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The Rural Credit Systems in the Mekong Delta, Viet Nam

The Rural Credit Systems in Can Tho and Tien Giang Provinces, Viet Nam

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Introduction

On 28th June 1991, the country's Ministers Council promulgated Decision No.202 to reconfirm households (including farming households) as basic economic units, enabling households to get access to formal credit. In fact, farming households still largely rely on informal credit markets since farming households have face difficulties when borrowing from banks. These difficulties stem from:

+ *Macroeconomic policies*: Industry-biased policies of the state hold back the development of the rural sector because these policies would make the price of major staples (like rice, for instance) decreased, depriving farming households of income and of capacity of loan repayment. Inconsistency and failures as to the procurement of agricultural products by the state also hurt farming households. For instance, at the time of harvest agricultural products which were not procured by the state stocked up and their prices declined accordingly. Foreign investment which would contribute to relieving capital shortage in the rural economy has been directed to the industrial and service sectors.

+ *Covariate shocks*: Covariate shocks that frequently occurred exacerbate farming households' difficulties. For instance, recent Linda typhoon in 1997 destroyed a large part of farming households' property in coastal provinces of the Mekong River Delta.

+ *Collateral*: According to Decision No.64/CP on 27th September 1993, farming households will surely be granted land-use right certificates which can be used as collateral for getting loans from formal credit institutions. Actually, due to the slow pace of land-use right certificate granting process, a large portion of farming households have not got them. Landless farming households were never able to get them. Consequently, farming households who have not got land-use-right certificates and landless farming households could not borrow from formal credit source and therefore were absorbed by informal rural credit agents.

+ *Borrowing procedures being too complicated and lengthy*: The country's farming house holds who are mostly illiterate feel frustrated with paperwork which is required for accomplishing borrowing procedures. Probably, they then quit. A farmer reported that it costed him one night to fill in all the forms which enable him to borrow only VND 1,000,000 (around USD72).

Because of credit ceiling/rationing, the amount of money that can be borrowed are much lower than actually needed and than the value of collateral. For instance, average production cost per crop for 1,000㎡ of cultivated land is about VND400,000-500,000, while for the same area farming households can borrow at most VND150,000-300,000. This roughly means that they have to have their own capital or rely on informal rural credit agents for about 37.5 percent of their capital need.

+ When borrowing farming households had to pay *a number of fees* (*e.g.*, bribes) which push interest rates up to higher level if those fees are fully included [Saigon Economic Times (SET), No. 25-97 (338), 19th June 1997]. For several cases, those fees are, albeit illegally, deducted from the loan, leaving the loan insufficient to serve planned investment purposes. Farming households otherwise use these loans for family consumption.
+ Loan maturity was not suitable to crops cycles. It would be wise to settle loans to be paid at the time of harvest.

In March 1999, staff members of School of Economics and Business Administration conducted two surveys in Cai Be district of Tien Giang province and O Mon district of Can Tho province (South of Viet Nam) focusing on the rural credit systems of the two districts as representatives of the two provinces. In the surveys, rural credit institutions and 127 farming households were interviewed to reveal the present status of the rural credit systems and their impacts on farming households in the provinces. This paper is the report of the two surveys referring to three aspects of the rural credit systems in Can Tho and Tien Giang provinces:

+ Overview on the present status of the rural credit systems in the two provinces;
+ Emergence of small-, medium-, and large-scale land owners as a consequence of credit status of farming households;
+ Implicit transfer of land-use right certificates among farming households and some other issues.

General Description of the Survey

The survey includes the formal, semi-formal and informal financial institutions, and 127 farming households in O Mon district (Can Tho province) and Cai Be district (Tien Giang province).

Table 1. Characteristics of the Sample

Item	Figure
Average area per person (m^2)	153.244
Average Income per person per month (VND1,000)	225.070
People per household	5.635

Source: Own survey

The Survey Sites

O Mon District. O Mon district is one of the rice baskets of Can Tho province. The district, with 14 villages and two towns (O Mon and Co Do), covers an area of 54,856 hectares which belonged to two former districts: Phong Phu and Thuan Trung (Co Do). Infrastructure of Phong Phu is good and its soil is fertile, making its farmers' income higher than that of farmers in Thuan Trung (Co Do) where infrastructure is not good and soil is not much fertile. Total population of the district was 305,838 in 1998. Females accounted for 52% of the total population. Labour force amounts to 52.8% of the total population. Population growth rate was 1.49% in 1998. Raising education of population got much government's investment. However, there were still the illiterates, especially among children. The indication about this is not available.

In 1998, the district's total rice production over around 40,702 hectares was 489,696 tons, increasing by 68,852 tons as compared with 1997. 2,749 hectares was devoted to non-rice crops. Revenue of small- and medium-sized enterprises in the district was VND90,233 billion, increasing by 33.77% as compared to 1997. These enterprises all were private ones and accounted for 100% of the total industrial revenue of the district. The industry of the district mainly specializing in agro-product processing has backward technology. Level of education of the owners of these enterprises is insufficient. Therefore, they did not earn high profit margin from their businesses.

Cai Be District. (Assigned to Mai Van Nam)

I. Present Status of The Rural Credit Systems in Can Tho and Tien Giang Provinces

1. Review of Theory on Rural Credit

For credit markets, a Pareto optimum would appear if credits were traded freely under the presence of perfect information and the absence of transactions cost. These two assumptions are unrealistic. In reality, information asymmetry and transactions cost do exist and matter. Given information asymmetry, adverse selection and moral hazard (or adverse incentive) appear in credit markets. In order to be able to avoid the problem of adverse selection and moral hazard that affects the rate of loan default, credit institutions then have to learn about borrowers and to secure the loans against losses. By doing that, the credit institutions incur in transactions cost ranging from the cost of screening, selecting, and monitoring borrowers to the cost of loan processing, administering and delivery expenses, the cost of loan collection, and, in the worst case, the cost of appropriating collateral. The destiny of credit institutions absolutely depends on their profitability which is in turn subjective to the transactions cost and the performance of their loan portfolio, so they have to seek effective devices to abate those costs.

Transactions cost of lending operations are high in the rural sector (as compared to the urban sector) because of the sector-specific factors:

+ High probability of loan default from borrowers due mainly to covariate shocks created by the nature. Concerning covariate shocks, imagine how poor farming households accounting for 80 percent of total population of Viet Nam manage to repay loans if, say, natural calamities such as drought, typhoon, *etc.* damaged their crops. They would together declare defaults.
+ Low rural income: Farming households would also do the same when agricultural-product prices fall, eroding their income which was already low.
+ Unprofitability of agricultural production.
+ Clients of credit institutions being widely dispersed: As to this respect, a challenging question usually asked regards the considerable cost of reaching all borrowers that randomly scatter over vast areas with underdeveloped infrastructures, especially with respect to traffic and communications infrastructures.
+ Small sizes of disbursed loans: Assume that rural credit institutions can provide farming households with loans, the size of those loans may be small, resulting in high lending costs.

