Development Ltd. and FTP International Ltd.

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FOREWORD  
The Vietnam - Finland Forestry Sector Co-operation Programme is giving particularly strong emphasis on practical field implementation of improved and integrated production systems combining ordinary agricultural activities with forestry and related activities. The Programme believes that the sustainable management of forestry lands can be only achieved through the provision of techniques and means to the farmers for profitable but non-destructive utilisation of newly allocated forest lands. Farm level financing of such techniques and production methods is crucial in this respect.  

The credit scheme of the Programme aims at making the farmers to see investments in the forest areas as a profitable alternative for unplanned forest harvesting or conversion of forest land to agricultural land. The possible investments include various production strategies: from more or less traditional timber growing to agroforestry, silvopastoral and apicultural activities, and production of non-wood forest products as well as integration of fruit and spice producing trees in the forests nearby the homesteads.  

The credit scheme is a tool to provide financial assistance to the farmers, but in a way that does encourage them to see these activities as profitable investments, i.e. the loans have to be paid back, and an interest will be charged on the loans. Technical assistance and extension are required and necessary inputs to these purposes will be provided by the Programme on a grant basis.  

The Programme contracted a team of consultants to study the issue of farm-level financing, and to propose a feasible incentive / credit scheme to implement such financing. The team included Mr. Jyrki Salmi, Ms. Vu Thi Thao, and Mr. Tran Chi Thien. The work was carried out during January 1997, mainly in Cho Don. The Programme wishes to thank the consultants, and all other people who contributed to the successful implementation of this study.
The present paper, produced by the consultant team, is the fourth technical report of the Programme. The tentative findings and recommendations of the team were presented in a workshop in Cho Don district on 20 January 1997. The recommendations were thoroughly discussed by the participants who included the Programme staff, representative of various institutions both from Bac Kan province, Cho Don district as well as the pilot communes and villages. Also representatives of some relevant other projects were present. We wish to thank all the workshop participants for their effort and comments which have been taken into consideration when finalising this report.

Mr. Nguyen Van Viet  
Director of the Programme  

Mr. Petri Lehtonen  
Chief Technical Advisor

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Abbreviations

CTA  Chief Technical Advisor
GDP  Gross Domestic Product
NGO  Non-governmental Organisations
PAM  French abbreviation for WFP, widely used in Vietnam
PR  Public relations
USD  United States dollar
VBA  Vietnam Bank for Agriculture
VBG  Vietnam Bank for the Poor
VN  Vietnam
VND  Vietnam Dong
WFP  World Food Programme

Exchange Rate used in the Report

USD 1 = VND 11 500
EXECUTIVE SUMMARY

The objective of the study was to plan and design a credit / incentive scheme for farmers in support of forestry development in the Vietnam - Finland Forest Sector Co-operation Programme area which is Cho Don district in Bac Kan province.

It was estimated that the total demand for forest sector financing in Cho Don district is some 49 billion VND (USD 4.2 million). The total volume of external (external to Cho Don district) financing (excluding the Vietnam - Finland programme) is some 8 billion VND per year of which some 0.5 billion is targeted for forest sector development, the remaining being mainly for agriculture and animal husbandry or non-targeted.

Both this gap analysis and the interviews with farmers and local level organisations provided evidence for the existence of additional demand for forest sector financing in the district. The incentive / credit scheme of the Programme is thus justified.

Cash subsidies were rejected as an inappropriate method for the delivery of the incentive, mainly due to their potentially harmful distortionary effects on the local economy. The emerging credit market seemed a better option. Thus the use of a subsidised credit scheme is proposed.

The credit scheme will be called "Vietnam - Finland Farm Forestry Credit". The credit will be provided from a trust fund to be set up according to the legislation of Vietnam. The Fund should remain even after the eventual termination of the Vietnam - Finland Programme. The name of the fund will be "Vietnam - Finland Farm Forestry Fund".

The purpose of the scheme is to provide credit for profitable investments to the farmers in support of the two main objectives of the Vietnam - Finland Co-operation programme: (i) increase the incomes of farmers, and (ii) sustainable management, use and conservation of the newly allocated forest lands. The beneficiaries of the credit scheme are the farmers (households) living in Cho Don district of Bac Kan province.

The types of investments eligible for receiving credit from the Vietnam - Finland Farm Forestry Fund include the following:

i. afforestation for timber production
ii. planting of fruit trees, trees producing spices, oils, tannin, or other marketable extracts
iii. agroforestry (permanent or semi-permanent inter-cropping)
iv. silvo-pastoral activities (animal husbandry in open forests)
v. live fences
vi. beekeeping
vii. sericulture (production of silk)
viii. production of sticklac
ix. production of non-wood forest products (from natural sources or semi-cultivated: medicinal plants)
x. sustainable management of existing natural (primary or secondary) forests
xi. conservation of forest resources
xii. small scale processing of the products from the points i - xi.

The size of the credit will be adjusted to the investment needs of the borrower. Only inputs to be purchased outside the household can be covered by the loan. The duration of the credit will be adjusted to the expected production cycle of the respective investment. The loan ceiling to one household is 2 500 000 VND. The maximum duration of a loan is 5 years. The minimum duration of the credit is 1 year. The out-lending interest rate of the Scheme will be 95% of the interest rate of VBP, i.e. presently the interest rate of the Scheme will be...
0.95% per month. The payment of the interest will be arranged monthly. The repayment of the principal will be
effected according to a fixed schedule, usually in several instalments.

Two management options were presented:

I. Vietnam Bank for the Poor (VBP) + Village level credit groups

II. District Credit Committee + Commune Credit Board + Village level credit groups

As a result of a thorough examination, based on the analysis of the performance of similar credit schemes run
by other organisations and agencies in Cho Don and elsewhere in Vietnam and on the capability assessment
of the involved parties, the Consultant Team strongly recommends the choice of the option I, i.e. the use of the
VBP. Detailed justification for the recommendation is presented. It must be noticed that the Consultants’
recommendation contradicts with the expressed opinion of most of the local organisations. Should the option II
be chosen, a major effort must be invested in the training on credit management of the district, commune and
village level organisations.

Detailed proposals for a series of training courses is proposed, as well as action to be taken to launch the
scheme. The expansion of the credit fund is recommended to be carried out in three steps:

<table>
<thead>
<tr>
<th>Dead-line</th>
<th>Total volume of Fund</th>
<th>Eligible beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.2.1997</td>
<td>50 000 000 VND</td>
<td>Demonstration farmers</td>
</tr>
<tr>
<td>1.7.1997</td>
<td>500 000 000 VND</td>
<td>All interested households in 4 pilot villages</td>
</tr>
<tr>
<td>15.1.1998</td>
<td>1 150 000 000 VND</td>
<td>To be decided later</td>
</tr>
</tbody>
</table>

If the Option II is chosen there may be some delay in the mobilisation and expansion of the scheme due to the
time and cost involved in organising the required training.

1. BACKGROUND

1.1. Objectives

The objective of the study is to plan and design a credit / incentive scheme for farmers in support of forestry
development in Programme area which is Cho Don district in Bac Kan province.

The farmers have been recently allocated private use rights also for forest lands which previously were all
common. The project is helping the farmers to integrate the newly allocated forest lands to their agricultural
production systems and household economy, having sustainable forest management always in mind.

The credit component aims at making the farmers to see (their own private) investments in the forest areas as
a profitable alternative for unplanned forest harvesting or conversion of forest land to agricultural land. The
possible investments include various production strategies: from more or less traditional timber growing to
agroforestry, silvopastoral and apicultural activities, and production of non-wood forest products as well as
integration of fruit and spice producing trees in the forests nearby the homesteads.

The credit scheme is a tool to provide financial assistance to the farmers, but in a way that does encourage
them to see these activities as profitable investments, i.e. the loans have to be paid back, and an interest will
be charged on the loans. Technical assistance and extension are required and necessary inputs to these
purposes will be provided by the Programme on a grant basis.

1.2. Scope of the study

The study concentrates on the Cho Don district in Bac Kan province, which is also the area of the Programme
activities. More specifically the two pilot communes Dong Lac and Ngoc Phai, and four pilot villages: Coc Thu
and Na Tum in Ngoc Phai and Ban Chang and Na Ang in Dong Lac are in the focus of analysis. However,
when ever necessary and possible, broader geographic scope is applied (i.e. the whole province of Bac Kan). Analysis of similar schemes elsewhere expanded the scope to the national level as well.

As the potential investment opportunities, i.e. targets for credit, the study considered:

i. afforestation for timber production
ii. planting of fruit trees & trees producing spices
iii. agroforestry (inter-cropping)
iv. silvo-pastoral activities (animal husbandry in open forests)
v. beekeeping
vi. non-wood forest products (from natural sources or semi-cultivated: medicinal plants)
vii. conservation
viii. small scale processing of the products from the points i - vii.

1.3. Methodology

The study was carried out by a joint team of an international consultant and two local consultant, in close collaboration with the programme management and programme field staff. The study team consisted of:

- Mr. Jyrki Salmi, international consultant, credit systems
- Ms. Vu Thi Thao, local consultant, rural credit and development
- Mr. Tran Chi Thien, local consultant, local credit systems

The study team visited and interviewed several organisations and institutions in Hanoi, Thai Nguyen, Bac Kan, Cho Don, and the two pilot communes and the four pilot villages. The programme of the team is given in Annex 1, and a list of people met in Annex 2. The team also drew on an extensive literature and documentation on similar or related schemes elsewhere in Vietnam or abroad. List of references is provided in Annex 3. The two previous technical reports of the project and the draft of technical report No. 3 on PRA results were also used extensively.

The work will be given follow-up by two additional missions during the programme implementation. The terms of reference for the assignment is given in Annex 4.

2. INCENTIVE AND CREDIT SCHEMES IN VIETNAM

2.1. Official sector

The credit schemes of the official sector are provided almost purely by the state-owned banks. The credits are provided predominantly to state-owned enterprises.

Since the financial reforms of the early 1990s many changes have taken place in the official financial sector. The bank system has expanded the service to the private sector, particularly in agriculture and commerce. The Vietnamese financial system is composed of the central bank (the State Bank of Vietnam, SBVN), 4 state-owned commercial bank (SOCBs), 46 share holding banks, 3 joint-venture banks, 13 foreign bank branches, 69 credit co-operatives, 200 people’s credit funds (PCFs), financial companies and insurance companies.

Here we concentrate only on the credit schemes for rural development and forestry sector.

The **State Bank of Vietnam** functioned previously both as a central bank and as a commercial one. In 1991
the SBVN stopped direct lending to productive sector. In 1992 it ceased the direct financing of the government budget. With these reforms 4 state-owned commercial banks (SOCBs) were created. The SBVN has supported the SOCBs lending programmes. The SBVN has adopted the function of credit and monetary control. It also operates a foreign exchange auction system.

The **Vietnam Bank for Agriculture** (VBA) has the widest outreach of all the banks in Vietnam with its 4 regional branches, 53 provincial branches, 425 district branches, 98 transaction offices, 395 exchange offices, 349 saving desks and 150 general business offices. VBA is the dominant source of official loans, accounting for more than 90% of formal sector loans. VBA’s overall loan portfolio is dominated by short-term loans, accounting for almost 90% of total lending, of which the loans for agricultural purposes account for two thirds. The bank’s total loan portfolio was VND 7,938 billion in 1995. The growth rate of the portfolio has been some 45% per year in nominal terms, and about 39% in real terms.

The VBA has reoriented its lending towards rural households and small businesses. Loans to farm households stood at VND 5,776 billion in December 1995. The VBA’s average loan size of VND 2.0 million is fairly small. VBA is currently operating nine credit programmes targeted specifically at low income borrowers, totaling 1,364 billion VND. Some of the grassroots lending programmes are state funded, while others are funded by foreign governments or international agencies. The objectives of these programmes include poverty alleviation, improvement in agricultural productivity, forestry development and support for micro-entrepreneurial activity.

The **Vietnam Bank for the Poor** (VBP) was established in 1995. It provides loans for the low income borrowers. The loan fund totals 400 billion VND, of which 200 billion VND was originated from Vietcombank, 100 billion VND from VBA and 100 billion from SBVN. The loans are mainly used for financing agricultural and livestock production. Loans are processed and granted through the district branches of VBP. The maximum loan amount is 2 million VND and the maximum loan period is 36 months. No collateral is required. The interest rate was 1.2% per month in 1995 and 1.0% per month in 1996. Interest payment is monthly. The loans are disbursed through joint liability groups.

