

# Improving Bankability of Small Farmers in Northern Vietnam<sup>1</sup>

Gertrud Buchenrieder\* and Insa Theesfeld\*\*

\* The author may be better known under her maiden name 'Schrieder'. University of Hohenheim; Centre for Agriculture in the Tropics and Subtropics; Department of Development Theory and Agricultural Development Policy in the Tropics & Subtropics (490a); 70593 Stuttgart, Germany; Phone: +49 (711) 459-3301; Fax: +49 (711) 459-2582; email: schrieder@uni-hohenheim.de

\*\* Insa Theesfeld has conducted the research for this paper at the University of Hohenheim in 1999. She is now a Ph.D. student at the Humboldt University of Berlin; Department of Agricultural Economics and Social Sciences, CEESA International Research Project; Luisenstr. 56; 10099 Berlin, Germany; Phone: +49 (30) 2093-6296; Fax: +49 (30) 2093-6497; email: insa.theesfeld@rz.hu-berlin.de

## 1. Introduction

Well functioning rural finance institutions are an essential requirement for promoting technical, economic and social development leading to better living conditions in rural areas. A large body of literature suggests that access to financial services has been shown to be important for poverty reduction of rural farm households in developing countries (for a review see Schrieder and Scharma, 1999). It can contribute to higher income and food security. The nutritional and educational status of children and lower birth rates among women appear also to be associated with access to financial services.

Although, an increasing number of private and public agencies are involved in raising the efficiency of financial intermediaries targeting the poorer clientele, the effectiveness to improve the poor's access to financial services, especially credit, is below expectations (CGAP, 1995; Schrieder, 1999). A lack of bankability of the target group, not only from the perspective of the financial intermediary but also from the clients' point of view appears to be part of the problem. The term bankability comprises all characteristics that lower the TCs and/or increase the risk-bearing capacity of the potential client, thus improve bankability and *ceteris paribus* access to financial services.

### 1.1. Problem Statement

In rural northern Vietnam, a large proportion of the local population does not apply for credit from poverty oriented financial intermediaries because they value the risk associated with indebtedness higher than the possible return on investments. The most prominent example for a poverty oriented state-owned development bank is the "Vietnam Bank for the Poor" (VBP). The VBP lends at subsidized interest rates to so-called credit groups which are organized by the local civil society, e.g., the women's or veteran's union.

Several reasons account for the risk aversion of the poor with respect to becoming indebted even at negative real interest rates. One reason is to be seen in high borrowing TCs, part of

---

<sup>1</sup> The authors gratefully acknowledge the support of the Eiselen Foundation, Ulm and the Volkswagen Foundation, Hannover. The Eiselen Foundation granted a stipend to Insa Theesfeld to conduct primary research in Vietnam during three months in 1999. The Interdisciplinary Study Project "Rural transformation in Northern Vietnam" associated to the University of Hohenheim co-ordinated and provided guidance during the empirical research of Insa Theesfeld and other students in Vietnam. It was supported by the Volkswagen Foundation. However, we are alone responsible for all the remaining errors and the views expressed in the paper.

which can be estimated in monetary terms. Another reason for low credit demand is the lack of feasible and profitable investment opportunities. On the one hand, the local market is narrow with limited purchasing power. The agricultural extension service, on the other hand, has not the means to vulgarize on a large scale agricultural innovations. Limited income opportunities and a non-existing insurance system which could reduce personal and/or covariate risks that may occur while being indebted reduce the rural households' risk-bearing capacity. Therefore, the clients shy away from demanding credit, in other words, they evaluate their bankability as insufficient.

The objective of this paper is to discuss issues of bankability of the poor and to present recommendations based on an empirical research work for improving bankability in relative and absolute terms. The approach proposed, namely the establishment of a credit-group-based insurance fund was developed in a participatory research approach with guided working groups in several communities in northern Vietnam. The research questions were (1) how small-holder farmers would like to set up an insurance fund and (2) whether this innovative credit-insurance-linkage model would be accepted and reduce households' reluctance of becoming indebted. If successful, this model could raise the bankability of villagers from the clients' point of view.

### ***1.2. The Research Area***

The Vietnam Bank for the Poor (VBP) has divided Vietnam into seven agricultural economic zones. Ba Be district is located in zone No. I: "Northern mountainous region and middle land". From the twelve million people living in this zone 29% are considered as poor and among them, 5% as very poor or hungry (VBP, 1995).

About 95% of the approximately 70,000 people in the Ba Be district are ethnic minorities. The General Statistical Office (1995) specifies the land use with 0.1 ha arable land per inhabitant for the Ba Be district. This is even lower than the nationwide average. Although the population growth rate is declining in recent years, it is still high 2.2% in 1998 (Statistical District Office, 1999). Two communities were chosen for the empirical work upon which this contribution is based. The Nam Mau community with a total population of 2,818 people (in 1999) is located within the borders of the recently established Ba Be National Park. The Khang Ninh community with a total population of 3,293 people (in 1999) is located in the buffer zone of the National Park. Both communities are located in Ba Be district. Three villages representing two ethnic minorities, the Tay and Dao group have been chosen for the survey (see Table 1 for more details).