In this report, we group rural credit institutions into:

+ Informal rural credit agents (IRCAs);
+ Semi-formal rural credit institutions/programs; and
+ Formal rural credit institutions (FRCIs): Viet Nam has had a relatively wide and condense network of FRCIs which provide capital to farming households. Those FRCIs, however, have been subject to (1) credit rationing; (2) Interest rate ceilings; and (3) the regulated spread between lending and borrowing rates of 0.35 percent. These constraints, accompanied by the problem of information asymmetry and transactions costs, result in the supply of rural credit by FRCIs falling short of rural credit demand. The excess demand for credit has been met by IRCAs. This argument adheres the proposition that in Can Tho and Tien Giang provinces as well as in Viet Nam FRCIs and IRCAs have coexisted. Also, the surveys show the coexistence of formal and informal credit systems in Can Tho and Tien Giang provinces. This coexistence is also constituted by:
+ the characteristics of agricultural production;
+ the actual credit need of farming households; and

+ the convenience of borrowing from different sources.

2. Rural Credit Systems in Can Tho and Tien Giang Provinces: IRCAs and FRCIs

1) Formal Rural Financial Institutions (FRCIs)

(1) *General View on FRCIs*

Unlike IRCAs, FRCIs do not have close acquaintances with their clients. Therefore, they have to spend human and financial resources on the acquisition of information about clients. Since the acquisition of information is costly, FRCIs in stead ask for collateral to get their loans secured. Required collateral holds farming households back from getting access to credit from FRCIs. As land collateral is required, landless farming households are the first eliminated. Then come poor farming households who own tiny plots of land. Since the costs of foreclosing and auctioning those tiny plots of land are prohibitively high, FRCIs are not interested in accepting them as collateral. Logically, FRCIs prefer to disburse loans to large-cum-wealthy borrowers who can meet their collateral requirements.

Formal rural credit institutions (FRCIs) lend to farming households in Cai Be and O Mon districts:

+ The Bank for Agriculture and Rural Development (BARD);
+ The Bank for the Poor;
+ Rural joint-stock commercial banks, namely Tay Do Joint-stock Commercial Bank, Cai San Rural Joint-stock Commercial Bank, Codo Joint-stock Commercial Bank; Thanhtha ng Joint-stock Commercial Bank.
+ People's credit funds (PCFs);

At the country level, BARD has been dominating with around VND13,000-14,000 billion (USD1.27 billion) outstanding loans to farming households as of December 1997 [Viet Nam Economic Times, No.97, 3rd Dec. 1997; Review of Banking, No.1+2, 1998]. However, the People's Credit Funds have had a grass-root base. Occasional international and national rural credit programs have carried charity characteristics, therefore they have only been temporarily effective. Despite commercial banks being important to rural financing, they proved unsuccessful in reaching the majority of poor farming households who are in capital thirsts. Most loans have concentrated in relatively wealthy farming households which have collateral for loans [Review of Banking, No.5/95]. Poor farming households resort either to moneylenders or ROSCAs for their credit need.

(2) *FRCIs in Can Tho and Tien Giang Provinces*

+ *The Bank for Agriculture and Rural Development (BARD):* BARD is the biggest rural 5 institution providing the largest amount of investment capital to farming households. BARD is a state-owned commercial bank which is governed jointly by the State Bank of

Viet Nam (SBV) and the Ministry of Finance. BARD has 1,800 branches countrywide and around 21,000 staff members as of the beginning of 1998 [Review of Banking, No.1 + 2,1998]. Because of being a universal bank, BARD has given loans to all types of economic units of the country including state-owned enterprises (SOEs), non-state companies and households.

At first, a relatively small portion of farming households has been met by BARD because they essentially lacked collateral. The number of farming households accessible to loans of the BARD has eventually increased thanks to efforts of the bank to ease requirements on collateral. The average loan size fluctuated within USD95-159. The rate of repayment of loans is as incredible as 98 percent since the farming households are aware of the threat of termination of loans by the bank. However, the number of farming households met by BARD is still small for such reasons as mentioned at the beginning of the paper. In order to be successful in reaching poor farming households, the banks has to learn the success lesson of Grameen bank (Bangladesh).

The success of Grameen bank is known worldwide. What draws attentions is its high rate of debt recovery of 98 percent of disbursed loans and its serving a wide range of approximately 2 million poor landless farming households spreading over more than 34,000 villages [Jain 1996]. The main lesson drawn from the success of Grameen bank is the establishment of joint-liability groups of borrowers.

Joint-liability groups of borrowers are now common in many developing countries. This form signifies that each member of the group has to be jointly responsible for the default of the others. Equivalently, any default of members of the group will be subsidized by all others. Group members cannot gain new credit access to the bank until outstanding debts of the group as a whole are discharged. This type of organization creates effective incentives to honor the loan. The responsibility forces each member to monitor the others' behaviors. This is termed as peer monitoring [Stiglitz 1990]. These joint-liability groups serve as social collateral which replaces physical collateral and increases the rate of loan repayment. Joint-liability groups usually come about on the ground of people who are homogenous regarding:

- Living in the same communities. Given the adjacency to their peers, each member of the groups can exert proper monitors on the others;

- Sharing similar risk characteristics. For the reason of joint responsibility, it is natural for risk identical people to group together: they do not like to have riskier people in their group;
- Engaging in identical economic activities; etc.

Members of joint-responsible groups are forced to contribute savings regularly to a common fund of the group. The fund is used for:
- Compensating non-repaid loans;
- Getting borrowers out of difficulties (if any), thereby restoring the capacity of repayment;

and

- Keeping borrowers disciplinary.

Jointly-responsible groups have not largely existed in Viet Nam but among women. The surveys and the previous research reveal that women in the two provinces under the instruction of local Woman Associations formed joint-responsible groups. The groups received loans from BARD and occasional credit programs on behalf of their members and then disbursed the loans to their members. The practice in Can Tho province proved that the common funds contributed by the members of woman jointly-responsible groups for some cases were so huge that they have to deposit the fund at commercial banks. For many cases such social organizations as Women Association, Veteran Association, Youth Union act on behalf of some international donors, some national occasional funds, etc. to select borrowers. These organizations select the would be borrowers based on their internal information about the borrowers, thereby helping direct funds to right people.

Now we come to see how the BARD operates in O Mon district. (Because of time and other physical constraints plus the unwillingness of the relevant people at the BARD Cai Be, we have not got information from the BARD Cai Be which is the only formal credit association of that district.) The BARD in O Mon district bears the name of BARD O Mon. It operates based on the economical mechanism but has also to carry social tasks. The economical mechanism means the profit maximization. The social tasks means the carrying of social policies of the government such as those on eliminating famine and alleviating poverty, etc. The economical mechanism and social tasks seem not compatible, creating problem for the bank. Capital for operation of the bank is from the higher hierarchy of the bank (i.e., the BARD of Can Tho province), from NGO organizations or of self-mobilization. Self-mobilized capital accounted only for 22.22 percent of total capital of the bank in 1998. This would mean that mobilizing capital was not a focal activity of the banks and that the bank was much dependent on the higher hierarchy for capital.

