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Policy Changes for a Better Access to Credit for the Rural Poor in Viet Nam: From Theory to Practice

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Abstract

Credit, especially micro-finance, is well known by scholars as one significant instrument for poverty alleviation in rural areas. In Viet Nam, an economic reform towards market-orientation since 1986 has helped to decrease the incidence of poverty but progress remains limited.

Research has shown that a shortage of credit has been a major constraint to the augmentation of economic activities of the rural poor and improvements in their living conditions in general. In mountainous regions of northwestern Viet Nam, where the incidence of poverty is particularly high, credit for rural development has mainly been provided by Viet Nam Bank for Agriculture and Rural Development (VBARD) and Viet Nam Bank for Social Policies (VBSP). These two state-owned banks have adopted far-reaching changes in their credit policies to enhance the access to formal financial services for the rural poor. However, so far there is a lack of understanding of the credit demand by rural clients in mountainous regions of Vietnam and the factors determining their access to credit. Moreover, it is unclear whether the financial products offered by VBARD and VBSP actually reach the rural poor, and whether they are used for investment activities or consumption purposes.

Against this background, the objectives of this paper are twofold: First, the policy changes in credit regulations for rural development since the reform period are explored, especially from the time of banking reconstruction towards market-orientation. Second, based on data collected in a random sample of 300 households in Yen Chau district, Son La province, the paper investigates demand for credit, credit worthiness, and determinants of households' access to formal credit using regression analysis. Apart from households' resource endowment also intangible assets such as social capital are considered as potential influencing factors.

We hypothesise that (1) credit policies, especially those particularly designed for the poor, are not targeted to the poorest of the poor, which means that ethnic minorities are often excluded from the preferable credit scheme; (2) the demand for consumption credit is not effectively met. Based on our findings we will derive recommendations regarding an improved design of credit products for rural clients in mountainous areas of Viet Nam.

Keywords: Credit demand and supply, micro-finance, rural credit, Viet Nam