**Table 1**      **Characteristics of the research area**

District	Ba Be District		
	Nam Mau community	Khang Ninh community	
		Pac Ngoi	Na Co
Ethnic group	Tay	Dao	Tay
Population (1999)	360	228	376
Number of households	61	40	72
Persons per household	6	5.7	5.2
Accessibility	by boat	by foot (60 min)	located close to street
Position within National Park	core zone	buffer zone	buffer zone
Altitude	lowland	highland	lowland

Source: Theesfeld (1999: 12)

## 2. The Formal Financial Market in Ba Be District

In the following, formal financial intermediaries in the Ba Be district will be briefly presented. Presently, three financial intermediaries provide credit: (1) the Vietnam Bank for the Poor (VBP), (2) the Vietnam Bank for Agriculture (VBA) and (3) the State Treasury (ST). They have only offices in Ba Be town (district capital) although the district consists of 26 communities and 192 villages (Statistical District Office, 1999).

The VBP, established only recently in 1995 as the poor people's lending arm of VBA, is the major supplier of credit for rural investments. It is a state-owned nationwide specialized credit institution. The purpose of this bank is to reduce poverty and not to maximize profit (Hanh, 1999). This bank was implemented to lend money at concessionary interest rates directly to poor households (HH). The VBA and the VBP are both represented by the same staff at the district level. The interest rate of the VBP is below the market interest rate. In 1998 it was 0.8% per month. The minimum loan size of the VBP is 100,000 Vietnam Dong (VND), about eight US-Dollars (USD) and the maximum loan size is 2.5 million VND (192 USD). After March 1999, the Government changed this maximum loan size to 3 million VND (231 USD) per HH. (Currency Equivalents, July 1998: USD1 = VND12,990) (World Bank, 1998). While the VBP is working with so called credit groups on a joint-liability basis, the VBA issues mainly individual loans. Credit groups consist of several persons with a credit demand. In Vietnam, the civil society, e.g., the Women Union and village authorities are crucial in the selection process of the credit group membership and the determination of the individual credit eligibility.

The main service provider of the formal rural financial market is the VBA. At the national level it accounts for more than 90% of total credit disbursed by formal financial institutions (CGAP & UNDP, 1996; Schenk, 1998; Schenk, Neef, Heidhues, 1999). With a credit amount less than 5 million VND (384 USD), the individual applicant is not required to supply any collateral, but needs a guaranteeing signature of a local authority. In 1998, the interest rate for credit was 1.2% per month. The only savings scheme available in the Ba Be district is offered by the VBA. Interest rates range between 0.3% to 0.65% per month according to the savings term (VBA, 1999).

Although the ST is not a classical financial intermediary, it is in charge of a special government credit program: ‘The Decree 120 for labor and unemployment solutions’. The total available credit fund within this program is divided between the organizations in the district. From 1998 to 2001, the amount of 60 million VND is assigned to the Women Union of Nam Mau community. In Pac Ngoi, one of the surveyed villages three quarters of the HHs obtained a credit from this program. The loan size is fixed with 500,000 VND for each HH; the interest rate is 0.6% per month. This rate is even lower than the VBA’s and the VBP’s going rate in 1999.

### **3. Theoretical Background and Methodology of the Survey**

This contribution is based on a three months field research in the mountainous Ba Be district of Northern Vietnam in the Bac Kan province in spring 1999. The field research was conducted within the framework of the Interdisciplinary Study Project “Rural transformation in Northern Vietnam” organized by the University of Hohenheim’s Center for Agriculture and several Vietnamese research institutes<sup>2</sup>.

In a farm household survey using a standardized questionnaire, 86 households from three different villages were interviewed (see Table 1). A stratified sampling procedure was adopted. In each village half of the total number of households were interviewed. After a wealth ranking, which was done by the headman of each village, all the ‘very poor’, ‘very rich’ and ‘rich’ households were chosen and half of the ‘poor’ and ‘medium’ ones. This stratified sampling procedure allows to link poverty indicators with bankability and access to the formal financial market (for the definition of bankability see below).

The main results presented in this paper were jointly developed in a participatory research approach with women farmers who were at the same time members of a credit-group. It was important that the leader of the Women Union in the village participated to insure that the developed idea could be later incorporated in already existing village organizations. Only two of the three villages were chosen, namely Pac Ngoi and Ban Nan, as a certain level of knowledge concerning financial matters was necessary; the third village, Na Co, had little experience with formal credit transactions. In the guided group discussions it was emphasized that any conclusions should be the result of the villagers’ discussion and not of the discussion moderator. Little is known about the meaning of insurance in general in rural Vietnam. Therefore, the concept of insurance was explained comprehensively. Thereafter, the option of an insurance fund among the members of a credit group was presented and the advantages and disadvantages were explained. In the following possible solutions at the village level for insurance in connection with credit transactions were jointly developed.