Presently there are some 160 **Credit Co-operatives** which operate mainly in urban areas, along main highways, or aqua-culture sites. The area of operation of each co-operative is limited to one commune. Of those 160, only 32 are reported to be really operational. In line with a 1992 decree, credit co-operatives are defined as credit institutions set up through the subscription of shares by members. They are allowed to lend to and mobilise funds from their members only. The shares are transferable at negotiable prices in the market.

The **Rural Share Holding Banks** are of a recent development. So far, they have had a minimal impact on lending and saving mobilisation in rural Vietnam. They can be classified according to their ownership as follows: (i) owned by state-owned enterprises (SOE), (ii) owned by SOEs and private individuals, and (iii) owned exclusively by private individuals or private enterprises. Their operations are relatively efficient. Their loan collection system is reported to be rigorous, resulting in a repayment rate of 98%. Capitalisation is small, ranging from 300 million to 3 billion VND. The rural share holding banks provide loans to poor farm households in their service area. Loans are generally small, from 1 to 3 million VND. All banks require collateral for loan approval.

**People’s Credit Funds** (PCF) are commune-level credit institutions, which were introduced by SBVN in 1993. They are supported by the SBVN. Some 40% of their loan capital is provided by the SBVN, the remaining being mobilised by local and regional PCFs through shares and deposits. The purchase of a share in a PCF is a prerequisite for loan provision. Most of PCF loans are for agricultural purposes, including crop production and livestock raising. The loans are mainly short-term, with an average size from 250,000 VND to 1 million VND.

### 2.2 Informal sector

In the informal sector, the sources of loans and saving mobilisation are the following:

**Friends and relatives** are the main source of loans in the informal sector. Normally, the loans from friends and relatives are provided without interest. Loan period is usually short in VND loans, and longer in gold or dollar loans.

**Tontines** (annuity credit or security systems run by groups of people of the same age) have been in existence in Vietnam for generations, but they have never been officially recognised. They are called phuong or hui ho. There are two types of tontines: the credit type and supportive type. Tontine groups have usually from ten to fifteen members. Tontines can involve financial activities in cash or in kind. The lending period varies, most commonly being from 3 to 5 months. The phuong is a type of tontine where the members support each other, mainly in kind of paddy or rice. The credit tontines have suffered from a high risk of loan default and the lack of
The operations of private moneylenders are diverse, flexible and mainly suited to small-scale and short-term lending. Credits from private moneylenders have been widespread due to the collapse of the credit cooperative system, the inability of the VBA to extend loans to remote areas, and the limited development of share holding banks. The interest rate charged by private moneylenders has been higher than that of banks or those of other informal sources of loan. The average rate charged by private moneylenders has been 102% per annum for rural households, i.e. the rate has been 2.6 to 4.5 times higher than the rate of VBA. The repayment of a loan is generally flexible, and can be in cash or in kind, depending on the agreement between the lender and the borrower.

In addition to the official and informal credit schemes described above, there are different credit models of NGOs and donor agencies.

In the direct credit model the assistance is directed by an international organisation to the target sector through local governments or agricultural extension services. The loan is provided in kind (e.g. seeds or animal feed). The loans are provided usually at a subsidised interest rate (from 0.5 to 1.0 per month), or without an interest. Savings mobilisation is usually not required. The loan amounts range from 200 000 VND to 300 000 VND, and the loan duration from 6 to 12 months. The interest and principal are paid as a lump sum at the end of the loan period. The bookkeeping and monitoring systems are usually very simple.

The revolving credit schemes require the beneficiaries to organise themselves into savings groups. Regular savings of 4 000 to 5 000 VND is an integrated component of this model. This kind of scheme is implemented by the Vietnam Women's Union with support from UNICEF.

Under a guarantee credit scheme a guarantee capital is deposited by a donor agency in a bank such as the VBA. The deposited capital serves as a bank guarantee for the loans provided by the bank from its own funds. The bank manages the guarantee fund, and grants loans usually through credit groups.

3. INCENTIVES AND CREDIT FOR FOREST SECTOR DEVELOPMENT IN VIETNAM

3.1. Government financing

The government is paying a lot of attention to forestry development. The government priorities include the conservation of existing forests, expanding the forest coverage, re-greening of bare hills and mountains, and the development of agroforestry. The government aims at increasing the forest cover from the present 28% to 40% by the year 2010.

The government decided to invest some USD 400 million during the period from 1996 to 2000 through a programme called 327. The 327 programme aims at planting and conserving protection forests and special-use forests particularly in the watershed areas. The programme activities focus on the use of agroforestry techniques. Households are the basic units in the implementation of the programme. In 1995, the government allocated USD 68 million in the 327 programme implementation.

Another main government forestry programme aims at creating 3 million ha of production forests in order to meet the future demand for forest sector products. This programme is estimated to need an investment of USD 1500 million.

3.2. Foreign financing

In Vietnam there are 31 forestry projects supported by foreign agencies with the total foreign contribution of USD 146 414 409. In addition, there are 9 major projects in pipeline with the total foreign contribution of USD 120 300 000. Hence, the total on-going and planned foreign aid for forestry development amounts to USD 267 million.

Among the on-going projects, the WFP 5322 Project for 5 North-eastern Provinces is the largest one with total aid of USD 22 650 000. The second largest project is the Vietnam-Sweden Co-operation Programme with the total investment of USD 21 800 000. The third largest one is the EU supported Community Forestry and Natural Conservation in Phumat, Nghean Province with USD 21 400 000. The Vietnam-Finland Forest Sector Co-operation Programme in Bac Kan Province is ranked in size as 13th with the total Finnish contribution of
Among the pipeline projects, the Regional Forestry and Watershed Management in Thanh hoa, Phu yen, Gialai, Quang tri, Lao cai, and Ha giang is the largest one with a total budget of USD 52 000 000 of which a loan from ADB is USD 38 000 000 and the remainder from the government. The second largest pipeline project is the Development and Protection of Wetland in Soc trang and Anh hai with total budget of USD 50 000 000 of which USD 38 000 000 is a World Bank loan and the rest is government investment.

Bi-lateral donors and UN agencies play a very important role in the forestry sector financing in Vietnam. Their present financing is USD 136 079 789, i.e. 80% of the total budget of the on-going forestry projects, and USD 115 300 000 (74%) for the planned projects.

NGOs provide also financial assistance to forestry sector projects. Total NGO financing in the on-going forestry projects is USD 10 334 620, i.e. 7% of the total. There are planned NGO forestry projects worth of USD 5 million.

The Vietnamese government also takes part in most of the forestry projects. The government contribution is USD 22 540 490 (13%) for the on-going projects and USD 35 170 000 (23%) for the planned projects.

FAO is the largest donor in forestry sector in Vietnam, with the total contribution of USD 41 516 000 (combining several projects) in the on-going projects. The major donors include WFP, Sweden, EU, UNDP, Germany, Japan and the Netherlands. As regards the planned projects (project pipeline), the World Bank is the largest financier with the total planned investment of USD 81 500 000.

### Table 3.1. Capital invested in donor supported forestry projects in Vietnam (in USD)

<table>
<thead>
<tr>
<th>Financing Sources</th>
<th>On-going Projects</th>
<th>Planned Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VN government</td>
<td>22 540 490</td>
<td>37 170 000</td>
<td>57 710 490</td>
</tr>
<tr>
<td>2. Donors, UN agencies</td>
<td>136 079 789</td>
<td>115 300 000</td>
<td>251 379 789</td>
</tr>
<tr>
<td>• Grants</td>
<td>136 079 789</td>
<td>11 800 000</td>
<td>147 879 789</td>
</tr>
<tr>
<td>• Loan</td>
<td>0</td>
<td>103 500 000</td>
<td>103 500 000</td>
</tr>
<tr>
<td>3. NGOs</td>
<td>10 334 620</td>
<td>5 000 000</td>
<td>15 334 620</td>
</tr>
<tr>
<td>• Grants</td>
<td>10 334 620</td>
<td>5 000 000</td>
<td>15 334 620</td>
</tr>
<tr>
<td>• Loans</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total foreign (2 + 3)</td>
<td>146 414 409</td>
<td>120 300 000</td>
<td>266 714 409</td>
</tr>
<tr>
<td>Total (1 + 2 + 3)</td>
<td>168 954 899</td>
<td>155 470 000</td>
<td>324 424 899</td>
</tr>
</tbody>
</table>


### 3.3. Private sector financing

The private sector takes also part in forest sector investment. The statistics from Ministry of Forestry from 1993 provide the following break down of forest sector financing by the source:

- National budget: 50%
- Loan capital: 5%
- Grants, mainly WFP: 25%
- Private investments: 20%
Private investments have been directed so far mainly in seedling production and small scale plantations by family farms.

In conclusion, in addition to the substantial government investments in forestry development, the foreign investments, particularly bi-lateral donors and UN agencies, have become the most important source of forest sector financing in Vietnam.

### 4. JUSTIFICATION FOR INCENTIVES AND CREDITS TARGETED FOR FOREST SECTOR DEVELOPMENT

#### 4.1. Incentives

Incentives are tools of the policy maker to achieve policy goals which could not be reached through ordinary (market) mechanisms, e.g. in situations where there are no markets (market externalities: environmental benefits, amenity, soil conservation) or the markets are functioning poorly (distorted markets due to monopolies, etc.). Incentives can be provided in various ways. Such ways include e.g.:

- technical assistance below the cost of provision the service
- direct cash grants
- grants in kind
- provision of credits with interest rates below the market rates

Cash grants are called subsidies. Credits with interest rates below the market rates are called subsidised credits.

#### 4.2. Economic externalities and conservation: subsidies

The economic justification for subsidies is based on the existence of market failures which cause a difference between the benefits accrued to a private entity (e.g. farm) and the national economy. This is the only valid justification for subsidies. The forestry sector is affected by many market failures, mainly related to environmental and ecological benefits which are important for the society, but the private land owner cannot catch income from them. Also the notable difference in the time preferences of the society and the individuals is harming the forest sector significantly in Vietnam. Individual farmers presumably want fast returns even in the cost of long term rationality. Whereas the society as a whole (including the government) should aim to optimise long term benefits. Therefore, the subsidies for forestry sector are justified.

The quantity of the subsidy must be based on the criteria of efficient use of scarce resources. A system of providing a fixed percentage (e.g. 70%) of the plantation and management costs may cause irrational use of the funds. Land owner (and all involved parties) has an interest to present an application with inflated costs.

The system of incentives should be based on economic criteria. The procedure should be simple and transparent, and it should provide a special incentive to the land owners who have a comparative advantage in timber production, i.e. have lowest relative production costs. If substantial financial subsidies (e.g. in form of grants) are provided, the land owners themselves must compete for the funds. One way to do this is a kind of auction or tendering where each applicant is requested to indicate the minimum subsidy which he / she would require for his / her project. The grants would be then allocated to the applicants who request lowest subsidies, one by one using the requested rates by respective applicant, until the funds have exhausted.

#### 4.3. Economic development and financing: credits

Credits are used to finance profitable projects which could not be otherwise executed due to the lack of capital. The project should produce enough profit to cover both the cost of financing (interest rate) and the expected profit of the investor (borrower). Credits facilitate the expansion (growth) of economy even if the distribution of the capital is not "optimal" from the economy’s point of view: i.e. the companies or individuals with profitable production ideas but without necessary capital can "buy" (borrow) the capital. As a result of the supply and demand of the capital a price (interest rate) of the capital is formed in the market. Due to various social and political reasons the policy makers often regulate this price (i.e. interest rate). This results always in non-
effective (sub-optimal) use of capital (but not in sub-optimal policy outcome: i.e. the optimal economic and political results are often different).

Consequently, for the point of view of economic efficiency, the interest rates should be allowed to form and change freely. However, due to social and political reasons the interest rates are often controlled by political decision makers.

**4.4. Risks with incentives**

Incentives, and particularly subsidies, should be used cautiously as they have strong ability to distort the markets, including the markets of capital, labour and goods. Such market distortions lead to economic misallocation of resources and inefficiencies in the economy, thus hindering (often seriously) the economic growth. The irony is that the same incentives that are established to boost the economic growth are in fact often seriously hampering the economic development. However, the incentives need not be detrimental, and they often are beneficial, but only when carefully planned and designed to have the impact on desired aim with the least possible negative side effects.