Table I.1. **Short-term Loans to Farming Households by the BARD O Mon, 1998**

Unit: VND million

Loan use	Amount	Share of the total (%)	Loan term (months)	Interest rate (% per month)
Rice production	28,877	63.88	5	1.2
Orchid gardens	12,499	27.65	12	1.2
Buying machines	1,165	2.58	12	1.2
Raising animals	908	2.01	10	1.2
Others	1,758	3.89	12	1.2
Total	45,207	100	–	–

Source: The BARD O Mon, 1998.

As is shown in table 1.1, a predominant proportion of capital of the bank was extended to rice production and to orchid gardens. Regarding to rice production, the bank lent to 8,250 farming households (cultivating 8,300 hectare of rice), amounting to 20.6 percent of the total number of rice-producing households of the district. This rather modest figure means that next to the bank there must exist many credit institutions. The upper limit of the loan size given by the bank was VND 3.5 million per farming household. On average, each hectare of rice got VND4.479 million which is not much low than the average cost of rice production per hectare of VND4.643 million (own survey, 1998.) As to loans used for orchid gardens, in 1998 the bank was given VND 12,499 million which were applied to 3,135.32 hectare of orchid gardens (making up 52% of the total orchid area of the district.) On average, each hectare of orchid garden got VND3.986 million. The number of farming households which borrowed from the bank last year was 3,124. However, the cost for upgrading one hectare of orchid was VND15 million (own survey.) The average amount that one hectare got was too small as compared to the need. Therefore, many farming households did not have enough capital to upgrade the orchid garden and let the orchid garden stay the same. And they used the loans for other purposes.

In fact, farming households were not much aware of interest rates but the convenience of borrowing. Although the BARD O Mon had simplified the procedures of borrowing, the procedures were still complicated for farmers who are not well educated. This created disadvantages for the banks as compared to informal financial institutions. Short-term interest rates of 1.2 percent per month was applied by the bank. This interest rates were authorized by the central bank of Viet Nam. Loan-terms mostly fitted to the production cycle. For instance, the bank applied loan terms of 3-5 months to rice production, 10-12 months to orchid gardens, and 8-10 months to raising animals. These flexible loan terms can be seen as an innovation of the bank. The bank did not ask the farming households to pay interest monthly as indicated in the loan contracts but pay at the end of the loan term. This innovation reduced costs for both the bank and the farming households in terms of not having to duplicate lending and borrowing procedures. In addition, the bank did not ask farming households to pay back the principal at the end of the loan term but rolled over the loans for two or three times. This in fact also reduced the lending and borrowing costs. Moreover, this also facilitated the production plan making process of farming households because they once borrowed, they can use the loan for at least two or three times. However, because the operations of the bank is bounded in the district, the flow of capital of the bank to other regions was not free. At the level of the whole economy of Viet Nam, this is an inefficiency.

The incentive to repay the loans is affected by the threat of termination of the loans by commercial banks, especially where credit funds are scarce. Therefore, those farming households who borrowed from the bank on the commercial basis were very honorable to repay the loans but those who borrowed in the framework of the special policy of "eliminating famine and alleviating poverty" were not much willing to repay, thereby creating high overdue loans to the bank. In addition, due to the low level of education and bad economic thoughts at the part of farming households, not all loans were not used to make profit. This raised credit risks to the bank. In order to reduce this risk, the bank asked for collateral.

Acceptable collateral was various depending on the purpose of loan use. As to loans for rice production, collateral was the certificate of land-use right. According to the rule by the central bank of Viet Nam, the loan size is not more than 70 percent of the value of the collateral. For other purpose, collateral was certificate of the ownership of any property. Although collateral reduced credit risks for the bank, it limited the amount of loan disbursed to farming households. In order to avoid this defect, the bank should have found other mechanism to increase the rate of loan repayment by resoting to joint-liability groups, for instance. Since in case farming households cannot repay the loans, the collateral would be expropriated by the bank. In order to hedge against this, farming households borrowed from the informal market to repay the loan they incurred. Apart from making short-term loans to farming households, the bank also mad medium-term loans to them as shown in table I. 2.

Table I. 2. Medium-term Loans to Farming Households by the BARD O Mon, 1998

Unit: VND million

Loan use	Total loan (VND million)	Share of the total (%)	Loan term (months)	Interest rate (% per month)
Orchid gardens	5,540	72.7	24	1.25
Buying machines	1,011	13.3	18	1.25
Raising animals	664	8.7	18	1.25
Living facilities	402	5.3	18	1.25
Total	7,617	100.0	–	–

Source: The BARD O Mon, 1998.

The interest rates of medium-term loans were 1.25 percent per month, which is 0.05 percent higher than that of short-term loan by the bank. The bank applied loan terms of from 18-24 months depending on the purpose of loan use. Loan made to farming households for improving orchid gardens got the highest loan term of 24 months. Affiliated to the BARD O Mon is the Bank for the Poor which has been operating unprofitably and very much depends on BARD.

+ *People's Credit Funds (PCFs):* On 27 July 1993, the country's Prime Minister signed Decision No.390/TTg on the establishment of PCFs. The PCFs are a renovated form of former Credit Cooperatives which were first established as far in history as 1956. In late 1990, those credit cooperatives numbered 7,660 and were subjected to crises and collapsed. The collapse these credit cooperatives has had prolonged repercussion on reputation of their successive PCFs. In spite of this adversity, PCFs have developed with the number increasing from 170 in May 1994 to 936 in February 1998 and membership rising from 10,000 to 500,000 for the same period. Those PCFs follow the model of Desjardins Rural

Credit Cooperatives (Quebec, Canada) and get financial supports from Rafairen Organisation (a German Credit Cooperative), from the French People's Bank and the Asian Development Bank [Viet Nam Investment Review (VIR), 14th August 1995]. The state also contributes up to 40 percent of PCFs' initial capital [VIR, 3rd August 1993]. PCFs are organized in three-tier form: the central PCF, provincial PCFs, and basic PCFs. The central PCF serves as a centre which trains staff of provincial PCFs and to smooth the flow of funds [Review of Banking, No.4/95, p.35]. Loans offered by PCFs range from daily to one-year long. PCFs seem to take into account the problem of information related to clients by imposing a rule that PCFs are only allowed to lend to clients within the communities in which they base. They can take advantage of being close to clients. Deposit insurance is also applied to PCFs. PCFs have mobilised VND1,500 billion as of the end of 1997 [Review of Banking, No.1+2/1998, p.72].

Although the establishment of PCFs proved practical, there remained some problems. Those PCFs were still lacking skilled staff (including managers) as to how to run credit operations [VIR, 12th June 1995]. There is little problem with unpaid debt. However, a source (VIR, 27th January 1997) reveals that on average overdue debts stood at 0.89 percent of total outstanding loans, yet in some provinces, it is as much as 3.4 percent. Particularly, there are some PCFs with arrea accounting for 23.5 percent of total outstanding loans.