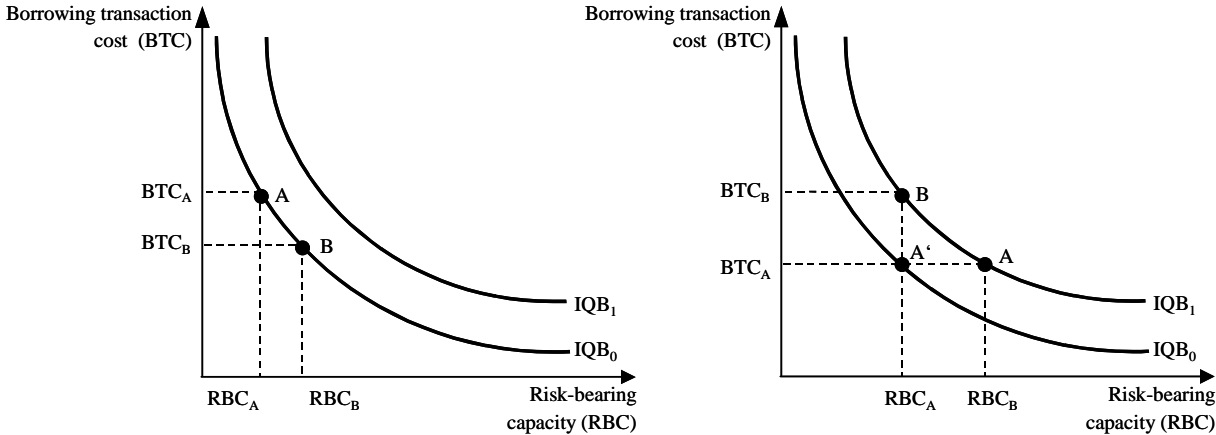
---

<sup>2</sup> These are the Hanoi Agricultural University (HAU), the Thai Nguyen University of Agriculture and Forestry (TNUAF), the Vietnam Agricultural Science Institute (VASI), the National Institute of Animal Husbandry (NIAH) and to strengthen the south-south partnership, the following Thai institutes participated: the Chiang Mai University and the Kasetsart University.

The term bankability which is widely used in the microfinance discussion requires clarification. From the perspective of the potential client, the term bankability comprises all aspects that determine the risk-bearing capacity and affect the costs of acquiring a financial service.

Figure 1 depicts bankability as a function of borrowing transaction costs ( $BTC$ ) and risk-bearing capacity ( $RBC$ ) using an isoquant map. An isoquant map normally records alternative combinations of inputs such as labor and capital that can be used to produce a given level of output. The slope of these curves indicates the rate at which one input can be substituted for the other while keeping output constant. As a theoretical exercise, this paper assumes that  $BTC$  and  $RBC$  represent inputs that produce a given level of bankability. There are many bankability isoquants in the  $BTC$ - $RBC$  plane (see Figure 1.1). Each represents a different level of bankability. As the bankability isoquant moves to the northeasterly direction, successively higher levels of bankability are recorded. Innovations that reduce the TCs and/or increase the RBC shift the bankability isoquant outwards (see Figure 1.2). The new  $IQB$ , namely  $IQB_1$  shows that a higher level of bankability can now be achieved. However, one must be careful in this type of interpretation. An increase in  $BTC$  from  $BTC_A$  to  $BTC_B$  would have had the consequence that only a RBC of the level of  $RBC_A$  would have been needed to reach  $IQB_1$ . In this case, bankability would rise to  $B$  on  $IQB_1$  although there was no true innovations. But, bankability  $A$  on  $IQB_1$  could be reached from  $A'$  on  $IQB_0$ , keeping  $BTC$  constant at  $BTC_A$  and increasing  $RBC$  from  $RBC_A$  to  $RBC_B$ .

**Figure 1 Bankability as a function of BTC and RBC**



(Figure 1.1) An isoquant map of bankability

(Figure 1.2) Reduction of BTC through innovation

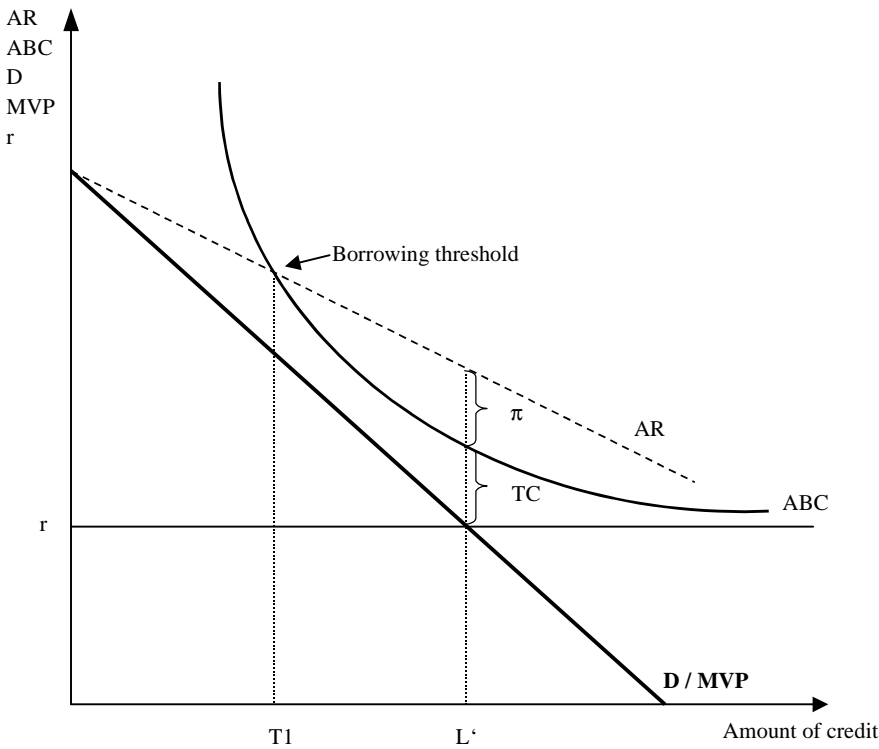
Notes: Figure 1.1 depicts an isoquant map of bankability. Although the level of bankability remains constant, there may be effects on the effective demand for credit. Figure 1.2 illustrates the effect of innovations on bankability. At a given level of *BTC*, an increase in *RBC* can lead to a higher level of bankability too.