One of the most serious drawbacks of incentives is that they are very difficult to discontinue once established. The part of the population that benefits from the incentive soon considers the subsidised situation as a norm and privilege. Any attempts to abolish or reduce the subsidy is seen as "robbery", unjust attack on the legitimate rights of the people concerned. Very few remembers that the subsidy was a favour donated by the decision maker. A decision to discontinue an incentive which is seen by the established requires considerable political strength.

Similarly, subsidies create expectations of further subsidies. This may lead to a lethargic attitude towards entrepreneurship and risk taking. For example, large tree plantation programmes which are implemented through very generous subsidies may destroy the local initiative and self-sustained activities in tree planting.

Consequently, subsidies should never be excessive and too generous. An incentive scheme should be designed in a way which would minimise the need of subsidies and maximise the local initiative and input. A subsidy should be just a "booster" which would enable the mobilisation of local resources.

**5. BAC KAN PROVINCE AND CHO DON DISTRICT**

Bac Kan is a newly established province (on 1 January 1997). It includes 4 districts of earlier Bac Thai province (Bach Thong, Na Ri, Cho Don and Bac Kan town) and two more districts from previous Cao Bang province (Ngan Son and Ba Be), as well as 10 communes of previous Phu Luong district. So far, the statistics of the two new districts (Ngan Son and Ba Be) and of the 10 new communes are not yet available. Hence, the following information of Bac Kan province includes data only from the 4 districts (Bach Thong, Na Ri, Cho Don and Bac Kan town) of the previous Bac Thai province.

**5.1. Area, population and labour force**

Total land area of Bac Kan province is 283 278 ha, of which forest land covers 242 167 ha or 85% (Table 5.1). The area of Cho Don district is 90 766 ha, of which some 86% (78 501 ha) is classified as forest land.

<table>
<thead>
<tr>
<th>Type of land</th>
<th>Bac Kan Province</th>
<th>Cho Don District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area (ha)</td>
<td>Area (ha)</td>
</tr>
<tr>
<td>Forest land</td>
<td>242 167</td>
<td>78 501</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>9 631</td>
<td>2 592</td>
</tr>
<tr>
<td>Housing</td>
<td>n.a.</td>
<td>259</td>
</tr>
<tr>
<td>Water facing area for fishery</td>
<td>437</td>
<td>132</td>
</tr>
</tbody>
</table>
The four districts of Bac Kan province has 149 998 inhabitants (Table 5.2). The whole province is estimated to have some 270 000 people. Average population growth has been 2.3% per year in the province in the 1990s. The capital, also called Bac Kan (town), has a population of 10 586 people. Population density in the province is 54 persons/km². More than 90% of the population live in rural areas.

Cho Don is one of the 5 rural districts in Bac Kan. It had 45 743 inhabitants in 1995. The average population density is 42 persons/km². The most densely populated communes have, however, population densities of 183 people/km². There are 21 communes and one town in the district (Bang Lung). The rural population growth in Cho Don district has been somewhat faster (3% per annum) than average growth in the province. Tày people form the majority in Cho Don (76%).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bac Kan province</td>
<td>139 171</td>
<td>141 651</td>
<td>146 350</td>
<td>149 998</td>
<td></td>
<td>+ 2.6%</td>
</tr>
<tr>
<td>Bac Kan town</td>
<td>10 062</td>
<td>10 227</td>
<td>10 401</td>
<td>10 586</td>
<td></td>
<td>+ 1.7%</td>
</tr>
<tr>
<td>Cho Don district</td>
<td>40 580</td>
<td>41 909</td>
<td>43 230</td>
<td>44 506</td>
<td>45 743</td>
<td>+ 3.0%</td>
</tr>
</tbody>
</table>

Source: Statistical Division, Thai Nguyen

5.2. Economy

Bac Kan is one of the poorest provinces in the whole country. The economy of the Cho Don district is similar to that of the province characterised by agriculture and forestry with no considerable industrial, trading or service enterprises. Based on a survey on living conditions of households in July 1993, the Bac Thai Department of Statistics classified households into three groups: rich, average and poor. Rich households have monthly income per capita higher than VND 300 000, the average from VND 40 000 to VND 300 000, and the poor below VND 40 000. In Cho Don the shares of rich, average and poor households are 0%, 78% and 22%, respectively. In Bac Kan, they are 0%, 77% and 23% while in the whole former Bac Thai province they were 3%, 75% and 22%. Hence, all the households in Cho Don and Bac Kan province belong to the average or poor category.

5.3. Climate, Topography and Ecology

Bac Kan Province belongs to the Northern mountainous ecological zone of Vietnam. The area lies in 21-23 th North latitude and is affected by the north-east monsoon. Average temperature is 21-23° C, in winter temperatures fall to 15-19° C with dew. Rainfall is distributed rather regularly throughout the year so no dry season occurs. Average rainfall is 1 600-2 400 mm/year, maximum 4 000 mm. Atmospheric humidity is at the highest around 80% in the spring.

Forest lands in Bac Kan are characterised by elevations from 200 m to over 2000 m and slopes of 15-30 degrees. Soils are typically feralitic (containing iron), formed of degenerated stone or sandstone. Soil depth is above 50 cm and it is of average fertility only. A typical forest phenotype is a secondary, poorly stocked forest or bush of 2-3 metres in height. Scattered large-size trees can be found in areas of difficult access. Large tracts of hillsides are deforested.

The climatic and topographic conditions result in diverse ecosystems. Both tropical, sub-tropical and temperate species, including tree species, thrive in the region. This enables the growing of exotic, cold/temperate climate plantation woods (e.g. Quercus spp., Castanea spp.) and fruit trees (e.g. plum, apple, pear, peach) in the region.

The climate in Cho Don district is either tropical or semi-tropical, depending on the altitude. Average
temperature is 20.9°C, the minimum temperature is 8°C, and the maximum temperature is 38°C. Average rainfall is 1822 mm. The month with the highest rainfall is August (341 mm), and the month with the lowest precipitation is February (23 mm). Average atmospheric humidity is over 80%. Forest land in Cho Don district is mainly situated at an altitude between 300 and 600m above the sea level. The highest point is 1326 m above the sea level. The average inclination of terrain is 20°.

5.4. Forest Resources

Bac Kan province has 242,169 ha of natural forest, of which 60,027 ha is protected (Table 5.3). The 149,691 ha of production forests are mainly secondary or degraded broad-leaved forests. Poor-condition forests (11,237 ha) and regenerated young forests (9,112 ha) are common. Bamboo covers some 30,571 ha, of which 25,041 ha are found in mixed forests.

Bac Kan province has also 14,237 ha of denuded and bare lands in the mountainous regions with forestry potential. It has to be noted that a large number of scattered trees have been planted in home gardens, and along roads and irrigation canals. The quantity of wood outside ordinary forest area is not known.

Table 5.3. Natural forest area by type in Bac Kan province (1992)

<table>
<thead>
<tr>
<th>Forest area by type</th>
<th>Bac Kan province</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- ha -</td>
</tr>
<tr>
<td>1. Production forest</td>
<td>149 691</td>
</tr>
<tr>
<td>a. Special forest</td>
<td>176</td>
</tr>
<tr>
<td>b. Seed forest</td>
<td>n.a.</td>
</tr>
<tr>
<td>c. Other production forest</td>
<td></td>
</tr>
<tr>
<td>• broad-leaved forest</td>
<td>66 930</td>
</tr>
<tr>
<td>o rich forest (&gt;150 m³/ha)</td>
<td>n.a.</td>
</tr>
<tr>
<td>o medium forest (80-150 m³/ha)</td>
<td>2 484</td>
</tr>
<tr>
<td>o poor forest (&lt;80 m³/ha)</td>
<td>11 237</td>
</tr>
<tr>
<td>o regenerated (secondary) forest</td>
<td>9 112</td>
</tr>
<tr>
<td>• bamboo in mixed forest</td>
<td>25 040</td>
</tr>
<tr>
<td>• bamboo forest</td>
<td>5 532</td>
</tr>
<tr>
<td>2. Protection forest</td>
<td>77 240</td>
</tr>
<tr>
<td>• bamboo</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total Forest Area</td>
<td>242 167</td>
</tr>
<tr>
<td>• natural forest</td>
<td>65 027</td>
</tr>
<tr>
<td>• bamboo</td>
<td>5 532</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Forestry 1992

Forest land statistics in Bac Thai province, 1992. Ministry of Forestry

Cho Don district has a forest area of 78,501 ha, of which 39,748 ha is actually bare land. The existing forests
cover therefore 38 753 ha, including a few hundred hectares of plantations. Plantation forests have been established through the 327 and WFP programmes. Their present area is not known, but several hundred hectares have been established annually in the 1990s (Table 5.4).

Altogether, 17 species of multipurpose and timber-producing trees had been planted by the farmers interviewed by the Market Study team of the present programme in Cho Don pilot villages. Main species planted include Pinus kesiya, Pinus massoniana, Styrax tonkinensis, Quercus spp., Manglietia glauca, Canarium spp., Cinamomum spp., Eucalyptus spp., etc. The quality and survival rate of the plantations have not been inventoried.

The latest statistics available for the information on the volume of wood and bamboo in the natural forests of Cho Don are from the year 1992. As inventories are carried out in five year intervals so new data will be released in 1997.

Forests in Cho Don district contain a growing stock of almost one million cubic metres in the production forests (1992 data). Most of the stock is in poor and regenerated broad-leaved forests and in mixed forests.

Forest area controlled by Cho Don Forest Enterprise is 5 960 ha, containing timber reserves of some 160 000 m³.

Table 5.4. Annual planting and regeneration of forest in Cho Don 1991-1995

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Planted:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- by state</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- by farmers</td>
<td>37</td>
<td>19</td>
<td>285</td>
<td>340</td>
<td>176</td>
</tr>
<tr>
<td>Subtotal</td>
<td>48</td>
<td>19</td>
<td>285</td>
<td>340</td>
<td>176</td>
</tr>
<tr>
<td>Natural Regeneration:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- by state</td>
<td>50</td>
<td>48</td>
<td>109</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- by farmers</td>
<td>37</td>
<td>20</td>
<td>284</td>
<td>507</td>
<td>196</td>
</tr>
<tr>
<td>Subtotal</td>
<td>87</td>
<td>68</td>
<td>393</td>
<td>507</td>
<td>196</td>
</tr>
<tr>
<td>Grand Total</td>
<td>135</td>
<td>87</td>
<td>678</td>
<td>847</td>
<td>372</td>
</tr>
</tbody>
</table>

Source: Statistical Division, Cho Don

Table 5.5 Growing stock of forests and bamboo in Cho Don district in 1992 (Natural Forests)

<table>
<thead>
<tr>
<th>Growing stock by forest type</th>
<th>Area (ha)</th>
<th>Volume (m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Production forest</td>
<td>52 991</td>
<td>994 538</td>
</tr>
<tr>
<td>a. Special forest</td>
<td>176</td>
<td>n.a.</td>
</tr>
<tr>
<td>b. Seed forest</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>c. Other production forest, of which:</td>
<td>994 538</td>
<td></td>
</tr>
<tr>
<td>- broad-leaved forest:</td>
<td>8 812</td>
<td>506 602</td>
</tr>
<tr>
<td>• rich forest (&gt;150 m³/ha)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>• medium forest (80-150 m³/ha)</td>
<td>729</td>
<td>58 590</td>
</tr>
</tbody>
</table>
6. DEMAND FOR FOREST SECTOR FINANCING IN CHO DON

The demand for forest sector financing in Cho Don can be estimated as the total funds required by households or firms to buy necessary material inputs such as equipment and seedlings required to reach the set production and conservation objectives.

6.1. Afforestation

Bare lands

At present, the district has 39748 ha of bare land of which 20% is rocky mountain terrain which could be used to develop protection forests for soil conservation by planting trees such as Canarium spp. and Chukrasia tabularis. Another 50% is slope land which can be afforested with local broad-leaved forest trees such as Mangletia glauca. Another 15% can be found on the lower slopes which can be used to plant special trees such as cinnamon and anise. The remaining 15%, lowest area under the hills or mountains, is suitable for the growing of fruit trees such as apricot, orange, mandarin, etc.