+ *Rural Joint-stock Commercial Banks:* There also existed rural joint-stock commercial banks. They have concentrated in Can Tho and An Giang provinces in the South of the country. No rural joint-stock commercial banks have existed in Cai Be district, Tien Giang province. These commercial banks are small and subject to overdue loans. They heavily rely on urban joint-stock commercial banks for capital [Review of Banking, No.5/95, p. 33].

Besides the BARD O Mon, in O Mon district there are operating some rural joint-stock commercial banks operating in O Mon district. They are: Joint-stock Commercial Bank (JCB) Cai San, JCB Co Do, JCB Dong A, JCB Nhon Ai, JCB Tay Do. Their operation is shown in table I. 3.

Table I. 3. **Outstanding Loans to Farming Households by Commercial Banks**

Unit: VND million

Name of bank	Amount
1. The BARD O Mon	42,085
2. JCB Cai San	9,092
3. JCB Co Do	16,790
4. JCB Dong A	1,636
5. JCB Nhon Ai	38,365
6. JCB Tay Do	21,750
Total	129,718

Source: Own survey, 1998.

JCB Cai San: The branch of the JCB Cai San at O Mon was established in 1995. The upper limit of loans to farming households was VND6 million per hectare in 1998. This upper limit was higher than that of the BARD O Mon, making an advantage for the bank over the BARD O Mon. This limit was raised up to VND7 million in 1999. Although, the interest rates charged by the bank were 1.8 percent per month (0.6 percent higher than that of the BARD O Mon), the outstanding loan of this bank at the end of 1998 was 9,092. That is thank to the higher upper limit maintained by the bank. In 1998, the bank gave loans to farming households at the start of the crops. In order to reduce credit risk, the bank asked the local authority for information about clients and also asked the local authorities to appraise jointly (with the bank) the creditworthiness of farming households. However, the bank also asked for collateral. The acceptable collateral to the bank is the certificate of the land-use right. The transactions cost of borrowing was high. When borrowing the borrower had to buy an application form with VND6,000 and had to pay in advance two-month interest rate (VND 36,000). These two requirements raised the effective interest rate of borrowing as calculated as follows. For instance, if a borrower borrow VND1 million, he brings home VND 958,000 (=1,000,000-6,000-36,000). After 4 months, the borrower had to pay 1,036,000, being the principal (1,000,000) plus the interest rate for the remaining two months (36,000). Therefore, the average effective interest rate was 1.97 percent per month. In 1998, there were 4,890 farming households borrowed from this bank, accounting for 12,22 percent of total farming households of the district. The market share of this bank was not small.

JCB Co Do: This bank was established in 1989. Situated in Co Do town which is far from the principal town of the district, the bank was the main credit institution serving farming households of the region for the reason that it is physically difficult for farmers to go to O Mon town where the other credit institutions are located. The outstanding loan at the end of 1998 of the bank was VND16,790 million. One strong point of the bank is that staff member of the bank were mainly people living in the local. Therefore, the bank have good information about the creditworthiness of the borrowers. In 1998, the interest rates charged by the bank were 1.5 percent per month from the beginning of the year to 8th March; were 1.7 percent from 9th March to 13rd May 1998; and 1.8 percent from 14th May until the end of the year. At the beginning the bank charge low interest rates to overcome the difficulties rendered by the competition in the rural credit market. However, it turned out that with that the interest rates the bank charged were not profitable. Therefore, the interest rates were raised up to higher level. The bank also asked for collateral which was mostly the certificate of land-use right. The upper limit of the loan size was VND4 million. In fact this limit was flexible depending on the creditworthiness of the borrower.

JCB Tay Do: In 1998, the interest rates charged by the bank were 1.5 percent per month. The bank mainly made short-term loans to farming households. Farmers can repay the loan at the end of the period of 3-4 months. At the end of the loan term, they repay the interest rate plus the principal.

2) Semi-formal Credit Institutions and Occasional Credit Programs

Semi-formal credit institutions and occasional credit programs are:

- The National Fund for Hunger Elimination and Poverty Alleviation: Loans given out by this fund are mainly short-term loans. The Bank for the Poor is the main agency who acts as an intermediary between the fund and borrowers. This fund is aimed at providing financial supports to poor farming households in order to facilitate their production and improving their living standard. No collateral is required but trust. Interest rates are much lower than the market one.
- Woman Association;
- Farmer Association;
- Youth Union;
- Veteran Association.

According to the survey, there were only woman association and farmer association were active in the rural credit sector.

(1) *Farmer Association*

This is a social organization popular in the rural sector. This organization also provides self-mobilized or granted funds to farming households. Sources of the funds are grants of the government or the contributions of members of the organization.

Table I. 4. Source of Capital and Loans to Farming Households by the Women Association of O Mon District, 1998

Item	Amount
I. Source of funds	326,870
Self-mobilization	1,000
Contribution by members	10,580
Grants of the government	315,290
II. Loans to farming households	318,390
Poor farming households	145,100
Under directives	100,000
Others	73,290

Source: Own survey, 1998.

The association did not fix the interest rates and the terms of their loans to farming households. Table I. 4. shows that the focus of the association was poor farming households who accounted for 45.57 percent of the total loans given. Although the size of loans to farming households by the association is negligible as compared to that of loans by formal rural credit institutions, the loans proved helpful since they were mostly directed to right people. That is because members of the association know the best about situation of their neighbors.

(2) *Woman Association*

Although the woman association is a social organization, it is also a semi-formal credit association which provides it members with capital. All the members of the association are female who, according to economic literature, are good at managing productive capital in the rural sector of developing country. Under the flagship of "saving", the association encourages the members to contribute VND20,000 each month at the interest rate of 1 percent per month. In O Mon district, the Woman Association had the contributed fund of VND891,708 outstanding in 1998. The Association gave VND1,043,579 to 3,479 members. The upper loan size given by the Association is VND300,000 per hectare. However, depending on the reputation and prestige of the borrowers, this limit can travel up to VND1,000,000. Apart from the self-contributed fund, the Association has also made use of funds given by NGO organizations such as the World Bread Organization and by the National Fund for Job Creation (Viet Nam) as well. The most important thing in giving loans to members is to choose the right members. In collaboration with the so-called the Council for Poverty Elimination and Hunger Alleviation, the Association classified the members according to living conditions, capital need, repuation and prestige. The classification serves as the ground for the choice of member to give loans. In order to help the borrowers use the loans in efficient way, the Association guided them. Apart from these activities, the Association established self-help groups among its members.