Thus, a person who is creditworthy in the sense that the *RBC* allows to debt-finance an investment may not reach the necessary level of bankability because the *BTC* are too high (Nadler, 1999). Relatively high *TCs* may discourage from borrowing (Ladman, 1984). Similarly, a person who is bankable does not automatically gain access to credit due to credit-rationing on the side of the financial intermediary.

Bankability is not only closely associated with the *BTC* and but also the average return (*AR*) of the debt financed investment because the latter may increase the *RBC*. Assume that a farmer has a set of enterprises and associated technologies that can be used to produce a combination of farm products. Further, assume that the farmer *must* rely upon credit to undertake any of these investments and that the demand for credit will be derived from the *expected* productivity of the resources employed as a result of using a loan as well as the risk associated of losing the resources employed as a result of using the loan. Ladman (1984) provides a conceptual framework for the relationship between *TCs* and credit rationing (see Figure 2). The demand curve *D* in Figure 2 represents the present values of the marginal value products (*MVP*) resulting from the resources employed using successive loan units. The demand for credit is net of risk associated with the enterprise selected and credit use. Average return (*AR*) and average borrowing costs (*ABC*), both incurred by the borrower, represent the

revenues and borrowing costs divided by the size of loan ( $L$ ). Revenue  $R$  resulting from borrowing is net of costs of the resources purchased with borrowed funds but is not net of borrowing costs. A borrower must incur borrowing costs, these consist of interest costs ( $IC$ ) and constant  $BTC$ . The former are equivalent to the product of constant nominal interest rate ( $r$ ) and the loan size ( $L$ ). The latter arise from out-of-pocket costs and opportunity costs of the borrower's time spent in carrying out loan procedures. They are assumed not to vary with loan size. Assume the borrower is a profit ( $\pi$ ) maximizer and thus would seek a loan only if he expected  $\pi > 0$ , i.e., revenue ( $R$ )  $>$  ( $IC + BTC$ ). Furthermore, the borrower would borrow up until the point where  $r$  is equal to  $MVP$ , i.e., where the marginal costs of borrowing, namely the additional interest payment, is equal to the  $MVP$  from additional resources purchased with borrowed funds. The borrower transaction costs ( $BTC$ ) directly determine bankability. In order to improve bankability, the  $BTC$  must be reduced.

**Figure 2 Borrowing costs and bankability**



Source: Ladman (1984: 108)

Notes: *D* represents the demand for successive loan units based on the marginal value products resulting from the resources employed. *AR* and *ABC* represent average revenue and average borrowing costs incurred by the borrower. *r* describes the constant nominal interest rate.  $\pi$  represents profit. *TC*, that is the borrower transaction costs at loan size *L'*. *T1* is the borrowing threshold, the level where *ABC* = *AR*. Below this amount a possible client would not borrow.

The *BTC* have at least three impacts on profitability and thus bankability. First, *ceteris paribus*, larger *BTC* means less expected profits for borrowers and thus a lower risk-bearing capacity. Second, there is a minimum loans size below which the borrower would not be willing to borrow. This level (*T1*) is the borrowing threshold and is the level where *ABC* = *AR*. Clearly, for any given *r*, the larger the *BTC*, the higher the borrowing threshold. A relative reduction in *TCs* would thus lower the borrowing threshold and farm enterprises that require smaller credit amounts could be debt financed. Third, the out-of-pocket cost threshold (*T2*) (not illustrated in Figure 2) is part of *T1* and represents the amount of outlay and the opportunity cost of a potential credit client in applying for a loan (*T2* < *T1* because *T1* also includes the interest costs). Examples are payments for documents and travel expenses. Even somebody who did have the *T2* funds might not want to attempt to borrow because of facing