Hence, from the 39748 ha of bare land, the district can develop 7950 ha of protection forests, 19874 ha of broad-leaved production forest, 5962 ha of special tree forest and 5962 ha of fruit tree orchards.

The estimate on financing needs for developing these areas can be obtained by using the standard expenditures defined by the Bac Thai Department for Agriculture and Rural Development in its decision № 192/QD.NN, dated 18 May 1996, or on the basis of the standard density of the trees planted and the current price of the seedlings.

- The standard expenditure to create or to buy seedlings of trees for protection forests is VND 500 000/ha, and consequently the demand for financing the protection forest establishment is: 7950 ha * 500 000 VND/ha = VND 3975 million

- Normal production forests: 19874 ha * 2500 seedlings/ha * 200 VND/seedling = VND 9937 million

- Special tree planting: Anise: 500 seedlings/ha * 1500 VND/seedling = 750 000 VND/ha; Cinnamon: 2500 seedlings/ha * 300 VND/ha = 750 000 VND/ha; hence: 5962 ha * 750 000 VND/ha = VND 4 471 million
Fruit tree plantations: 5962 ha * 500 seedlings/ha * VND 2000 /seedling = VND 5 962 million

Agroforestry: inter-cropping between long-term trees and short-term agricultural crops

We assume that the area of production forests (19 874 ha), the area suitable for special trees (5962 ha) and the area suited for fruit trees (5962 ha) are also suitable for inter-cropping with pineapple. Thus the total area of pineapple inter-cropped could be 31 798 ha. We further assume that 10% of the area could be planted in the first year. In the second year, the area would be expanded to 20% using seedlings thinned out from the first 10%. In the third year, we can continue thinning the pineapple grown in the second year, thus being able to expand the area inter-cropped to 40%, and so forth until we have covered the whole area. Hence, the necessary investment in pineapple seedlings could be:

- 1250 seedling /ha * 400 VND/seedling = 500 000 VND/ha
- 0.1 * 31 798 ha * 500 000 VND/ha = VND 1 590 million

Recognising that the above calculations are very approximate estimates, and recognising that this type of calculations possibly result in too high investment figures as the option of managing the (poor) existing vegetation is not considered, a rough estimate for the total demand for the financing of afforestation of bare lands can be calculated as follows:

Financial demand for protection forests

+ Financial demand for ordinary production forests
+ Financial demand for special tree forests
+ Financial demand for fruit trees
+ Financial demand for pineapple to be inter-cropped

= 3 975 +9 937 + 4 471 + 5 962 + 1 590 = VND 25 935 million

6.2. Enrichment of poor and secondary forests

Enrichment of poor forests

Currently, the area of poor forests (<80 m³/ha) is 5432 ha in Cho Don. There is a need to increase the number of trees per hectare to make these forests fully productive. This can be done through planting. The required amount of seedlings to be planted is estimated to be 1/5 of the ordinary requirement of tree planting, i.e. the cost of enrichment planting is 1/5 of VND 500 000. Hence, the demand for financing of the enrichment of poor forests would be:

- VND 500 000/ha * 1/5 * 5432 ha = VND 543 million

Enrichment of secondary forests

Presently, the secondary forest area is 2741 ha in Cho Don. The secondary forests need also enrichment planting when ever the tree density is lower than the standard one. The estimated requirement for seedlings is 1/3 of the standard planting density. Consequently, the enrichment cost of secondary forests would be:

- VND 500 000/ha * 1/3 * 2741 ha = VND 457 million

In summary, the total demand for financing the forest enrichment planting is:

Financial demand for enrichment of poor forests

+ Financial demand for enrichment of secondary forests

= VND 543 million + VND 457 million = VND 1000 million
6.3. Apiculture

The forest land is 72% of the total area of Cho Don district. It offers a huge potential for apiculture. Beekeeping is a traditional activity in the region. However, beekeeping is practised only by few households. For instance, of the 276 households in Ngoc Phai commune, there are only 10 households having more than 10 beehives.

Assuming that some 10% of the households could become honey producers, in Cho Don there would be 735 households with an average of 10 beehives each. The total number of beehives in the district would be 7350. The capital needed to buy a hive and bees is estimated to be VND 100 000. Hence, the financing needs to develop beekeeping would be:

\[
\text{VND 100 000/beehive} \times 7350 \text{ beehives} = \text{VND 735 million}
\]

Hence, the total demand for the financing of forestry in broad terms would be:

Financing demand of afforesting barren lands

+ Total financing demand for enriching poor and secondary forests

+ Financial demand for beekeeping

= VND 25 967 million + VND 1000 million + VND 735 million

= VND 27 670 million

6.4. Small and medium scale processing

Both primary and secondary processing are poorly developed in Cho Don. The only major processing unit is the chop-stick factory of the Forestry Enterprise. There is also a recently established small private sawmill. The chop-stick factory has VND 200 million of fixed capital. It uses 5400 tons of bamboo to produce 1800 tons of chop-sticks annually. The private sawmill has a fixed capital of VND 100 million, and processes an estimated volume of 500 m³ of roundwood annually.

Wood products

The estimated timber stock is 994 538 m³ in the production forests in Cho Don. It could be harvested in 15 years. Each year the volume of harvested timber would be 66 303 m³, i.e. 133 times the capacity of the private sawmill. Consequently, a very rough estimate of the investment needs for primary production can be calculated as multiplying the investment of the sawmill by 132 times, resulting in VND 13 200 million. It should be noted that this calculation does not take the growth of the forest nor the marketing of the eventual products into consideration.

Bamboo products

The estimated volume of bamboo in the production forests is 36 610 million trees or 549 150 tons. This stock can be exploited for 5 years (not accounting for the growth of the stock). Each year, some 109 830 tons of bamboo could be exploited, 30% of which can be used in chop-stick production. The remainder can be used for other purposes, such as construction and canal protection or domestic purposes. Hence, some 32 949 tons of bamboo could be used for chop-stick production. The amount is 6 times larger than the capacity of the present factory. Consequently, a rough estimate for the financing needs for that processing could be calculated by multiplying by five the fixed capital of the factory: VND 200 million * 5 = VND 1 billion.

The Forest Enterprise has plans to improve the use of the waste bamboo material from the chop-stick processing. It intends to produce "golden praying paper" to be exported to Taiwan. It is estimated that the capital requirement of such a processing line would be VND 1 200 million. With the six-fold increase in the chop-stick processing capacity, also the requirement for the processing capacity of the praying paper is six fold, and the respective investment cost: VND 1 200 million * 6 = VND 7 200 million.

The total financing demand for bamboo processing =

Financing demand for chop-stick processing
Financing demand for chop-stick by-product processing

\[= \text{VND 1000 million} + \text{VND 7 200 million} = \text{VND 8 200 million}\]

The above estimates are summarised in Table 6.1.

**Table 6.1. Demand for forest sector financing in Cho Don**

<table>
<thead>
<tr>
<th>Items</th>
<th>Unit</th>
<th>Amount</th>
<th>Unit Price VND</th>
<th>Total million VND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Forestry (in broad terms)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Bare land afforestation</td>
<td>ha</td>
<td>39 748</td>
<td>500</td>
<td>25 935</td>
</tr>
<tr>
<td>• Protection forest planting</td>
<td>ha</td>
<td>7 950</td>
<td>500</td>
<td>3 975</td>
</tr>
<tr>
<td>• Production forest planting</td>
<td>ha</td>
<td>19 874</td>
<td>500</td>
<td>9 937</td>
</tr>
<tr>
<td>• Special tree forest planting</td>
<td>ha</td>
<td>5 962</td>
<td>750</td>
<td>4 471</td>
</tr>
<tr>
<td>• Fruit trees</td>
<td>ha</td>
<td>5 962</td>
<td>1 000</td>
<td>5 962</td>
</tr>
<tr>
<td>• Pineapple inter-cropped</td>
<td>ha</td>
<td>3 180</td>
<td>500</td>
<td>1 590</td>
</tr>
<tr>
<td>2. Enrichment of forests</td>
<td>ha</td>
<td></td>
<td></td>
<td>1 000</td>
</tr>
<tr>
<td>• poor forests</td>
<td>ha</td>
<td>5 432</td>
<td>100</td>
<td>543</td>
</tr>
<tr>
<td>• secondary forests</td>
<td>ha</td>
<td>2 741</td>
<td>167</td>
<td>457</td>
</tr>
<tr>
<td>3. Beekeeping</td>
<td>hives</td>
<td>7 350</td>
<td>100</td>
<td>735</td>
</tr>
<tr>
<td><strong>II. Processing</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>21 400</strong></td>
</tr>
<tr>
<td>1. Wood processing</td>
<td>m(^3)</td>
<td>994 000(^1)</td>
<td></td>
<td>13 200</td>
</tr>
<tr>
<td>2. Bamboo processing</td>
<td>trees</td>
<td>12 200 000(^2)</td>
<td></td>
<td>8 200</td>
</tr>
<tr>
<td><strong>Total (million VND)</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>59 070</strong></td>
</tr>
</tbody>
</table>

Note: 1) for 15 years

2) for 5 years

The grand total of financing demand appears a large sum. The above calculations may indeed result in an over-estimate, mainly due to the following reasons: First, all the land area under the land classes which are studied is included in the calculations. This assumption is not necessarily justified as a large share of the area could be managed without a planting investment and / or the area is too remote from any road to justify such investments. Secondly, it is assumed that the markets for the eventual products is insatiable. This assumption may not be true.

On the other hand, the above calculations does not account for other new production options such as stick-lack, sericulture, spices, fruit trees, silvo-pastoral activities, etc. This omission was due to the difficulty of getting any relevant information on the costs of such production alternatives. Similarly, most of the secondary processing has been excluded from the calculations. The inclusion of these exclusions would naturally increase the estimate for the financing needs.

The forestry development planning in the district has, so far, mainly been based on the availability of financing and not on the production potential. The district plans for forest sector development (year 1997 and the period
of 1997-2000) are based on the expected financing from two externally financed programmes, namely 327 and PAM (WFP). It is notable that the financing from the Vietnam - Finland Forest Sector Co-operation Programme does not appear in the present development plans of district level entities. This omission should be apparently corrected.

Table 6.2. Demand for financing in forest sector in Cho Don in 1997

<table>
<thead>
<tr>
<th>Items</th>
<th>PAM (ha)</th>
<th>327 (ha)</th>
<th>Total (ha)</th>
<th>Financing demand (Million VND)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-Forestry (in broad terms)</td>
<td></td>
<td></td>
<td></td>
<td>528</td>
</tr>
<tr>
<td>1-Afforestation</td>
<td></td>
<td>200</td>
<td>150</td>
<td>175</td>
</tr>
<tr>
<td>2-Special tree planting</td>
<td></td>
<td>50</td>
<td>20</td>
<td>53</td>
</tr>
<tr>
<td>3-Household garden develop.</td>
<td></td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>4-Animal Husbandry (head)</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>II- Processing</td>
<td></td>
<td></td>
<td></td>
<td>1270</td>
</tr>
<tr>
<td>1-Private sector</td>
<td></td>
<td></td>
<td></td>
<td>70</td>
</tr>
<tr>
<td>2-State enterprise</td>
<td></td>
<td></td>
<td></td>
<td>1200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>1798</strong></td>
</tr>
</tbody>
</table>

Sources: Technical Division and Planning Division, Cho Don Forest Enterprise


Table 6.3. Demand for financing in forest sector in Cho Don from 1997 to 2000

<table>
<thead>
<tr>
<th>Items</th>
<th>PAM (ha)</th>
<th>327 (ha)</th>
<th>Total (ha)</th>
<th>Financing demand (Million VND)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-Forestry (in broad terms)</td>
<td></td>
<td></td>
<td></td>
<td>3414</td>
</tr>
<tr>
<td>1-Afforestation</td>
<td></td>
<td>2000</td>
<td>1150</td>
<td>1588</td>
</tr>
<tr>
<td>2-Special tree planting</td>
<td></td>
<td>500</td>
<td>370</td>
<td>626</td>
</tr>
<tr>
<td>3-Household garden develop.</td>
<td></td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>4-Animal Husbandry (head)</td>
<td></td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>II- Processing</td>
<td></td>
<td></td>
<td></td>
<td>1270</td>
</tr>
<tr>
<td>1-Private sector</td>
<td></td>
<td></td>
<td></td>
<td>70</td>
</tr>
<tr>
<td>2-State enterprise</td>
<td></td>
<td></td>
<td></td>
<td>1200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>4684</strong></td>
</tr>
</tbody>
</table>

Sources: Technical Division and Planning Division, Cho Don Forest Enterprise

The true demand for financing in the private sector is apparently larger than the VND 70 million which is an estimate of only one enterprise. The State Forest Enterprise has advanced plans to start producing "golden praying paper" from the bamboo waste of the chop-stick factory. Presently the enterprise gives the waste away free of charge. The markets and the prices for the praying paper are claimed to be good. The output / raw-material ratio is 1/3, and the export price is 320 USD/ton.