3) **Informal Rural Credit Agents (IRCAs)**

IRCAs comprises various guises such as relatives, friends, landlords, professional money-lenders, village traders, wealthy farmers, etc. A persistent and remarkable position of IRCAs in the rural credit markets implies their importance to rural financing, especially in remote regions where RFCIs are weak or absent. Distinct features of the operations of IRCAs are:

+ Supplying short or even very short (monthly, weekly, daily or even hourly) credit for urgent and indispensable needs of farming households which are usually not met by RFCIs;
+ Interest rates charged by IRCAs being high in relation with those offered by FRCIs. For instance, the interest rates on informal credit markets in Can Tho and Tien Giang provinces varied between 10-15 percent per month for in-cash loans and 8-10 percent for in-gold loans. For some extreme cases, the interest rate skyrocketed to 20 percent per month for in-cash loans and to 12 percent for in-gold loans. Tran Tho Dat [1995] also reported that the interest rates charged by IRCAs is around 15-20 percent per month. Credit given by IRCAs could also be in form of paddy-based loans to farming households. For instance, at the beginning of the cropping time a moneylender makes an in-cash loan worth, say, 200 kilograms to a farming household, at the harvest the latter have to repay 280-300 kilograms of paddy to the former. Belonging to IRCAs in Can Tho and Tien Giang provinces are moneylenders, rotating savings and credit association, pawnshops, and in-kind put

/call options.

(1) *Moneylenders*

A striking advantage of moneylenders over FRCIs lies in the fact that they are a part of their clients' communities. The surveys reported that moneylenders are wealthy farmers who live in the same communities or villages where the borrowers reside. Local information about clients is a cost-free by-product of moneylenders being a part of their clients' communities. Intimate knowledge about clients enables moneylenders to mitigate the problem of adverse selection and moral hazard. Thanks to this, the performance of their loan portfolios can be improved. Moneylenders can even be able to make a distinction between bad luck and poor performance of borrowers and thus select right people to do business with. Moreover, given the proximity to clients moneylenders also can exercise proper monitors, thereby being able take right actions to stop imprudent activities of borrowers and/or to forcefully restore loans when borrowers are still solvent. As a result, moneylenders often do not need collateral but mutual trust. Trust is created through long or close relationships between lenders and borrowers, or through their businesses or through recommendations and guarantees of a third party. This is the case in both Can Tho and Tien Giang provinces. For many cases, it is trust to determine the interest rates. However, it is an surprise that in the surveys moneylenders were not a important source of credit for farming households in the two provinces. They provided credit to around 4 percent of the 127 surveyed farming households. Credit given by them accounted for 6.73 percent of total supplied credit. The survey conducted by Saigon Marketing Group showed that in 1998 14.2 percent of the sample borrowed money from professional moneylenders [Saigon Marketing Newspaper, No.3, 16 January 1999, p.6]. The gap between in the two surveys may be because of the difference in locations where the surveys conducted, in size of the surveys, in income level and in career of the surveyed.

One moneylender can at the same time show up in more than one guise [Bell 1990]. For instance, a moneylender could be a village trader. This fact allows moneylenders to exercise the practice of market interlinkages. Market interlinkages indicate the process of contracting between two parties that relates to two or more market exchanges [Yotopoulos *et al.* 1992]. Those market exchanges consist of one relevant to credit and the other to commodity or labor. Delinquents of spot transactions on the commodity are judged by moneylenders as a signal of failing to honor credit repayments in the future. Threats of disrupting commodity and credit transactions are usually used as an enforcement device by moneylenders. The literature has documented different features of market interlinkages in the rural sector of developing countries. For example, a village trader-cum-moneylender may offer a borrower lower prices or deferred payment on, say, fertilizers and pesticides of which applications will raise crops' yields, thereby reducing the probability of default on the loan. Spot transactions on fertilizers and pesticides help this moneylender predict the capacity of loan repayment of the borrower. The lender-cum-village trader can also require borrowers sell crops through them; these contracted crops can be seen as collateral which could be captured in case the borrowers default [Feder *et al.* 1988; Hoff et al. 1990; Siamwalla *et al.* 1990]. Additionally, a landlord may accept labor as collateral for his loans [Ray 1998]. By observations, it is said that these practices of market interlinkages and of village trader-cum-moneylenders are quite common in the provinces. Unfortunately, they do not show up much in the surveys conducted in Can Tho and Tien Giang provinces because the surveyed were reluctant to tell the interviewers about that.

There are social norms and pressures precluding borrowers from defaulting the loans made by moneylenders. In the rural sector where implicit social ties among members of a community are often strong, trust and reputation and are essential, especially with respect to credit access. Therefore, farming households do not want to fail to repay the loans because failing to repay will damage their reputations. Some moneylenders can even implement violent enforcement. It seems impossible for FRCIs to do that because of being often distant from clients, of such others reasons as political ones, etc.

The survey conducted by the authors shows that moneylenders have been operating out of the control of the government. Therefore, information about them is veil and difficult to acquire. The interest rates charged by them vary between 3-15 percent per month. When asked about the borrowings from moneylenders, farmers, i.e. the respondents, were reluctant to reply for the threat that the moneylenders would stop lending to them if they tell a third party about the borrowings. This fact again reveals that moneylenders were still powerful in Viet Nam rural sector. In the course of the survey, we approached three moneylenders who are also rosca's organizers.

Table I. 5. Moneylenders

Name of the moneylender	Capital (VND million)
1. Nguyen Thi Be No	200
2. Nguyen Ba Tri	100
3. Tran Bao Nghiep	250

Source: Own survey, 1998.

Loan terms maintained by these moneylenders were daily, weekly, monthly. Loans were made in cash and in kind as well. As to daily loans, the interest rates were 0.3-0.8 percent per day. The respondents of the survey said that the moneylenders served almost all classes of farmers regardless of their income. There were also farmers who borrowed from these moneylenders to repay the loans by banks. The reason for this action is that in case the harvest had not come, farmers had no money to repay loans from banks, especially joint-stock commercial ones. If farmers did not repay the loan, the banks would terminate their transactions with those farmers. The threat of termination of loans forced farmers to borrow from moneylenders to repay the loans. (This would mean that formal and informal credit are the supplements.) However, daily loans were exceptional.

As to monthly loans, the interest rates were usually 6 percent per month. Loan terms were usually less than 2 months. Unlike the daily loans, making monthly loans is a continuous activity. Loan size was less than VND1 million or less than 5 rings of gold. Moneylenders also made loans in kind (usually in gold) to serve farmers who needed to buy land. All these moneylenders reported that most of farmers borrowed from them for family consumption or for the unexpected illness. As mentioned above, a striking characteristic of moneylenders is that the borrowers did not have to collateralize but good reputation, especially in repaying the previous loans. The moneylenders reported that they are among but not only the moneylenders existing in the rural sector. According to them, any people who can accumulate money and make it surplus can become moneylenders. Although moneylenders did not ask for collateral, they asked the borrowers to sign a contract-like paper. The signatures help the moneylenders restore their money.

