



Tropentag, September 17-19, 2014, Prague, Czech Republic

“Bridging the gap between increasing knowledge and decreasing resources”

Preferential Microcredit and Poverty Outreach in the Northwestern Mountainous Region of Vietnam

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Abstract

Microcredit is considered as an appropriate instrument to alleviate poverty, but the provision of credit to the extremely poor may be so risky that micro-credit institutions tend to ignore these clients.

In Vietnam, the subsidised preferential credit programme has provided free-collateral loans to the poor since 4th October 2002. The vietnamese government has concerns over poverty reduction and poverty targeting of the programme. In this context, this paper examines the program’s depth of poverty outreach in the poorest region of Vietnam – the northwestern mountainous region. The study used data from Vietnam Household Living Standard Survey in 2012. Accordingly, a sample of 500 households including 200 borrower households and 300 non-borrower households was randomly selected.

Principal Component Analysis was used to compute the relative poverty scores for both credit-users and credit non-users. To use the poverty index for making comparisons, credit non-users were categorized in five poverty groups based on their poverty scores. The cut-off scores for each group define the limits of each poverty group. Credit users were then categorised in the five groups and the proportion difference between credit users and credit non-users in each group would indicate the poverty outreach of credit institutions. We focus on the relative poverty rather than the absolute poverty because the former one reflecting the multi-dimensions of poverty is less dependent on inflation rates over time.

Results showed that preferential credit reaches a quite deep outreach because 70% of all successful access households belong to three poorer groups. However, the poorest household group just accounts for 15% of total credit accessed households. The depth of outreach by the preferential credit programs is quite consistent with their missions to serve the poor and the near-poor households. However, the poorest of the poor seem to be still underserved by preferential credit. The findings carry two important policy implications. Because the preferential credit programs target the poorer and face the problem of sustainability, so the governmental subsidies could be necessary. However, in order to target the poorest households, loan policies and credit service packages should be redesigned.

Keywords: Poverty outreach, preferential credit, principal component analysis