Of the 22 communes in Cho Don, Ngoc Phai and Dong Lac have been chosen as pilot communes of the Vietnam - Finland Forest Sector Co-operation Programme. Ngoc Phai has 1799 ha and Dong Lac 3042 ha of bare land. The shares of forest categories (rocky mountain terrain for protection forests, slope land for ordinary production forests, lower and more humid land for special tree plantations, and the feet of the mountains for fruit tree orchards) are estimated to be the same as for the whole of the district, i.e. 20%, 50%, 15% and 15% respectively. The pineapple inter-cropping scheme is also assumed to follow the one presented earlier.

Ngoc Phai has 399 ha of proper forest of which only 30 ha is medium class forest (>75m³/ha). The rest is poor secondary forest which needs to be enriched. Dong Lac has 219 ha of forest that needs to be enriched. The enrichment scheme is the same as presented above. Ngoc Phai has 387 households and Dong Lac 380. Very few of them are keeping bees at the moment. Assuming that 10% of them would be now interested in investing in bee-keeping, and each household would establish 10 hives, the number of beehives would be the same as the number of the households in the communes.

Based on the above assumptions, the estimate on the demand for financing in the two communes is presented in the Table 6.4.

### Table 6.4. Demand for financing in forest sector in Ngoc Phai and Dong Lac

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit price (VND)</th>
<th>Ngoc Phai</th>
<th>Dong Lac</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Bare Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Protection forests</td>
<td>500 000</td>
<td>360</td>
<td>450</td>
</tr>
<tr>
<td>2. Production forests</td>
<td>500 000</td>
<td>899</td>
<td>203</td>
</tr>
<tr>
<td>3. Special tree forests</td>
<td>750 000</td>
<td>270</td>
<td>270</td>
</tr>
<tr>
<td>4. Fruit trees</td>
<td>1 000 000</td>
<td>270</td>
<td>270</td>
</tr>
<tr>
<td>II. Forest Enrichment</td>
<td>168 000</td>
<td>399</td>
<td>67</td>
</tr>
<tr>
<td>III. Beekeeping</td>
<td>100 000</td>
<td>387</td>
<td>39</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1 209</td>
<td>1 938</td>
</tr>
</tbody>
</table>

The Vietnam- Finland Forest Sector Co-operation Programme is presently supporting 23 pilot households with the total area of 43 ha.

In summary, the demand for forest sector financing is substantial in Cho Don district and the two pilot communes. The district is estimated to need some VND 49 billion for forestry and forest sector industries. Ngoc Phai and Dong Lac communes would require some VND 1.2 billion and VND 1.9 billion respectively to mobilise their forest opportunities. The forest sector has a large potential for the development of the local economies.

**7. SUPPLY FOR FINANCING FOR FOREST SECTOR AND RURAL DEVELOPMENT IN CHO DON**
The financial factors play an important role in the development of forest sector which has a major development potential in the mountainous district of Cho Don.

7.1 Main sources of financing in Cho Don district

Government budget

The government budget funds have been the main source of forest sector financing in the last years. The afforestation program 327 (re-greening of bare hills) is one of the 15 major national programmes covering various fields of the economy. The 327 programme has several aims, but the main purpose is the “re-greening of bare hills”. The activities financed under the programme support the main purpose. Such activities include the planting of fruit trees, planting of timber trees, improved animal husbandry on open land, support to sedentary living, and improvement of rural infrastructure. The support is provided through grants, loans and locally mobilised funds.

In Cho Don in 1996, the financing under the programme 327 was VND 450 million, which included a grant through the Treasury of VND 400 million, and a credit fund of VND 50 million. Loans from this credit fund were provided with 0% interest rate. The grant funds were used for afforestation, infrastructure development (transport and irrigation), and conservation of forest resources. Grants were given directly to the owners of land on which the 327 programme’s projects were carried out. The loans from programme were used for fruit tree plantations. Repayment of the loans will start after the first harvest of the crop, i.e. the duration of the loan is determined by the production cycle of each investment. In Cho Don, there were no locally mobilised funds under the 327 programme.

There are also other sorts of credit programmes which can be used for forest sector development in Cho Don district. The government decision number 120 of 1992 on “employment creation for future” (also called as program 120) opened opportunities for supporting the forest employment. The programme has been used in the renovation of State Forest Enterprise and in supporting the process of land allocation to households. The Forest Enterprise now focuses on the provision of extension services, and on the processing and marketing of forest products.

In Cho Don the financing provided through the program 120 has been VND 100 million in 1995, and VND 109 million in 1996. These funds were provided through a credit system with the terms defined by the Treasury:

- in 1995 the interest rate depended on the duration of respective loan: for loans of 1 year it was 0.6% per month, for 2 years 0.5% per month, and for 3 years 0.4% per month
- in 1996 the interest rate was 0.6% per month for all the loans
- for invalids the interest rate was preferential: 0.4% per month.

Different types of credit

The funds available from the government budget are limited. At the same time the demand for financial resources is large in the forest sector in general and in the farm / household forestry in particular. The rural households with their newly allocated forest land require initial capital to mobilise the opportunities offered by the land allocation. This need has been recognised by the government which has supported the establishment of different credit funds in support of developing productive activities by the households. The government has also attempted to make loans more attractive to the rural households by simplifying the borrowing procedures and by subsidising the interest rates. Other relevant government policies which have had a great positive effect on the overall economic development, especially in the forest sector include the stabilising monetary policy, development of the banking system, establishing the Bank for the Poor, and the establishing a credit and savings system known as People’s Credit Funds (PCF). The PCFs are not yet operational in the Bac Can province.

Vietnam Bank for the Poor (VBP)

The only real bank operating in the Cho Don district is the Vietnam Bank for the Poor. It has a staff of 15 of which 5 are working with the communes. On average 1 credit officer covers 4 communes.

The loans from VBP are the main source of external financing for the households in Cho Don. The loans taken
from the VBP are used for different purposes, but mainly for agriculture and animal husbandry. The interest rate on loans has a commercial character, but they are still subsidised. In 1996, the interest rate charged on an ordinary loan was 1.45% with a collateral requirement. For mountain areas, such as Cho Don, the interest rate is reduced by 15% of the ordinary rate. Consequently, the interest rate charged on loans in Cho Don was 1.23%. The loans of this sort are mainly used for trade, service industry and small-scale processing.

Since 1995 the loans of VBP in Cho Don have been extended also to the poor who cannot provide collateral, according to the poverty alleviation policy of the government. The interest rate on such loans has been defined by the headquarters of the VBP. The interest rate was 1.2% per month in 1995 and 1.0% in 1996. The loan period is short, 12 months. The loan ceiling is VND 2.5 million. The loans are disbursed through "joint liability groups". To be able to get a loan from the VBP the applicant must be approved by "Poverty Alleviation Committee" both at commune and district levels.

The loan disbursement of the VBP in Cho Don is shown in Table 7.1.

**Table 7.1. Loan disbursement of the VBP in Cho Don district (million VND)**

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total loan</td>
<td>5 700</td>
<td>6 882</td>
</tr>
<tr>
<td>Loan for the poor</td>
<td>1 200</td>
<td>2 200</td>
</tr>
<tr>
<td>Outstanding loan</td>
<td>5 000</td>
<td>7 000</td>
</tr>
<tr>
<td>Locally mobilised capital</td>
<td>4 085</td>
<td>5 200</td>
</tr>
<tr>
<td>Interest rate on loan (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>for business purposes</td>
<td>1.23</td>
<td>1.23</td>
</tr>
<tr>
<td>for the poor</td>
<td>1.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Statistical Bulletin of Cho Don VBP

The VBP Cho Don receives its funds mainly from short-term deposits of local residents, enterprises and organisations. The VBP Cho Don loans also capital from the provincial VBP (now VBP Bac Can). The regulated fund (i.e. the credit fund for the poor) from the Central VBP is about 30% of the total volume of the loans of VBP Cho Don.

The lack of medium and long-term loans is a serious obstacle for the forest sector development in Cho Don. Forestry investment usually requires longer period, and thus is also riskier, than many other investments.

**Other sources of credit**

There are several co-operation programmes and projects which are carried out in Cho Don district, each with its own objectives and activities. However, they all concentrate on rural development, including afforestation, sustainable use of forest land, agriculture, animal husbandry, enhancement of infrastructure, and the improvement of living standards of rural poor.

**The Programme VIE-508 financed by CIDSE**

The purposes are farming and livestock development. Volume of the fund was VND 56 million in Cho Don district in 1996. The fund has been provided to farmers in the form of plants, fertiliser, etc. The fund is rotated (in kind) within groups of households, from one member to another, after each production cycle. Beneficiaries are the poor and people with average income in the villages.

**The Vietnam - French Programme financed by GRET**

The programme is aimed at applied research, not for implementation. The programme defines that they
operate between research and extension. It carried out experiments on new plant species, plantation techniques on slope lands, and on pig and cow raising. The volume of the programme financing was USD 38 000 in 1995, and USD 40 000 in 1996.

In addition to the research/experimentation, the programme provided also small credits to farmers. The credit fund for 3 communes was VND 100 million in 1996. The credit fund was given directly to Credit Management Boards at commune level. The loan is disbursed to households through "Preference Groups" which include 5 households. The group guarantees the repayment for its members. The loan per household was VND 200 000 with an interest rate of 2.5% per month. The loan period is 12 months. The principal is paid back at the end of the loan period. The credit component has had substantial difficulties in its operations: the loans have not been always paid back or the Credit Management Boards have used the funds for different purposes than approved. The beneficiaries have also argued that the interest rate charged is too high.

**The UNICEF Programme**

The UNICEF programme aims at improving the health of women and children, conserving the environment, and increasing the incomes of poor women. The programme has been carried out in Bang Lung and Phuong Vien communes. The programme provides credits to women. The total loan volume of the scheme was VND 120 million in 1996, for each commune VND 60 million. The programme has provided loans with an interest rate of 2% per month. Loan ceiling has been recently increased from VND 300 000 to VND 500 000. The loan period is 12 months. The loans were disbursed through groups of 15 women in each.

**The Women Union in Cho Don**

The Women Union in Cho Don is running the UNICEF programme. In addition, the Women Union has also established its own "Fund for Poor Women". The aim of the fund is to increase the incomes of poor women. In 1996, the total volume of the fund was VND 56 million, of which VND 20 million was received as a loan (without interest) from the provincial Women Union. Loans are provided to poor women with the same interest rate as the VBP's (i.e. 1% per month). The loan period is 12 months.

The different sources of credit in Cho Don district are shown in the Table 7.2.

**Table 7.2. Credit for forestry and rural development in Cho Don district in 1996**

<table>
<thead>
<tr>
<th>Sources of investment</th>
<th>Volume</th>
<th>Sources of credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>million VND</td>
<td>Total loan million</td>
</tr>
<tr>
<td>I. Government budget</td>
<td></td>
<td>VND</td>
</tr>
<tr>
<td>1. Programme 327</td>
<td>450</td>
<td>50</td>
</tr>
<tr>
<td>2. Programme 120</td>
<td>109</td>
<td>109</td>
</tr>
<tr>
<td>II. Credit from VBP</td>
<td></td>
<td>4 682</td>
</tr>
<tr>
<td>1. Business purposes</td>
<td>2 200</td>
<td>2 200</td>
</tr>
<tr>
<td>2. For the Poor</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>III. From other programmes</td>
<td></td>
<td>440</td>
</tr>
<tr>
<td>1. VIE-508 of CIDSE</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>2. Vietnam - France (GRET)</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>4. Fund for poor women</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1) loan period depends on the production cycle
In addition to the above schemes, there is mutual support of people in community. Loans are provided to those in need, in the form of cash, paddy or rice. Sometimes an interest is charged, in most cases not. The repayment is usually done as soon as possible (after the next successful harvest). This kind of mutual support is quite common among Vietnamese farmers. It should continue to be so, and also encouraged.