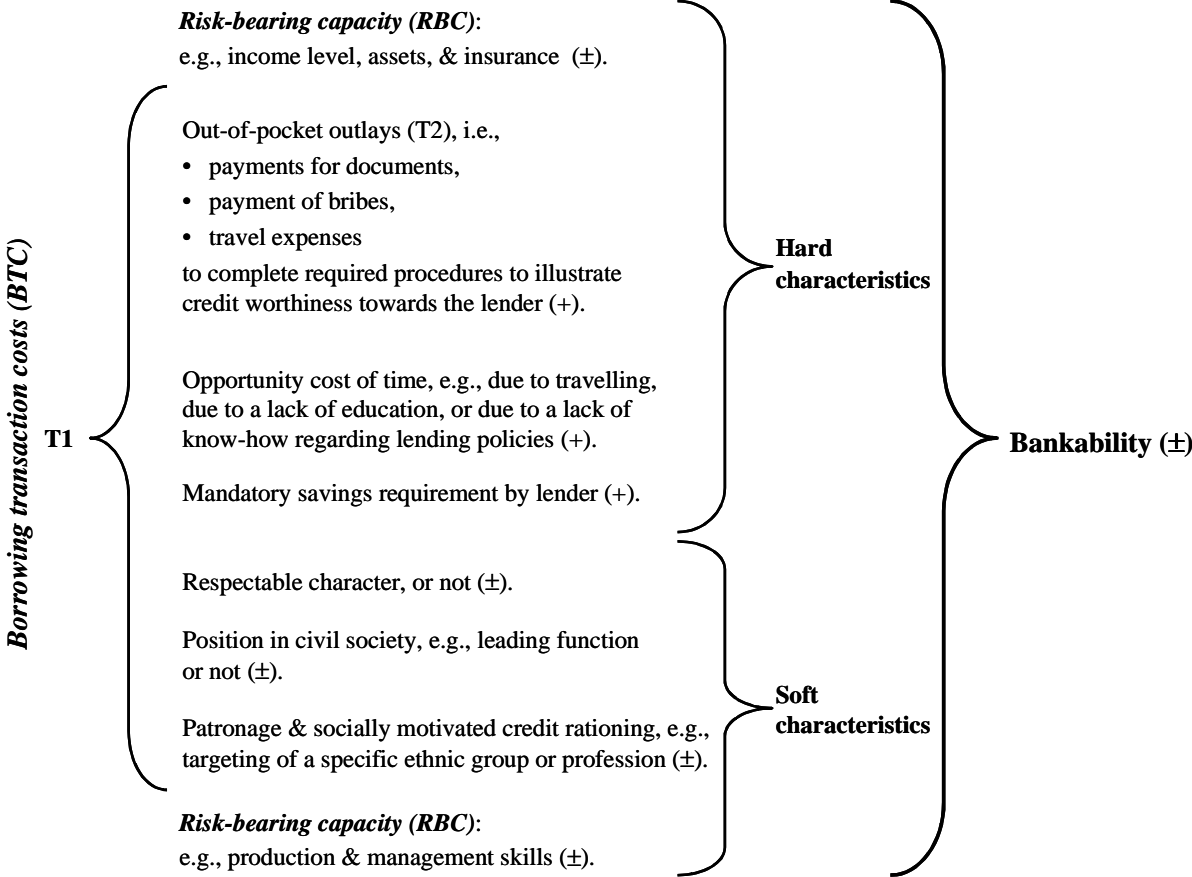
some probability that the loan application would be rejected and the accompanying risk of losing the threshold money. If  $BTC$  are lowered, the risk bearing capacity increases and more farmers with a set of enterprises and associated technologies who must rely upon credit to undertake these investments could come forward and apply for credit. In summary, the farmer would be willing to borrow  $L$  if  $T1 < L \leq L'$ , if he or she had funds available in the loan application phase that were at least equivalent to  $T2$ , and if he or she was willing to risk those funds (Ladman, 1984: 107ff).

From the above, it has become clear that bankability is more than credit worthiness. Bankability comprises additional characteristics that may be divided in hard and soft characteristics and directly influence the borrowing transaction costs  $BTC$  and the risk-bearing capacity ( $RBC$ ). (see Figure 3). Figure 3 summarizes the hard and soft characteristics of bankability and differentiates them along the components  $BTC$  and  $RBC$ .

The most important hard characteristics of the  $RBC$  are the available income and assets which directly determine the credit worthiness. In addition, possible insurance schemes against covariate or personal risks are also hard characteristics of bankability and increase the  $RBC$ . Clearly, production and management skills can increase the  $RBC$  too, nevertheless, it is more difficult to quantify their effect, therefore, they are considered soft characteristics. The  $BTC$  that can be easily quantified in monetary terms are attributed to the hard characteristics. Soft characteristics are a borrower's character, his position in the society or patronage at the side of the lender.

Improving bankability towards credit access means reducing borrowing transaction costs ( $BTC$ ). Clearly, one could also attempt to raise the revenues ( $R$ ) and thus the profit ( $\pi$ ) for a prospective investment while the  $BTC$  remain unchanged. This would not improve bankability but induce a higher  $RBC$  at the level of the prospective borrower. Particularly the relationship, namely increasing  $RBC$  while keeping a given level of  $BTC$  and with this improving bankability is analyzed in the empirical section of this paper. Moreover, it should be pointed out that bankability does not mean necessarily access to credit. Often, the total credit volume available is exogenously limited. If limited credit is linked with concessionary interest rates, excess demand is the consequence. Therefore, financial intermediaries are forced to ration the credit. Nevertheless, rationing of the credit is often based on other criteria than bankability.

**Figure 3 Improving bankability by reducing borrowing transaction costs (BTC) and increasing risk-bearing capacity (RBC)**



Notes: Hard characteristics can be easily converted in transaction costs while soft characteristics influence the borrowing transaction costs (BTC), nevertheless it is more difficult to associate a concrete monetary term to them. The risk-bearing capacity is influenced by hard and soft characteristics as well.  
+ indicates increasing BTC and bankability, respectively, and ± means either or.