(2) *Pawnshops*

Pawnshops also exist in Can Tho and Tien Giang provinces. As to this, farming households who need money place any valuable property at a pawnshop for a loan usually worth less than 70 percent of the value of the property at a certain interest rate for a agreed period. If the farming households do not repay the loans within the contracted period, the ownership of the property will lose to the pawnbroker. In fact, in Viet Nam all the pawnshops have to register at the local authorities. They can only start their businesses when the authorities approved. All the pawnshops in O Mon and Cai Be district concentrated in main towns of the districts. Interest rate was around 3-10 percent per month. Along with the survey, we got information about the activities of three pawnshops as reflected in table I. 6.

Table I. 6. Pawnshops

Name of pawnshop	Owned capital (VND million)	Other capital (VND million)	Property accepted
Mieu	300	–	Gold
Diem	30	10	Bike
Huu	50	20	Bike

Source: Own survey, 1998.

Pawnshop Mieu specializing in gold disbursed a loan worth up to 90 percent of the value of the property (i.e., gold) to their clients. For instance, if a person place a ring of gold worth VND470,000 at pawnshop Mieu, this person could receive VND423,000, i.e. VND470,000 ×90%. Actually, the person was only disbursed VND400,000. Loan terms is not fixed. For instance, if the person repays the loan in a month, he will be charged interest rate of 3% per month. If he repay the loans in a week or two week, the interest rate which was charged to him was 0.15 percent per day, i.e. (3%×1.5)/30.

Pawnshop Diem and Huu accepted not only bikes but electric fans, machines, watch, etc.

The amount of money disbursed is around 60 percent of the total value of the property. Farmers usually placed their properties at the pawnshops to get money to meet unexpected incidents. Therefore, they were charged high interest rates.

According to these pawnbrokers, their risks were low if they appraised the property carefully. Rofits were high. The most concern of the pawnbrokers is with the ownership of the property placed at their shops. If the property does not belong to their clients, the pawnbrokers may lose their loans since they cannot auction the property. It is also difficult to appraise the actual value of the property, the pawnbrokers usually devalue the property in order to disburse less money to their clients.

(3) *Rotating Savings and Credit Association* (*ROSCAs*)

In Viet Nam, rotating savings and credit association (ROSCAs) bear the name of *hui* in the South and *ho* in the North. *Hui* has a long tradition in Viet Nam and mainly operate on the basis of bidding mechanism. *Hui* were originally invented to help groups of intimate people finance themselves and, at the same time, to circumvent usurious interest rates charged by moneylenders. Nowadays, *hui* have emerged in response to the desperate shortage of credit available from formal credit institutions for private business and farming activities. Up to 40 percent of the credit in rural areas and as much as 60 percent in cities are provided by *hui* [Far Eastern Economic Review (FEER), 4th March 1993]. Besides, *hui* could be viewed as a hedge against inflation. That is because *hui* participants can decide when and how much to bid regarding their anticipation (*ex ante*) of the trend of inflation. Bidding *hui* are also considered as a means of event insurance. Hui exists in two main forms: in-cash and in-kind. The surveys revealed that 32 percent of the 127 surveyed farming households participated in ROSCAs which are daily, weekly and monthly.

As to daily rosca, each rosca organzier holds usually 10-20 lines, each of them included 30-50 people. The amount of money each member of the line contributed to the kitty was not more than VND100,000. In order to win the kitty, members of the rosca have to bid higher than the others. Although the contribution to the kitty is not high, the interest rates the winner of the kitty have to pay are high, even higher than that was charged by moneylenders. For instance, one Rosca line has 30 members each of whom has to contribute VND20,000 to the kitty and the bid of the first winner is VND3,000. What is the interest rate this person has to pay? The calculation is as follows. After the bidding, the winner received VND484,500, i.e., $17{,}000 \times 29 - 17{,}000 \times 0.5$ (the commission rate). After 30 days (amounting to the number of members of the rosca line), this person has to pay VND580,000, i.e. $20{,}000 \times 29$. Therefore, one-month interest rates will be: 19.6 percent, i.e. $(580{,}000 - 484{,}000) / 484{,}500$. This is exceptional high.

Weekly Roscas usually last 25-30 weeks with 25-30 members. For instance, a rosca line with 30 members each of whom has to contribute VND1,000,000 to the kitty, if a member bid VND200,000, he will bring home VND22,800,000, i.e. $800{,}000 \times 29$ - $800{,}000 \times 0.5$. After 30 weeks, the winner has to pay VND29,000,000. Therefore, the interest rate he has to pay is 27.1

percent. Monthly interest rate will be 3.25 percent. This may be a acceptable level.

It was proved literally that later and lower a member bid, the bigger savers they are. There were big incentives for farmers to organize or joint hui. That is because they wanted to accumulate and circulate capital fast. However, hui has been scaling down because of high risk of breaking down.

(4) In-kind Put/call Option

When crops or animals are still premature, some farming households who need money also sell their crops or animals. Farmers who are in good financial position and business-minded take advantage of this situation to provide credit in form of buying the crops or animals at cheap price. These credit transactions are sometimes speculative. It is because the buyers may face a risk that prices fall at the harvesting time. If at the harvesting time prices are higher than the anticipated one, the buyer will gain big profits. Acutely poor farming households often used this device.

II. Current Emergence of Small, Medium, and Large Scale Land Owners in Can Tho and Tien Giang Provinces:

1. Introduction

Industrializing and modernizing the economy are the goals of economic development policies in Viet Nam. However, for the coming years the agricultural sector continues to be the important sector of the Vietnamese economy which requires much investment and a well-functioning credit system. In fact, inherent high market and production risks and low productivity in agriculture holds rural credit systems back from being successful and expanding. A consequence of unsuccessful rural credit systems is that farming households have faced capital shortage. Given capital shortage, farming households have not been able to fully exploit their potential resources. Moreover, losing and gaining land as a result of credit status emerged. Danh [1998] reports that farming households who sell and mortgage land accounted for 95.6 percent of total number of the surveyed farming households who lost land totally or partly. The reasons for farming households to mortgage their land are:

+ Famine;
+ In debt;
+ Lack of land;
+ Not knowing how to do cultivation;
+ Illness;
+ Land too far away from their homes.

According to Loc (1997), both land and landless farming households in Can Tho province actually needed more capital. The size of farmland area is one of important factors determining the amount of capital needed. However, no landless farming household shows up in the two surveys. Therefore, we cannot be able to analyze the de facto emergence of landless farming households as a consequence of capital shortage. With data made available by the surveys, we can divide farming households into three groups of small-, medium-and large-scale farming households. Also given the available data, we process and analyze data of 52 variables regarding farmland and 30 variables concerning credit (Table Ⅱ. 2 & Ⅱ. 3 in Appendices I & II). According to the General Statistical Department of Viet Nam in 1994, small-, medium- and large-scale are defined as in table Ⅱ. 1 Table Ⅱ. 1. shows that a dominating part of the 127 surveyed farming households are medium-scaled (89 percent). It seems to go in line with a report that in the Mekong River Delta 65 percent of farming hou seholds have less than 1 hectare of land (including the landless), 25 percent have from 1 to less than 2 hectares, 6.8 percent have from 2 two less than 3 hectares, and 3.2 percent have more than 3 hectares [Youth Newspaper 30 December 1995].