7.2. Credit for forestry and rural development in Ngoc Phai and Dong Lac communes

Presently, the financing for forest sector from the government budget is minimal in the two pilot communes of Vietnam-Finland Programme. The main source of funds for the forestry development is provided by the people themselves. The remainder comes from loans of the VBP, and through the assistance of the existing co-operation programmes.

Vietnam Bank for the Poor

**Ngoc Phai commune**: The volume of the VBP loans on 31 December 1996 was VND 395 million, of which loans for the poor was VND 195 million. Number of borrowers was 197. In Na Tum village the outstanding loan for the poor was VND 29.5 million and in Coc Thu village VND 6.5 million.

**Dong Lac commune**: The volume of the VBP loans on 31 December 1996 was VND 327 million, of which loans for the poor was VND 108 million. Number of borrowers was 219. In Ban Chang village the outstanding loan for the poor was VND 15 million and Na Ang village VND 20 million.

Co-operation programmes

**Programme VIE-508 of CIDSE**: the programme is carried out in both the communes. Its funds are used to support pilot farmers in pig and chicken raising, and through the provision of seedlings of some agricultural and gardening plants. The volume of each loan depends on the kind of production used for. For example, for chicken raising the loan was VND 250 000 per household, for plant seedlings the loan was VND 72 000 per household.

In Ngoc Phai commune, Na Tum village, the outstanding loan in 1996 was VND 3.5 million for 13 households of the total number of 56 households in the village. In Dong Lac commune, Ban Chang village, the outstanding loan in 1996 was VND 8 million, of which VND 7 million was in kind, the remainder had been provided in cash.

The **Vietnam-France programme** is also implemented in both the communes. The outstanding loan of Ngoc Phai commune was VND 18 million in 1996. In Dong Lac commune it was VND 17 million.

In addition to the above types of credit, the mutual support in form of loans without interest was reported to be rather common in both the communes.

In the forthcoming years, the forest sector investments in Cho Don district will be supported by different programmes, including 327, PAM, and the Vietnam-Finland. In 1997, the programme 327 will provide funds for the afforestation on 250 ha, of which 200 ha for ordinary broad-leaved forests, and 50 ha for special tree forests. The PAM will support afforestation on 170 ha, of which 150 ha for ordinary broad-leaved forests and 20 ha for special tree forests. The Vietnam-Finland Programme will provide a credit fund of some VND 1.1 billion. The other programmes such as Vietnam-France and UNICEF will be continued.

In summary, the supply of financing for forest sector development has not met the demand. The support from the government budget is mainly aimed at improving the dilapidated infrastructure. Subsidised credit from the VBP has been provided mainly for solving poverty problems. Self-accumulated capital is limited in the district. There are only few households who have invested in the use of forest lands, mainly by planting fruit trees (orange, mandarin, apricot), pineapple or special trees (cinnamon, anise).

The right to use forest land has been recently given to households. The households perceive the need to afforest, conserve and enrich the given forest land, in order to earn income from it. As a results, the demand for forestry financing is increasing. In order to meet the demand, all the possible sources of financing should be tapped. The farmer should not rely on only one source for financing.

8. PROPOSAL FOR THE ESTABLISHMENT OF THE CREDIT SCHEME
The proposal for the establishment of the credit scheme is based on the above analysis and on examining selected other credit schemes in Vietnam. The general principles lay the basis for the scheme. They should be respected notwithstanding the actual implementation arrangements. The general principles should be included in every contract / agreement to be established for and under the scheme.

The terms of credit stipulate the rules of the loans to be given. If found necessary, the terms of the credit can be adjusted during the course of the implementation of the scheme. However, such adjustments need to be approved at the highest decision making level of the scheme.

Two variant management options are presented for the actual management of the scheme. Both of the options have been tested elsewhere in Vietnam, and they have both pros and cons to be weighed by the Vietnam - Finland Co-operation Programme management before the final decision on the management of scheme is taken. Regardless of the management system to be chosen the general principles and the terms of credit remain the same.

8.1. General principles of the scheme

Name of the credit scheme

The credit scheme will be called "Vietnam - Finland Credit Scheme for Sustainable Multi-purpose Farm Forestry", in short: "Vietnam - Finland Farm Forestry Credit"

Name of the fund

The credit will be provided from a trust fund to be set up according to the legislation of Vietnam. The trust fund will remain under the custody of the Board of Trustees (to be defined later), even after the eventual termination of the Vietnam - Finland Forestry Sector Co-operation Programme. The name of the fund will be "Vietnam - Finland Farm Forestry Fund".

Purpose

The purpose of the scheme is to provide credit for profitable investments to the farmers in support of the two main objectives of the Vietnam - Finland Co-operation programme: (i) increase the incomes of farmers, and (ii) sustainable management, use and conservation of the newly allocated forest lands.

Note: the purpose of the scheme is not only "poverty reduction" which is the main purpose of most of credit schemes in Vietnam.

Beneficiaries

The beneficiaries of the credit scheme are the farmers (households) living in Cho Don district of Bac Kan province. More specifically, the target group is, at least initially, the farmers (households) of the four pilot villages (Na Tum, Coc Thu, Ban Chang, and Na Ang) in the two pilot communes (Ngoc Phai and Dong Lac).

Investments eligible for receiving credit from the Vietnam - Finland Farm Forestry Fund

The types of investments eligible for receiving credit from the Vietnam - Finland Farm Forestry Fund include the following:

i. afforestation for timber production 1)

ii. planting of fruit trees, trees producing spices, oils, tannin, or other marketable extracts

iii. agroforestry (permanent or semi-permanent inter-cropping) 2)

iv. silvo-pastoral activities (animal husbandry in open forests) 3)

v. live fences

vi. beekeeping
vii. sericulture (production of silk)
viii. production of sticklac
ix. production of non-wood forest products (from natural sources or semi-cultivated: medicinal plants)
x. sustainable management of existing natural (primary or secondary) forests
xi. conservation of forest resources
xii. small scale processing of the products from the points i - xi.

Principles on the choice of the species which plantation could be supported, and some examples of species are provided in Annex 5.

Note 1): the borrower should be encouraged to inter-crop the young plantations with short-term agricultural crops during the first years until the tree canopy is closed; indeed the borrower may be able to pay back the loan, before the harvesting of trees can be started, using the income from the inter-cropping

Note 2): the credit can be used for buying seeds, seedlings, equipment or implements required for appropriate agroforestry activities on the forest land. The use of the credit is not limited for the purchase of seeds or seedlings of traditional forestry species (see Annex 5). However, the loan applicant must be made aware that the seeds or seedlings to be purchased should be used in the planned agroforestry project of the farmer, and not elsewhere. The role of the extension staff is important in this. Furthermore, the extension staff must provide high quality and adequate information on appropriate agroforestry techniques. Special emphasis must be paid to preventing the credit funds to be used in clearing new fields on forest lands. The agroforestry projects must be truly sustainable and feasible.

Note 3): the credit provided from the Fund can be used for example for the purpose of well managed animal husbandry based on forage from the forest lands (point v above). However, the credit cannot be used for clearing of forest for pasture or buying animals. It is difficult, and even unnecessary, to draw the line between different types of animal husbandry techniques. The role of extension service is crucial both in negotiating with the farmer on the production techniques before the investment (before the credit is given), and in the later monitoring of the performance of the investment. Should the extension officer (or any other party involved in the management of the credit scheme) find obvious misuse of the funds (use of the credit for a completely different purpose than was agreed), the case must be thoroughly studied (see point "breach of the credit agreement").

Size of the credit

The size (volume) of the credit will be adjusted to the investment needs of the borrower. The extension service must assist the applicant in calculating the needs. The basic principle is that the credit can cover only inputs to be purchased outside the household (i.e. the borrower can not take loan against his / her own labour inputs, and material that can be easily procured from the farm, e.g. fencing poles).

Duration of the credit

The duration of the credit will be adjusted to the expected production cycle of the respective investment (i.e. till the investment produces enough funds to allow the repayment). The extension service must assist the applicant in estimating the optimal duration. The general principle is that the loans can not be given for a longer period than necessary.

Eligibility for new or other credits

Each loan from the Fund must be fully repaid before the borrower is eligible for a new credit from the Fund. However, a loan from the Fund should not disqualify the borrower from receiving loans from other sources (e.g. from VBP), nor loans from other sources (e.g. from VBP) will not disqualify the applicant from receiving a loan from the Fund.

8.2. Terms of the credit
Maximum amount of the credit

The maximum amount of the credit (loan ceiling) to one household is 2,500,000 VND.

Minimum amount of the credit

There is no minimum amount for loans to be provided.

Maximum duration of the credit

The maximum duration of a loan is 5 years. It is understood that many timber trees require considerably longer period for maturing. However, the loan risk (risk to the Fund) is estimated to become intolerably high if the loan periods could be longer than 5 years. It is highly recommended that the loan taker should combine highly productive short term investments with any major investments which require longer maturing period than 5 years. The role of extension service is crucial in advising feasible combinations of investments. The limit of the loan duration will also force / encourage the farmer to choose only profitable investments which is necessary for his / her household economy and for the sustainability of the Fund as well.

Minimum duration of the credit

The minimum duration of the credit is 1 year. The investments eligible for credit from this Fund are estimated to require a gestation period of at least one year. The one year minimum duration will also discourage the misuse of the funds for highly lucrative short term activities.

Interest rate

The out-lending interest rate of the Scheme will be 0.05% lower than the out-lending interest rate of the Vietnam Bank for the Poor (VBP), but Scheme’s rate will be tied to the interest rate of VBP, which is presently 1% per month, i.e. the initial interest rate of the Scheme will be 0.95% per month. The interest rate will be flexible, and change according the changes in the interest rate of the VBP. Should the VBP cease to exist the Board of Trustees will choose another but similarly behaving interest rate for the fund.

Note 1: the interest rate chosen is highly subsidised, the real market rate for credit is probably more than two times higher. The justification for the subsidised interest rate is that the Scheme requests the borrower to invest in activities which support the broader objectives of the scheme, i.e. the Scheme limits the decision making power of the borrower. Furthermore, the activities to be supported are assumed to have positive environmental externalities (external effects such as soil and water conservation, provision of amenity, etc.) which cannot be sold by the farmer but which provide broader benefits for the local economy and environment.

Note 2: an interest rate clearly lower than the interest rate of the VBP (which is clearly the “market leader” in rural credit in the District) cannot be recommended due to the following reasons: (i) insufficient generation of interest revenues to the Fund to cover (a) the inflation, (b) normal loan risks, and (c) the running costs of the Scheme, thus risking the sustainability of the Fund, i.e. in the long run the Fund would diminish drastically in real terms. (ii) the Scheme would create unhealthy competition between the VBP operations and the Scheme which could lead to hostile reactions of the VBP towards the Scheme. (iii) The Scheme should not encourage the farmers to invest in clearly non-profitable activities. Too low interest rate could “mis-educate” the farmers in this respect.

Payment of the interest

The payment of the interest will be arranged monthly. Less frequent collection could jeopardise the payment discipline. However, during the course of the Scheme implementation, the possibility of increasing the payment period to three months could be considered. Quarterly payment of interests would save time and reduce administrative costs of both the farmer and the manager of the Fund. An example of a three year credit with monthly interest payments is given in Annex 13.

Repayment of the principal

The repayment of the principal will be effected according the following schedule:
Force Majeur

Should an event of natural forces or other forces completely outside the control of the borrower (force majeur) cause the complete or partial destruction of the investment, the Vietnam - Finland Forestry Sector Co-operation programme will provide the funds for re-investment, similar to the investment that was destroyed, or if there are good reasons to assume that the re-investment will also fail, a corresponding but altered investment. The original loan will not be, however, written off.

Note: An event which can be prevented by the borrower with due care and diligence will not be accepted as a force majeur. Such event is e.g. the destruction of a plantation by browsing of buffaloes or other animals which could have been prevented by fencing, either the animals or the plantation. However, if the animals have broken in a fenced plantation, and in an inspection the fence can be detected to fulfil normal (strength) quality standards, the force majeur provision can be applied.