#### 4. Improving Bankability through Credit-Group based Insurance Funds

Bankability and access to credit is constrained in rural northern Vietnam. The degree of this constraint is surprisingly high, nevertheless, the research underlying this contribution identified possible solutions to improve the risk-bearing capacity and thus bankability.

##### 4.1. Lack of Bankability from the Clients' Perspective

About 56% of all interviewed HH (N = 86) had access to formal credit. Out of this group, 92% with access to credit were a member of a credit group. One reason for this high percentage is the credit program of the ST that has a strong impact in one of the surveyed villages. If the same calculation is done excluding the isolated ST program the following results are found. A total of 40.7% of all interviewed HH had access to credit and among them about 71% are members of a credit group (see Table 2). At first glance, it appears that the figure of 56% of all HH having access to credit is quite impressive. Nevertheless, this research found that 31% of all interviewed HHs refrain from becoming members in credit groups. Also, a large proportion of the HHs, namely 73% did not try to apply individually for credit at the VBA. In the conceptual framework of this research, these clients evaluate their bankability as insufficient. Obviously, bankability is best in connection with the group lending approach. Empirical evidence for this is shown in Table 3.

**Table 2** Distribution of borrowers according to the source of credit

	Number of HH ...		
... organized in credit groups	33		
... borrowing individually		4	
... organized in a credit group & borrowing individually			11
Percent of all interviewed HHs	38.2	4.6	12.8

Source: Theesfeld (1999: 50)

Note: HH means household.

Table 3 presents the reasons given by the farmers for refraining from borrowing. The reasons can be split up into two groups of answers. One group of answers indicates that a high proportion of farmers value the risk associated with the investment higher than the possible return. In total these reasons were mentioned 66 times.

The second group of answers is related to an almost non-existent extension service and with this the limited range of feasible and profitable investment ideas and a general lack of information concerning financial services. These reasons were given 32 times. These results confirm field impressions from the study area. Table 3 also demonstrates that reasons for not trying to borrow that are associated to the *BTC*-category are less frequently mentioned than reasons associated to the *RBC*-category.

**Table 3 Reasons for households to refrain from borrowing**

	Did not try to borrow individually	Did not try to join a credit group
Number of HH	63	27
Percent of all interviewed HH	73	31
	Reasons for not trying (Number of answers)	
<b><i>Risk bearing capacity insufficient</i></b>		
Too poor to apply for a loan (insufficient income)	15	4
Not enough assets as security or collateral	5	3
I am afraid that I am not able to pay back the loan principal	10	7
I am afraid that I am not able to pay back the interest	7	5
Interest rate is too high	6	1
Too risky to invest into agriculture	1	2
Do not know how to invest (lack of management skills)	6	7
<b><i>Borrowing transaction costs</i></b>		
The credit application procedure is too complicated	6	2
Lack of information about credit policies	8	3
Relationship to important persons in civil society is not good enough	2	2
Not able to read and write	1	...
<b><i>No credit demand</i></b>		
No need for borrowing, enough private money	4	4
No need for borrowing, access to individual loan	...	1

Source: Theesfeld (1999: 51)

Note: One HH could mention more than one reason.

#### ***4.2. Improving Bankability***

As mentioned above, rural people often evaluate their bankability as insufficient or in other words, the *BTC* are evaluated too high and the *RBC* is considered too low. Possible solutions could be associated with risk reducing mechanisms and with better agricultural extension to improve the overall risk-bearing capacity. This is essential because in Vietnam, the *BTC* are already relatively low due to the use of credit groups to extend loans. The first point will be discussed in the following. It was argued that the risk to invest is too high and that they feel like not being able to pay back loan principal and interest in case of unexpectedly occurring personal and covariate risks.

Formal insurance schemes are rarely found in developing countries. They are practically non-existent in rural areas (Alderman and Paxson, 1992). In the case of the study area there was none. Evidence from microfinance institutions around the world indicates that, beyond credit and savings products, clients have an unserved need for products to insure against many of the risks to which they are exposed. The lack of an available services to protect against these risks could have a negative impact on the livelihood of clients and affect the financial health of the finance intermediary itself (MBP Newsletter, 1999).

In both villages, a credit amount of 500,000 VND (38 USD) that is frequently granted by the VBP and the ST to credit groups was used as an example. It was proposed to transfer part of this loan to a common insurance fund. In the following, a summary of the most important discussion points is given. The ideas developed in the two villages, Pac Ngoi and Ban Nan, as it concerns the introduction of an insurance fund are illustrated in Table 4.