Table Ⅱ. 1. Classification of Farming Household by Farmland Size

Farming household	Farmland size	As percent of 127 farming households in the surveys
Small-scale	< 0.2 hectare	6
Medium-scale	0.2-2 hectares	89
Large-scale	> 2 hectares	5

Source: Own survey, 1998.

Analytić methods used is mainly based on frequency distribution, cross-tabulation and Spearman correlation test in SPSS software. Because there is a limit in the database, results are expected to be perfect. However, we added to the analysis some information from previous relevant research.

2. Description of the Result

1) General Status of farmland (Appendix I)

There were 127 farming households surveyed, including 53 in Cai Be district (41 percent) and 74 in O Mon district (59 percent). Total land area of those 127 farming households is 111.76 hectares. The smallest farmland area is of 0.1 hectare, and the largest of 3.5 hectares. The average is 0.89 hectare. Owned land accounts for 97.1 percent of the total 111.76 hectares and the remaining 2.9percent are rented land. The area of field land is of approximately 71.6 percent of the total, upland of 10 percent, orchard land of 0.6 percent. The remaining area belongs to pond, canal and others. As for field land, there are 80.08 hectares of irrigated paddy land and 78.44 hectares of rain-fed land. Actually, some areas are watered by both irrigation and rain-fed sources.

+ *Increased land:* There were 15.24 hectares of land bought in and only 0.05 hectare inherited.

Farming households bought land from their relatives (22.2 percent) and from their neighbors (77.8 percent). The average price of bought land is approximately VND75 millions per hectare. 86 percent of farming households used their savings to buy land; 10 percent of them used money given by relatives; and 4 percent borrowed from moneylenders.

As for rented land, the minimum duration of tenure is of 2 years, the maximum of 5 years, and the average of 3 years. The average rent cost per ha is of around VND5 millions. For most cases of rented land, landlords reside in the same village as the tenants (66.7 percent) or in neighboring villages (33.3 percent). 60 percent of the landlords are farmers. 40 percent of them have family relationship with and 60 percent are neighbors to the tenants.

+ Decreased land: For the last 5 years, there had been 7.64 hectares of land sold to mainly relatives. The main reason of selling was the lack of capital for production.

There is only 0.48 ha of land leased out by two farming households. Leasing duration varies from 3 to 4 years with the average cost per ha of VND3.3 millions per year. According to the surveys, landlords and the tenants have close relationships or are neighbors. The reasons of leasing is that farming households are to be poor (50 percent) and lacking capital (50 percent).

2) General Situation of Credit (Appendix II)

According to the surveys, there are 76 of farming households (60 percent of the total 127 farming households surveyed) resorted to a credit device for their businesses. 89.2 percent of total credit given by those sources of credit were used for the agricultural production purpose, 6.1 percent for the non-agricultural and 4.7 percent for family consumption. The remaining 40 percent of total 127 surveyed farming households did not or could not borrowed for such reasons as cumbersome borrowing procedures, high interest rates, loan not being sufficient for planned purposes, etc.

Table II. 2. **Sources of Credit for Farming Households**

Sources of capital	Percent of the total 127 surveyed farming households	percent of the total VND of loans given out
The State Bank for Agriculture and Rural Development	33	36.00
The Bank for the Poor	3	1.92
Non-state commercial banks	42	51.51
Friends, relatives	1	*na*
Moneylenders	4	6.73
Traders	1	*na*
ROSCA	32	*na*
Woman association	1	0.48
Gold mortgage	1	*na*

Source: Own survey

It turns out that non-state commercial banks, the State Bank for Agriculture and Rural Development, and ROSCAs are the most important sources of rural credit, giving loans to 42 percent, 33 percent, and 31 percent of farming households, respectively. They are also important in terms of the amount of loans given out. The strong position of non-state commercial banks can be explained by the number of those banks operating in the rural sector as well as by their proximity to farming households. The State Bank for Agriculture and Rural Development is also strong thanks mainly to its high capitalization. The State Bank for Agriculture and Rural Development also made use of Women Association, Farmers Association, etc. as its intermediaries between the Bank and farming households. This innovation help increase the rate of recovery loans.

As for ROSCAs, this has been a proper device of credit supply and saving in the rural sector. It remains the same up to now. Its convenience shows up in the contribution to ROSCAs being in cash or in kind (such as gold, paddy, or even a pig baby) and in ROSCAs being on daily-, weekly-or monthly-basis.

(1) Borrowing

+ *For Agricultural Production Purpose (A):* The total amount of loans used for agricultural purpose in 1998 of the total 127 farming households surveyed was VND184 millions. These loans came mainly from the State Bank for Agriculture and Rural Development at the average interest rate of between 0.7 percent-1.5 percent per month, from rural joint-stock commercial banks at the average interest rate of between 0.6 percent-2.5 percent per month. These interest rates were not high. However, this figure is exclusive of transactions cost that most farming households had to pay to get loans. Dat [1998] shows that transactions cost is high for farming households when borrowing from commercial banks. It is perceived from table II. 3. that size of loans given to farming households usually varies between VND500,000-2,500,000 of which transactions cost of borrowing is very high.

Table II. 3. Transactions Cost of Borrowing from Commercial Banks by Size of Loan (percent of the value of the loan)

Size of Loan (1,000 VND)	*Transactions Cost (1)*	*Transactions Cost (2)*
Less than 500	9.67	Na
500-1,500	6.22	4.38
1,000-2,500	4.03	2.44
2,500-5,000	2.10	1.80
5,001-10,000	1.26	1.43
10,001-20,000	0.71	1.10
More than 20,000	0.43	Na

Source: (1) Tran Tho Dat, 1998, p.15, table 5; (2) Own survey, 1998.

89.3 percent of loans were used to buy inputs for agricultural production and the rest for non-agricultural purpose and for family consumption. Maturity is around 6 months on average (with the minimum of 3 months and the maximum of 2 years). Medium-and long-term credits for farming households are negligible, accounting for only 1.6 percent of total number of loan transactions. In order to get lent, 100 percent of farming households had to collateralize their land-use-right certificates and to be guaranteed by local government. If commercial banks keep asking collateral, the credit status of farming households cannot be improved. Commercial banks have to learn lessons from Grameen bank. One issue of concerns is overdue loans. However, there were no such overdue loans thanks partly to good harvests in 1998 and to the honorability of farming households.

+ For Non-agricultural Production Purpose (non-A): Apart from loans used for agricultural production purpose, loans were also used for non-agricultural purpose as well as for family consumption. In 1998 the total amount of loan for the non-agricultural production purpose was 22 millions VND, the average loan size per a farming household was VND 5.5 millions (the minimum of VND4 millions, the maximum of VND6 millions). The interest rate stood at 2 percent. Like loans for agricultural production purpose, for non-agricultural purpose the certificate of land-use-right is required.