Breach of the credit agreement

If a loan taker is found guilty to a breach of the credit agreement, the organisation responsible for the management of the Fund, must request the farmer to pay back the loan immediately. Should the farmer not return the principal and unpaid interest within one month of the decision, the case must be taken to the local civil court.

8.3. Management options for the scheme

There are two main options for the organising the management of the Fund:

i. Vietnam Bank for the Poor (VBP) + Village level credit groups

ii. District Credit Committee + Commune Credit Board + Village level credit groups

The options are summarised in the Figures 1 and 2.

<table>
<thead>
<tr>
<th>duration of loan</th>
<th>end 1st year</th>
<th>end 2nd year</th>
<th>end 3rd year</th>
<th>end 4th year</th>
<th>end 5th year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 years</td>
<td>50%</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 years</td>
<td></td>
<td>50%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 years</td>
<td></td>
<td>30%</td>
<td>30%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td></td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Figure 1. Vietnam Bank for the Poor (VBP) + Village level credit groups (option I)
Figure 2: District Credit Committee + Commune Credit Board + Village level credit groups (option II)
Option I ("VBP option")

The Option I would involve the following parties:

- Supervisory Board
- Vietnam Bank for Poor (VBP) Cho Don Branch
- Vietnam - Finland Forestry Cooperation Programme
- Extension Service
- Consultative Commune Credit Committees
- Village Credit Groups
- Households / Farmers

The roles and responsibilities of all the parties are the following:

**Supervisory Board**

The Supervisory Board will supervise and monitor the use of the funds, i.e. it will supervise the VBP which has been entrusted to manage the funds.

The Supervisory Board will meet at least two times every year. During the first year, the board should meet...
preferably 4 times. In the meeting to be held in the autumn the annual plan of operations for the following year is accepted. The VBP prepares and presents the plan to the Board. The other meeting is held in spring. This meeting (i) discusses and approves the annual report and accounts of the previous year, and (ii) gives the clearance of responsibility to the Director of VBP (Cho Don) regarding the previous year. If the board finds out that there has been serious mismanagement of the funds, the clearance shall not be given, and the issue must be taken to the civil court of Bac Kan province.

The Supervisory Board is composed of 10 members:

- a representative of the People’s Committee, Cho Don (Chairman of the Board)
- a representative to be nominated by the Department of Agriculture and Rural Development, Bac Kan province
- a representative of the Forest Enterprise, Cho Don
- a representative of the Agricultural Extension Station, Cho Don
- a representative of the Farmers’ Union, Cho Don
- a representative of the Women’s Union, Cho Don
- a (one) representative of the Communes in Cho Don district 1)
- two representatives of the villages of the Cho Don district 2)
- CTA of the Vietnam - Finland Co-operation Programme, or his representative

Note 1: The representative of communes is proposed to be a Chairman of the People’s Committee of one randomly chosen commune. The term of the representative is one year. A new representative is always chosen in the second yearly meeting of the Board.

Note 2: The two representatives of the villages are proposed to be Village Chiefs of two randomly drawn villages. The term is for one year, and the selection of new representatives will be done in the second yearly meeting of the Board. The village representatives should come from two different communes, and not from the commune from which the commune representative is from. Should the random drawing result in a situation where these conditions are not met, the drawing will be repeated until it has resulted in representatives which fulfil the criteria.

**Vietnam Bank for Poor (VBP) Cho Don Branch**

The VBP will be in charge of administering the funds. More specifically, the VBP will carry out the following tasks, with frequent consultations and continuous collaboration with the Vietnam - Finland Forestry Co-operation Programme:

1. disbursement of loans to the farmers, according to the lists and instructions received from the Vietnam - Finland Programme
2. after 15 days from disbursement, checking the use of funds
3. collection of interests, monthly
4. collection of the principals according to the agreed schedules
5. detailed accounting of the Fund
6. detailed accounting, sharing and forwarding the interest revenues, both from the farmers and from the deposits of funds which may not be lent to the farmers but are deposited to the Vietnamese banking system outside the VBP Cho Don Branch, according the agreed system, every three months
7. prepare annual Plan of Operations, jointly with the Vietnam - Finland Programme, and present it to the
8. prepare Annual Accounts and Report and present them to the Fund Supervisory Board for clearance

**Vietnam - Finland Forestry Cooperation Programme**

The Vietnam - Finland Forestry Co-operation Programme will provide the initial capital for the Fund. The Programme will, jointly with the Extension Services, identify and appraise the capability of potential loan takers, and prepare with them simple but feasible investment plans. This includes also the identification and assessment of risks relating the applicants and the reasons of risks in order to be able to reduce them. The Programme will compile lists of applications which should include the following information:

- Name of applicant
- Identification of the Credit Group in which the applicant belongs (Name of village & name of group leader)
- Purpose of loan (identification of the category)
- Short description of investment (activities to be carried out and respective area)
- Amount of the credit requested
- Proposed duration of the loan (1, 2, 3, 4 or 5 years)

The Programme will forward the application lists to the VBP for disbursement.

**Extension Service**

The extension service will provide extension and advice to the potential loan takers on feasible and profitable investment opportunities which are in line of the overall objectives of the Vietnam - Finland Co-operation Programme. The extension must also include advice on feasible technical solutions related to the investments, and on the markets and marketing of the eventual products.

The extension service, jointly with the Vietnam - Finland Programme staff, will identify and appraise the capability of potential loan takers, and prepare with them simple but feasible investment plans.

There is a need to clarify the roles of the extension staff of (i) the Programme, (ii) the Forest Enterprise, and (iii) the Agricultural Extension Branch.

**Consultative Commune Credit Committees**

The Consultative Commune Credit Committees will include the following representatives:

- Chairman of the Commune People’s Committee
- Village Chiefs from villages participating in the scheme in the commune
- Leaders of the Credit Groups participating in the scheme in the commune (if the Village Chief is also a leader of a Credit Group, another member for the Group could participate also in the Committee).

The composition of the Consultative Commune Credit Committees could be harmonised with the Programme Management Boards at Commune Level, i.e. the same bodies could possibly fulfil the two functions.

The Committees will facilitate the work of the Vietnam - Finland Programme and the Extension Service in identifying the potential loan takers, and in setting up the Credit Groups. The Committees will also facilitate the work of the VBP in disbursing loans and collecting interests and repayments. However, the final decision for submitting a loan application and taking a loan must be reserved to individual households, with the assistance of the Credit Groups.
**Village Credit Groups**

Individual households interested in borrowing money will form Village Credit Groups which principal task is to guarantee (without collateral) that the repayment of the loans and payment of interests will be performed promptly according to the loan agreements. The members of each credit group will sign an agreement with the VBP that if any of its members fail to pay the interest or repay the principal in time, the Group members will pay collectively the outstanding amount. Should the Group fail in this, all the Group members will be charged to local civil court by the VBP. A draft contract between the members of a Credit Group and the VBP is presented in Annex 7.

The Credit Groups will also form a nucleus for extension activities to be provided by the Vietnam - Finland Programme. However, individual farmers can also receive extension advice from the Programme.

The number of households / farmers participating in one Credit Group is not fixed, and each Group can decide its appropriate size. However, a Credit Group can not be smaller than three households.

**Households / Farmers**

The households/farmers are the ultimate beneficiaries of the credit scheme. Their duty and responsibility is to use the opportunity provided by the scheme in wise and profitable way, at the same time respecting the rules laid out by the Vietnam - Finland Programme.

**Sharing of income from the interests**

The sharing of income from the interests collected from farmers is proposed to be executed according the following rates:

- **interest rate**: 0.95%, original capital **VND 1 150 000 000**

<table>
<thead>
<tr>
<th>Partner</th>
<th>Share</th>
<th>Expected monthly income from the original capital</th>
<th>Expected yearly income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisory Board</td>
<td>0.05%</td>
<td>575 000</td>
<td>6 900 000</td>
</tr>
<tr>
<td>VBP Cho Don</td>
<td>0.25%</td>
<td>2 875 000</td>
<td>34 500 000</td>
</tr>
<tr>
<td>Extension organisation</td>
<td>0.1%</td>
<td>1 150 000</td>
<td>13 800 000</td>
</tr>
<tr>
<td>Consultative Commune Committees</td>
<td>0.1%</td>
<td>1 150 000</td>
<td>13 800 000</td>
</tr>
<tr>
<td>Village Credit Groups</td>
<td>0.05</td>
<td>575 000</td>
<td>6 900 000</td>
</tr>
<tr>
<td>Risk &amp; inflation</td>
<td>0.4%</td>
<td>4 600 000</td>
<td>55 200 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>10 925 000</strong></td>
<td><strong>131 100 000</strong></td>
</tr>
</tbody>
</table>

The VBP Cho Don will calculate, account and forward, every 3 months, the respective shares to each partner. The VBP Cho Don will also account every three months the interest revenues from the deposits of funds which may not have been lent to the farmers but are deposited to the Vietnamese banking system outside the VBP Cho Don Branch. The VBP Cho Don may deduct the same 0.25% of such income as its bank fee. The rest of the interests from this income (deposits to banks outside VBP Cho Don) and the "risk & inflation" allocation will be added at the same time to the principal capital of the Fund, i.e. at least the nominal value of the Fund increases every 3 months. These increased funds will be circulated also to the farmers as loans, according the same principles as the original capital.

**Necessary agreements / contracts to be established**

There is a need to establish a contract between the Vietnam - Finland Programme and the VBP, Cho Don (Annex 6). The VBP will take care of the other contracts: (i) agreement between the Village Credit Group and the VBP; the agreement to be signed by each member of the Credit Group (and the VBP) will serve as an open bank guarantee securing the repayment of the loans and payment of interests (Annex 7), (ii) loan agreements between borrowers and the VBP (Annex 8 - 10).
Option II ("Commune Credit Boards option")

The Option II would involve the following parties:

- District Credit Committee
- Commune Credit Boards
- Vietnam - Finland Forestry Cooperation Programme
- Extension Service
- Village Credit Groups
- Households / Farmers

The roles and responsibilities of all the parties are the following:

**District Credit Committee**

The District Credit Committee would supervise the Commune Credit Boards. It would also provide a link between the Vietnam - Finland Programme and the Commune Boards. Furthermore, it would assess and approve / reject the loan proposals received from the Commune Boards. The Committee would also decide on the allocation of the funds to the Commune Credit Boards.

The District Credit Committee would have the following members:

- Representative of the Party
- Representative of the district People’s Committee
- Representative of the Agriculture and Rural Development Department
- the CTA of the Vietnam - Finland Co-operation Programme or his representative (during the Programme implementation period)
- VBP
- District Farmers’ Union
- District Women’s Union.

**Commune Credit Boards**

The Commune Credit Boards would administer the credit funds. More specifically, the Credit Boards would carry out the following tasks:

1. facilitate the setting up the Village Credit Groups
2. supervise the Village Credit Groups
3. assessment of the loan applications received from Credit Groups
4. submission of a list of loan applications to the District Credit Committee for approval
5. disbursement of loans to the farmers, according to the principles of the scheme
6. supervision on the use of funds
7. collection of interests, monthly or every 3 months
8. collection of the principals according to the agreed schedules
9. detailed accounting of the Fund allocated to each Board
10. detailed accounting, sharing and forwarding the interest revenues according the agreed system, every three months
11. prepare Annual Account and Report and present them to the District Credit Committee for clearance

Vietnam - Finland Forestry Cooperation Programme

The Vietnam - Finland Forestry Co-operation Programme will provide the initial capital to the Commune Credit Boards, according to the recommendation received from the District Credit Committee. After the first disbursement of the funds, the Vietnam - Finland Programme will not participate directly in the decision making on the use of the funds, however, it can have an indirect influence through the extension provided. The extension will include also the identification and assessment of risks relating the applicants and the reasons of risks in order to be able to reduce them.

Extension Service

The extension service will provide extension and advice to the potential loan takers on feasible and profitable investment opportunities which are in line of the overall objectives of the Vietnam - Finland Co-operation Programme. The extension must also include advice on feasible technical solutions related to the investments, and on the markets and marketing of the eventual products.