**Table 4 Discussion points for setting up an insurance fund**

<b>Suggestions and Questions from the Discussion Leader</b>	<b>Answers of the Pac Ngoi Group</b>	<b>Answers of the Ban Nan Group</b>
1. Example: credit group, 1 year, 10 members, each member receives 500,000 VND. After paying the interest of 0.6% they keep 464,000VND. (for Ban Nan same example with 0.8% interest). How much are they capable and willing to pay each month for the insurance fund?	2,000 VND/month. It should be less than interest payments.	2,000 VND/month.
2. What should be done with the money from the insurance fund during the year? It was pointed out that it has to be available in case a member needs the money. Possibilities like leader of the credit group should keep it, or bring it to a bank were suggested.	The participants decided that some members can borrow it for a non-risky investment.	The solution was to lend it to a member of the group because deposits at a bank yields too low interest, lending it outside the group is too risky, group pressure insures that she pays back immediately if the money is needed.
3. Example: All the members bought pigs with their credit. What is the amount that a member should get in case her 50 kg pig dies? Suggested were: money for a new piglet, or the value of the lost 50 kg pig.	The insurance should only cover the money for a new piglet.	The insurance should only cover the money for a new piglet to keep sufficient reserves for other members in need.
4. What should be covered by the insurance? Suggested was: only pig insurance, as they all invested in pig production in the past and as this would be easier to set up and to control.	Insurance should cover all external effects which can not be influenced by the members and lead to insolvency. They do not want to invest all in the same kind of production in the future. The members should be able to choose between animal husbandry and crop production according to their skills	The group will decide in which cases a member gets money. If everybody wants to invest in something else the insurance should cover all investments. But the group decides each time if it is an insurance case. They agreed on that they have to set up clear rules at the beginning.
5. How do they want to control fraud? Example: insurance only for pig production. How do they want to control which pig is from the credit? Ear-tag? If they want to open the insurance to all kinds of risks, controlling gets even more complicated?	The problem of fraud does not exist. They all know each other. They know exactly which pig is bought from the credit. They want to define clearly at the beginning what is covered by the insurance.	No need to mark the pig because they want to help in general way if somebody is not able to pay back the loan.
6. Do they want to set up rules how to keep and raise, e.g., the pigs? Pointed out that vaccination to reduce the risk of pig diseases. If they all pay the same amount to the insurance pot they all have to care for the pigs in the same manner.	They want to set up rules for vaccination and stable keeping. If the group members agree on the vaccination a member who did not vaccinate will not get any insurance money.	Good idea to set up regulations, controlled by the group. If the members agree on the vaccination a member who did not vaccinate will not get any insurance money.
7. What about if they can also invest in crops? It will be much more difficult to control which plants are from the credit. Example: buy seeds for 500,000 VND from credit and fertilizer for 1 million VND from own money. Later the crops are damaged.	According to the share of borrowed and owned money they want to cover a part. They understand the idea and the problem. They want to set up rules at the beginning which have to be clear to everybody.	Risks in crop production should be also covered, as they want to insure all risks that contribute to insolvency of a member.
8. Do they want to elect a leader who is in charge of the insurance?	Yes. "Leaders pocket is saver than common pocket."	Yes. Elect a leader who is knowledgeable.
9. Will this insurance fund make it easier for them to borrow money?	In case of risks they can get some help. They feel less afraid to borrow.	If they would have known this before they would not have been so afraid. Feel better with the insurance.

Source: Theesfeld (1999: 77f)

## 5. Conclusion

Credit schemes for the poor are often criticized for their limited outreach to the poor or for serving just the better-off. Transaction costs are important in forcing this outcome. High borrower transaction costs (*BTC*) cause many potential borrowers to refrain from borrowing or to seek loans from informal financial sources. A lender will attract more clients when the *BTC* are lowered. Assuming a fixed interest rate, the borrowing threshold ( $ABC = AR$ ) can be then lowered too. This means that also relatively smaller loans become attractive to the poor.

The term bankability comprises all aspects that increase the risk-bearing capacity (*RBC*) and reduces the *BTC*. Nevertheless a person who is bankable does not automatically gain access to credit due to credit rationing on the side of the financial intermediary.

A high proportion of possible clients evaluate not only the *BTC* as too high and refrain from borrowing but consider their *RBC* as too limited. One solution jointly developed in two guided working groups was to establish an insurance fund in credit groups which covers the personal risks of losing the resources employed as a result of using a loan. In both villages the concept of insurance was totally unknown. In both groups the reaction was very positive with a lively discussion. One group wrote a protocol of the discussion and the developed solutions in the activity book of the Village Women Union. The thought of self-help fits very well in the socialist determined socio-cultural environment of the local people. It is encouraging that in both groups and independently from each other, almost the same results were achieved. Ideas were developed similarly: The use of the insurance fund should be handled in a flexible way. Both groups decided to insure all external effects that lead to insolvency of the members instead of an "object insurance" that would insure only the investment itself. Nevertheless it is obvious that with this kind of insurance fund no supra-regional catastrophes like flood or drought can be insured. The problem of insurance fraud and supervision, the main tasks of insurance companies in developed countries, were not seen as a major problem, as social control inside the group would be sufficient to deal with those problems.

The leader of the Communes Women Union was informed about the results of these group discussions and she confirmed that the provided ideas were helpful. The incorporation and participation of existing local organizations into this discussion is absolutely necessary to insure the sustainability of the idea. Later on, such organizations can spread and implement this idea easier than individual persons. It can not be expected that the insurance fund will be implemented instantly. The idea has to settle down in the heads of the people and should be discussed again on another occasion. From the members' point of view the idea of creating an insurance fund made them feel less afraid of borrowing money. Thus it can be one solution of improving bankability from clients' point of view.