+ For Consumption: In 1998 farming households used VND7.5 millions VND for family consumption. The State Bank for Agriculture and Rural Development supplied 66.7 percent of the total amount of money used for family consumption. The remaining came from charity organizations with the average interest rate is 0.8 percent per month. There were some loan transactions used for family consumption in stead of being used for production as originally planned. The reason is that after paying fees (like what was described at the beginning of the paper) it turns out the loans is not enough for production purpose.

In short, demand for capital in the rural sector exceeded its supply. In order to be lent, farming households had to have collateral (mainly in form of land-use-right certificates) and good relationship with the local governments. For some cases, farming households cannot borrow although they hold land-use-right certificates. The surveys reveal problems that farming households faced when borrowing from formal credit institutions:

+ Impeding procedures (32.3 percent);
+ High interest (13.8 percent);
+ Information about the availability of loan (9.3 percent);
+ Lack of land-use-right certificates (4.6 percent);
+ Others (40 percent).

(2) Savings

Most of farming households in the surveys prefer to save in gold (46.7 percent) and in th e Vietnamese dong (23.8 percent). USD and ROSCAs are also favourite ways of saving to farming households. Only 18.1 percent of farming households resorted to banks as a way of savings. The reason for is that:

+ Farming households had to spend a lot of time at the bank in order to be able to deposit their savings at the banks (52.5 percent). Moreover, withdrawing the savings is also difficult;
+ Saving interest rates were low (17.5 percent);
+ Banks are not trustable (10 percent);
+ Farming households are afraid of inflation (10 percent).

3. Analysis of the Relationship between Farmland Scale and Credit Status of Farming Households (Appendix Ⅲ)

The results analyzed by Cross-tabulation on SPSS for Windows as follows:
+ The size of loan is correlated with different scales of farmland. Larger scale of farmland, more willing the farming households are to borrow.
+ There is no strong relationship between farmland scale and interest rates.
+ Like interest rate, loan maturity is not correlated to farmland scale. It totally depends on rules set up by banks and moneylenders themselves.
+ As mentioned above, land-use-right certificates is the unique collateral for loan. It makes no distinction regarding the size of farmland.
+ Similarly, the variables such as third party guarantees, debt, source of credit, difficulties in borrowing, way of savings and difficulties in savings are not related to the scale of farmland.
+ Especially, repaid amount has a significant relationship with the scale of land. The farmers who own small and large scales of land are better honorable in repaying than those who hold medium scale of farmland.

Ⅲ. Implicit Transfer of Land-Use-Right Certificates and Other Issues

1. Introduction

The Land Law promulgated in 1993 defines that the state entirely possesses land. Farming households are only entitled to land-use right encompassing the right of:
+ Exchanging;
+ Ceding;
+ Renting and leasing;
+ Inheriting.

Since 1993 land-use-right certificates which are valid for up to 50 years have been issued by the state. The central government does not allow farming households to sell the certificates. In Cai Be district more than 93 percent of farming households have got land-use-right certificates. In O Mon district that figure is 85 percent. Land-use-right certificates make it easier for farming households to get access to credit. That is because the land-use-right certificates can be used as collateral for loans. However, third-party guarantees are also accepted by some credit organizations such as the National Fund for Hunger Elimination and Poverty Alleviation, the Bank for the Poor, etc. For the remaining FRCIs, guarantees are not accepted.

2. Implicit Transfers of Land-use Right Certificates (LURC) and Other Issues

Prior to 1995, the fact that the land-use-right certificates were mortgaged implicitly among farming households was profound. Farming households having the certificates mortgaged the certificates at other farming households for a loan when the former need capital. The latter was used the certificate as a collateral for loans at banks. This mortgaging practice made it more complicated for banks to monitor their loans. Since 1996 the O Mon branch of BARD have found way to overcome this undesirable practice by sending staff to the spot where the borrower reside to confirm the actual owners of the certificates.

By collateralizing the certificates, farming households can borrow from VND350,000 -VND 400,000 VND for 1,000 m² of farmland. The maximum amount that a farming household is allowed to borrow is VND10,000,000. Maturity is fitted to production cycle, approximately 4 months. Whether or not to be allowed to borrow for the next times totally depends on if farming households are honorable in repaying the previous loans. Banks usually refuse to grant the new credit to borrowers who do not repay the previous loans. For borrowers of a good reputation in repaying the loans, banks are willing to continue to grant the new and even bigger loans.

The size of farmland constitutes access to credit and the size of loans given out. In Hau Thanh village (Cai Be district), BARD also act as an intermediaries between the National Fund for Hunger Elimination and Poverty Alleviation and other funds from NGOs. Loans smaller than VND1,500,000 are usually given by these funds instead of BARD. Farming households who owned less than 0.3 hectares can directly borrow at some occasional funds at a lower interest rates. Up to now, those occasional funds have operated throughout the country with assistance from local branch of BARD.

24 percent of 127 households interviewed in the surveys did not or could not borrowed from any source of capital. The remaining 76 percent borrowed from different sources including those both formal and informal. The importance of these sources is shown in table II. 2.

Table III. 1 proves that land-use-right certificates play a rather important role for farming

Table III. 1. **Characteristics of Loans by Ownership of Land-use-right Certificates**

Item	*Average loan size*	*Average interest rate*	*Repayment period*
Farming household without a LURC	VND 3,171,000	1.73	5.93
Farming households with a LURC	VND 3,292,000	1.48	5.94

Source: Own surveys, 1998.

households in getting access to credit but not in terms of loan size, average interest rate and repayment terms because we do not much difference in these terms with respect to farming households who have or have no land-use-right certificate. Exceptionally, if farming households who do not have land-use-right certificates want to borrow, they had to be guaranteed by a third party including an individual or local governments or an organization. The surveys shows that 6 percent of farming households got loans with guarantees by a third party. In addition, BARD acts an intermediary between farming households and some NGOs and international donors who like to give aid to farming households. This fact also helps explain why the difference between the average size of loans to two different patterns of farming households is not large.

As for interest rates, farming households with land-use-right certificates received cheaper credit (at the interest rate of 1.58 percent per month) than farming households having no certificate (at the interest of 1.73 percent). The reason is that farming households with land-use-right certificates can better find and access to cheap-credit sources.

Summary

Farming households in Cai Be and O Mon districts have needed more capital for production. Since demand for capital exceeds its supply, the interest rates do not affect the borrowing decision of farming households. The surveys reveal that farming households are willing to borrow at the interest rate up to 3-4 percent per month. What concerns farming households is the possibility to borrow and difficulties in borrowing. Farming households were honourable in repaying loans. According to Loc (1997) there are two main reasons that could caused delays in repayment of farming households:

+ Bad harvests;
+ Loan term being too short (only 3 months).

There is no difference between loans for agricultural propose, nonagricultural and family consumption in terms of borrowing procedures, interest rates, collateral, guarantees, relationship with lender. Also, it seems that farming households who own large scale of farmland and know the best how to make money out of the loan are more honorable in repaying loans. Good relationship with the local government also helps.

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