Village Credit Groups

Individual households interested in borrowing money will form Village Credit Groups which principal task is to guarantee (without collateral) that the repayment of the loans and payment of interests will be performed promptly according to the loan agreements. The members of each credit group will sign an agreement with the Commune Credit Board that if any of its members fail to pay the interest or repay the principal in time, the Group members will pay collectively the outstanding amount.

The Credit Groups will also form a nucleus for extension activities to be provided by the Vietnam - Finland Programme. However, individual farmers can also receive extension advice from the programme.

The number of households / farmers participating in one Credit Group is not fixed, and each Group can decide its appropriate size. However, a Credit Group can not be smaller than three households.

Households/Farmers

The households / farmers are the ultimate beneficiaries of the credit scheme. Their duty and responsibility is to use the opportunity provided by the scheme in wise and profitable way, at the same time respecting the principles and terms of the Credit Scheme.

Sharing of income from the interests

The sharing of income from the interests collected from farmers is proposed to be executed according to the following rates:

interest rate: 0.95%, original capital VND 1 150 000 000
The Commune Credit Boards will calculate, account and forward, every 3 months, the respective shares to each partner. The "risk & inflation" allocation will be added at the same time to the principal capital of the fund, i.e. at least the nominal value of the Fund increases every 3 months. These increased funds will be circulated also to the farmers as loans, according the same principles as the original capital.

It is estimated that the risk will be higher in the Option II than in the Option I (due to the poorer administrative and accounting capacities at commune level, and due to the added possibilities of misuse of the funds), therefore the savings caused by the elimination of one partner is proposed to be added to the "risk & inflation" share, thus compensating to the increased risks to some extent.

Necessary agreements / contracts to be established

There is a need to establish a contract between the Vietnam - Finland Programme and each of the Commune Credit Boards. The draft contract for the VBP (Annex 6) can be modified for that purpose. Other contracts can be considered from the basis of examples presented in Annexes 7 - 12.

Recommendation by the Credit Consultant Team

The Credit Consultant Team recommends the selection of the Option I.

Justification:

The recommendation is supported by the following findings:

i. the VBP option offers stronger accounting and fund administration capability than the other option

ii. the VBP option would reduce considerably the administrative burden of the scheme from the shoulders of the Programme Management

iii. the VBP option is estimated to have lower risk of misuse and loss of the funds

iv. the VBP option is estimated to enable better prospects for the sustainability of the scheme (establishment of an autonomous Trust Fund after the termination of the Programme)

v. the other option would require substantial investment in the training and supervision of the Commune Credit Boards (this has been proven by the experiences e.g. from the Swedish supported credit systems which have invested heavily and during a long period of time in training, similar experiences have been recorded by other similar schemes also (e.g. OXFAM, CARE, etc.), whereas the VBP option could be started quicker and with less training.

vi. the VBP option enables better control of and influence on by the Programme and the district regarding the use of the funds: with the other option the control would be fairly difficult after the first disbursement of the funds

vii. the VBP option enables later changes in the priorities as regards target communes & villages, whereas in the case of the other option it would be difficult to transfer funds from one commune to another.

<table>
<thead>
<tr>
<th>Partner</th>
<th>Share</th>
<th>Expected monthly income from the original capital</th>
<th>Expected yearly income</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Credit Committee</td>
<td>0.05%</td>
<td>575 000</td>
<td>6 900 000</td>
</tr>
<tr>
<td>Commune Credit Boards</td>
<td>0.25%</td>
<td>2 875 000</td>
<td>34 500 000</td>
</tr>
<tr>
<td>Extension organisation</td>
<td>0.1%</td>
<td>1 150 000</td>
<td>13 800 000</td>
</tr>
<tr>
<td>Village Credit Groups</td>
<td>0.05</td>
<td>575 000</td>
<td>6 900 000</td>
</tr>
<tr>
<td>Risk &amp; inflation</td>
<td>0.5%</td>
<td>5 750 000</td>
<td>69 000 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>10 925 000</strong></td>
<td><strong>131 100 000</strong></td>
</tr>
</tbody>
</table>
The selection of the Option II would be supported on the following grounds:

i. better "ownership" of the scheme at the local level
ii. strengthening of local administrative capacities during the implementation of the scheme
iii. allows simpler procedures for lending.

8.4. Technical assistance and training requirements

High quality technical assistance and extension is very important for the success of individual investment projects of the farmers. To ensure smooth and effective implementation of the credit scheme there is a need to arrange at least the following types of training related by the Vietnam - Finland Programme:

(i). courses to the Programme extension staff and the extension staff of the Agriculture and Rural Development Department on topics such as:

   a. investment opportunities and respective technical solutions
   b. markets and marketing of proposed products to be produced (next mission of market specialist)
   c. participatory extension and planning of micro-projects (to be possibly connected to the Monitoring System and Extension Strategy consultancy)
   d. social and gender issues
   e. species selection and nursery operations
   f. plantation techniques and maintenance of plantations
   g. management of natural / semi-natural forest
   h. planting of fruit trees, trees producing spices, oils, tannin, or other marketable extracts (could be contracted to a national specialist)
   i. agroforestry (could be contracted to a national specialist )
   j. silvo-pastoral activities (could be contracted to a national specialist)
   k. beekeeping (could be contracted to a national specialist)
   l. sericulture (could be contracted to a national specialist)
   m. production of sticklac (could be contracted to a national specialist)
   n. production of selected other non-wood forest products (could be contracted to a national specialist)
   o. selected (to be chosen) case studies of small scale processing of the main raw-materials to be produced (could be contracted to a national specialist).

(ii) course to commune and village leaders on the Credit Scheme & investment opportunities

(iii) course to the pilot farmers on the Credit Scheme & investment opportunities

In addition, the following courses should be provided, depending on the choice of the administrative option of the credit scheme:
Option I:
(iv) course to the VBP Cho Don staff on forest sector investment opportunities & loans.

Option II:
(v) course on accounting and management credit funds to the Commune Credit Boards (could be contracted to an experienced NGO which has been carrying out similar credit schemes elsewhere, e.g. OXFAM, CARE, Actionaid Vietnam, etc.)

(vi) course on supervision and control of commune -level credit schemes to the District Credit Committee (could be contracted to an experienced NGO which has been carrying out similar credit schemes elsewhere, e.g. OXFAM, CARE, Actionaid, etc.)

(vii) course on accounting and credit rules to the Village Credit Group leaders (could be contracted to an experienced NGO which has been carrying out similar credit schemes elsewhere, e.g. OXFAM, CARE, Actionaid Vietnam, etc.).

The above-mentioned "courses" can be arranged through various training techniques. It is proposed that the (initial) planning of the courses and the system how they could be carried out would be done by the international consultant on "Training and Curriculum Development" of the Programme, scheduled to carry out his first mission in February - March 1997.

8.5. Demonstration plots and the credit scheme

It is proposed that the implementation of the planned demonstration activities of the Programme would be linked with the testing of the credit scheme. The basic idea is that the demonstration farmers would take credit, according to the designed principles, to carry out the required demonstration activities, i.e. the demonstration farmers are investing for their own gain at the same time receiving special intensive advice and assistance from the Programme without any cost.

However, due to extra burden caused by the demonstration nature of the activities (i.e. (i) there will be visitors to their plot, (ii) they will be asked to keep detailed records on the expenses and work time on the works to be carried out in the plot, etc.) the Programme could subsidise the demonstration activities. It is proposed that the direct subsidy would be 50% of the external costs of the investments. Each demonstration farmer would take another 50% as a loan from the scheme. These first test loans would not limit the farmers’ right to get another loan from the scheme (the normal rule of the scheme is that if a farmer has a loan from the Credit Fund, he / she is not eligible for further loans until the previous loan has been fully repaid). However, the demonstration farmers cannot receive another loan which would raise his / her total debt to the Scheme over the loan ceiling.

8.6. Action to be taken

The actions to be taken in order to make the Credit Scheme effective are presented below.

If the Option I is chosen:

Decision on the Credit Scheme by the Programme Management
\[
\downarrow
\]

Agreement between the Programme and VBP, Cho Don
\[
\downarrow
\]

Setting up of the Supervisory Board
\[
\downarrow
\]
Setting up of the Consultative Commune Credit Committees

Setting up of the Village Credit Groups (starting with demonstration farmers)

Deposit of first batch of funds by the Programme to VBP, Cho Don account

Testing of the Scheme: Implementation of the Demonstration Plots

Training of (i) VBP Cho Don staff on forest sector investment opportunities & loans, (ii) Programme extension staff, (iii) extension staff of the Agriculture and Rural Development Station, (iv) commune and village leaders, (v) pilot farmers

Continuous / periodic /systematic implementation of monitoring

Rapid evaluation (next consultant visit; sometime in October 1997)

Possible adjustments to the scheme if required

Deposit of the rest / subsequent batch(es) of funds in VBP Cho Don account, according the Programme budget

Full implementation of the scheme

Continued monitoring

If the Option II is chosen:

Decision on the Credit Scheme by the Programme Management

Setting up of the District Credit Committee
Setting up of the Commune Credit Boards

⇓

Planning and organising of a training course to the Commune Credit Boards

⇓

Setting up of the Village Credit Groups (starting with demonstration farmers)

⇓

Agreement between the Programme and Commune Credit Boards

⇓

Disbursement of the first batch of funds by the Programme to Commune Credit Boards

⇓

Testing of the Scheme: Implementation of the Demonstration Plots

⇓

Training of (i) Programme extension staff, (ii) extension staff of the Agriculture and Rural Development Station, (iii) District Credit Committee, (iv) Commune Credit Boards, (v) Village Credit Group leaders, (vi) pilot farmers

⇓

Continuous / periodic /systematic implementation of monitoring

⇓

Rapid evaluation (next consultant visit; sometime in October 1997)

⇓

Possible adjustments to the scheme if required

⇓

Disbursement of the rest / subsequent batch(es) of funds to the Commune Credit Boards, according the Programme budget

⇓

Full implementation of the scheme

⇓

Continued monitoring

It is recommended that the expansion of the credit fund would be done according the following schedule:

<table>
<thead>
<tr>
<th>Dead-line</th>
<th>Total volume of Fund</th>
<th>Eligible beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
If the Option II is chosen there may be some delay in the mobilisation and expansion of the scheme due to the
time and cost involved in organising the large scale training for the District Credit Committee, Commune Credit
Boards, and Village Credit Group leaders.

8.7. Proposal for the next mission of the Credit Scheme Consultants

According to the Programme work plan, the Credit Scheme consultancy is carried out through three
consecutive missions by recruited credit specialists. The present report is an outcome of the first mission. The
following proposal is made for productive and efficient execution of the two follow-up missions:

Tasks during the second mission:

i. Reviewing the status of the start-up of the credit scheme

ii. Carrying out a rapid evaluation of the scheme, using the established impact monitoring system (see
point c below)

iii. Providing follow-up support for the implementation of the scheme

iv. Organising a major dissemination workshop in Cho Don. This workshop could be combined with a
broader dissemination & PR effort on behalf of the Programme

v. Organising a short training session (e.g. two days) on the credit scheme (to be planned by the Training
and Curriculum Development expert)

vi. Re-assessing the feasibility of combining a savings scheme with the credit scheme

vii. Preparing a proposal for the revision / improvements in the scheme, if required

viii. Preparing a proposal for the conversion of the Scheme into a legally autonomous Trust Fund

ix. Writing a report on the mission.

Tasks during the third mission:

i. Reviewing / evaluating the status of the implementation of the credit scheme

ii. Providing follow-up support for the implementation of the scheme

iii. Organising a second dissemination workshop

iv. Organising a short training session (e.g. two days) on the credit scheme (to be planned by the Training
and Curriculum Development expert)

v. Assisting in the setting up of the Trust Fund

vi. Preparing a proposal on the development of a new or expanded credit / incentive scheme for the second
phase of the programme, if required

vii. Writing a report on the mission.
Preconditions for the successful implementation of the follow-up missions include:

a. Timely decisions by the project management on the (a) launching of the Scheme (testing phase with demonstration farmers), and (b) first expansion of the scheme (to cover 4 pilot villages)

b. Prompt planning and execution of the proposed training (chapter 9.4). However, not all the proposed training need be carried before the next mission(s)

c. Planning and implementation of adequate impact monitoring system also covering the use of the credit scheme (to be executed by the planned Monitoring System and Extension Strategy consultancy).