## References

- Alderman, H. and C. Paxon. 1992. Do the poor insure? A synthesis of literature on risk and consumption in developing countries. *Working paper 1008*. Washington D.C., USA: World Bank.
- CGAP and UNDP. 1996. Microfinance in Viet Nam, a collaborative study based upon the experiences of NGOs, UN agencies and bilateral donors. CGAP and UNDP. Mai 1996. Hanoi, page 5.
- CGAP. 1995. Policy Document. A policy framework for the Consultative Group to Assist the Poorest (CGAP) – A micro-finance program. Washington D.C., USA: World Bank, CGAP. page 1.

General Statistical Office. 1995. Statistical Data on basis situation and infrastructure of rural regions in Vietnam. Hanoi: Statistical Publishing House.

Hanh. 1999. Presentation from the director of the VBP, Mrs. Ha Thi Hanh. Workshop at Hanoi Agriculture University (HAU). Hanoi. 13/03/1999.

Ladman, J.R. 1984. Loan-Transactions Costs, Credit Rationing, and Market Structure: The Case of Bolivia. In: *Undermining Rural Development with Cheap Credit*. Westview Press, Boulder and London, page 104-119.

Microenterprise Best Practice Newsletter. June 1999. Volume 1. No. 4, page 2.

Nadler, Paul Dr. 1999. Snapshots of Diversity: The Changing World of Finance. *The Secured Lender*, page 23.

Schenk, R. 1998. Die Auswirkung der Landreform in Nordvietnam auf die Zugänglichkeit zu mittel- und langfristigen Krediten für Kleinbauern. Diplomarbeit. Stuttgart, D: Universität Hohenheim, Lehrstuhl für landwirtschaftliche Entwicklungstheorie und -politik.

Schenk, R., Neef, A., and F. Heidhues. 1999. Factors influencing smallholders' access to credit in Northern Vietnam. *Vietnam Socio-Economic Development Review* (14).

Schrieder, G. 1999. Rural finance and its relevance for stabilization of natural resources and rural development in northern Vietnam. University of Hohenheim, Germany. mimeo.

Schrieder, G., and M. Sharma. 1999. Impact of finance on poverty reduction and social capital formation - A review and synthesis of empirical evidence. *Savings and Development* 13 (1): 67-94.

Statistical District Office, Ba Be district, Mai 1999.

Theesfeld, I.J. 1999. Vietnam's rural credit market – Determinants of farmers' bankability. Master Thesis. Stuttgart, D: University of Hohenheim, Department of Development Theory and Agricultural Development Policy.

The World Bank Group. 1998. Vietnam – Country Assistance Strategy of the World Bank Group 1999-2000. *Report No: 18375*. August 20, 1998, page 1-13.

VBA, Ba Be district. 1999. Interview with director of the VBA in Ba Be district, April 1999.

VBP. 1995. Information booklet. Hanoi, page 11.



## 6. Recent Discussion Papers

- No. 01/99 Heidhues, F. and G. Schrieder, *Rural financial market development.*
- No. 02/99 Heidhues, F., Karege, C., Schaefer, B. and G. Schrieder, *The social dimension of policy reforms.*
- No. 03/99 Heidhues, F., Erhardt, W., Gronski, A. and G. Schrieder, *The social dimension of reforms and World Bank case studies.*
- No. 04/99 Erhardt, W., *Credit for poor and low-income entrepreneurs in urban and rural Northern Thailand.*
- No. 05/99 Senahoun, J., Heidhues, F. and D. Deybe, *Structural adjustment programs and soil erosion: a bio-economic modelling approach for Northern Benin.*
- No. 06/99 Thanda Kyi and M. von Oppen, *An Economic Analysis of Technical Efficiency of Rice farmers at Delta region in Myanmar*
- No. 07/99 Schrieder, G., Munz, J., and R. Jehle, *Rural regional development in transition economies: Country case Romania*
- No. 08/99 Hartwich, F., and T. Kyi, *Measuring Efficiency in Agricultural Research: Strength and Limitations of Data Envelopment Analysis*
- No. 09/99 Hartwich, F., *Weighting of Agricultural Research Results: Strength and Limitations of the Analytic Hierarchy Process*
- No. 01/00 Neubert, D., *Poverty alleviation as intervention in complex and dynamic social fields*
- No. 02/00 Neef, A., Sangkapitux, C., and K. Kirchmann, *Does land tenure security enhance sustainable land management? Evidence from mountainous regions of Thailand and Vietnam*
- No. 03/00 Breitschopf, B. and G. Schrieder, *The development of the rural nonfarm sector in transition economies – Implication of capital intensity on labor productivity and employment.*
- No. 04/00 Erhardt, W., *Urban Bias in Reverse: Have Urban Small Enterprises Been Neglected by Policy Makers and Bankers in Thailand?*
- No. 05/00 Senahoun, J., Heidhues, F. and D. Deybe, *Impact of Agricultural Policy and Food Security: An Agricultural Sector Modelling Approach for Benin*
- No. 06/00 Heidhues, F., *Globalisierung, Einkommensverteilung und ländliche Regionalentwicklung in Entwicklungsländern*
- No. 07/00 Heidhues, F., *The Future of World, National and Household Food Security*
- No. 08/00 Buchenrieder (née Schrieder), G., and I. Theesfeld, *Improving Bankability of Small Farmers in Northern Vietnam*