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Credit Market Segmentation in Rural Areas

A case study in Phu Thuong Commune, Phu Vang District, Thua Thien Hue Province

Nguyen Thi Thanh Huong, HUAF, Hue University, Vietnam, 2010

Department of Urban and Rural Development
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ABSTRACT

Segmentation of the rural credit markets is present in various countries in the world but remain only partially understood. This thesis contributes to filling this gap. Using data from the rural credit markets of Thua Thien Hue Province in Phu Thuong Commune it aims to: (i) identify the main providers, borrower groups and their characteristics in the credit market; (ii) to learn about the performance of the segmented credit market; (iii) and to explain the reasons and conditions for rural credit market segmentation.

This study presents an analytical literature survey and analysis of survey data which includes the results from a household survey, group discussions, individual interviews and observations. The analyses are conducted from the viewpoint of both the lenders and the borrowers to see how their particular characteristics influence their credit transactions as well as market segmentation.

The results of the research reveals that the formal, semi formal and informal sector co-exists and operates in the rural credit markets of Phu Thuong commune. Beside the similarities in business place and responsibility in supplying loans to local clients, each credit sector have had particular characteristics in term of kind of credit products/services, number of transactions, credit transaction terms, as well as process of disbursing credit.

The segmentation of Phu Thuong credit market is recognized in each term/clause of a credit transaction. In that light, the credit market is segmented in aspects of purpose, duration, interest rate, and amount of loans.

With regard to loan purposes, the segmentation is not only seen from the credit sector aspect but also in terms of the different lenders.

Regarding to duration of loans, formal lenders have provided loans with long duration, informal sector have lent short period loans, while semi formal lenders have dominated medium term loans. From borrower's aspect, segmenting within each household group by loan duration is not obvious.

In terms of loan size, agricultural households have obtained credit with the smallest amount on average, and a major part coming from the formal sector. The mixed group and nonfarm group have been not much different in credit volume. However, the biggest part in volume of credit of agricultural households and mixed households has come from the formal sector, whereas, in the nonfarm group, the biggest share has belonged to the informal sector. Though segmented by loan size, the market has still been based on the interaction among credit sectors, as only 4.44% of households have just obtained credit from one of the sectors.

The segmentation of interest rate has been obvious among credit sectors, especially between formal sector and the two other sectors. Average interest rate of loans in formal sector is lowest, approximately a half of that in semi formal sector and informal one. From borrowers' aspect, the segmentation of interest rate among household groups has not been clear because of the variety of credit sources from which households ask for loans.

Regarding the reasons of segmenting credit market, the policy issue, information and conditions of transaction have been recorded as the main reasons.

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Nguyen Thi Thanh Huong
Hue, 2010

CONTENTS

LIST OF ABBREVIATIONS

ADB Asia Development Bank
BWTP Banking With The Poor network
CCF The Central Credit Fund
CEP Capital Aid Fund for Employment of the Poor
DID Development International Desjardins
FU Farmers Union
GDP Gross Domestic Product
HEPR Hunger Eradication and Poverty Reduction
INGOs International Non Government Organizations
JLGs Joint Liability Groups
MARD The Ministry of Agriculture and Rural Development
MFIs Microfinance Institutions
MOLISA The Ministry of Labour, Invalids and Social Affairs
NGOs Non-Government Organizations
PTAC Phu Thuong Agricultural Cooperative
PCFs People Credit Funds
ROSCAs Rotating Savings And Credit Associations
RJCBs Rural Joint Stock Commercial Banks
SME Small and Medium Enterprises
SOCBs State Owned Commercial Banks
SBV State Bank Of Vietnam
SNV Netherlands Development Organisation
TYM "Tao Yeu May" Fund (in Vietnamese) or "I love you" Fund (in English)
VBARD Vietnam Bank For Agriculture And Rural Development
VBP Vietnam Bank for the Poor
VBSP Vietnam Bank For Social Policy
VND Vietnam Dong (Vietnamese currency)
VU Veteran Union
VWU The Central Vietnam Women's Union
YU Youth Union
UK United Kingdom
US United States
USD United States Dollar
WB WORLD BANK
WU Womens Union

LIST OF TABLES, FIGURES AND BOXES

TABLES

FIGURES

BOXES

1 INTRODUCTION

The rural financial market, in general, is constituted of formal and various segments of an informal sector (Yadav *et al.*, 1992). In the particular case of Vietnam, not only these two sectors, there is the simultaneous existence in rural market of formal, semi-formal and informal credit institutions (Marsh *et al.*, 2006) despite a significant difference in interest rates among sectors. In this light, the formal credit sector in rural areas was regarded as "the sector in which loan transactions are regulated by legislation and other public policy requirements" (Ramachandran & Swaminathan, 2001) or was emphasized like "bound by the legal regulations of a country" (Ellis, 1992), whereas informal sector is "not regulated by public authorities, and the terms and conditions attached to each loan are personalized" (Ramachandran & Swaminathan, 2001) and transactions in the informal sector rarely involve legal documentation (Aryeetey *et al.*, 1997). With semi-formal sector, it is rare that scholars define this concept. It seems only to be a specific category of certain countries. It provides loans through social political unions in rural areas, and the level of activity of this section in a region is related to priority programs of the government, consignment of the banks, and the activity of unions (Marsh *et al.*, 2006).

In fact, the credit contracts among these sectors are known to be extremely different, not only in the terms and conditions of contracts but also in borrowers involved. A certain group of loanees gets loans from given lenders, but not others, or they obtain credit from several sources with differences in size, interest rate, duration as well as using purpose. The questions that should be posed in this context are, is there segmentation and if so, is it a problem; is there a good match between availability of credit, their characteristics and the conditions, and the needs of the borrowers in the rural market in Vietnam. To make clear a part of these questions, this study intends to understand how the credit market is segmented in rural region of Thua Thien Hue Province with Phu Thuong Commune as a case study.

As has been recognized by many researchers, financial capital plays an important role in rural development. According to Zoetelief (1999), credit is the most important instrument for achieving an economic spin-off for the rural poor. Rural households have to make decisions how to invest and what inputs to buy, relying on the level of credit they receive (Bao Duong & Izumida, 2002) and how they access to credits. The obstacles on access to financial services, in particular savings, may be a main constraint to their participation and contribution to economic growth. Conversely, wider and better access to credit can significantly improve the welfare of low income households. These include protection against risks and economic shocks (Aubé, 2010; Diagne *et al.*, 2000; Peachey & Roe, 2004); more efficient allocation of resources (Merton and Brodie 1995 cited in Peachey & Roe, 2004), improvement of basic needs, as well as women's empowerment (Aubé, 2010).

Because of the importance of credit access, several programs have been implemented to improve rural households' access to credit (Diagne *et al.*, 2000). However, rural people do not easily get a loan so they remain credit-constrained. Only 5% in Africa and about 15% of the farmers in Asia and Latin America have had access to formal credit, and the inequity of access is shown by that 5% of the borrowers have received 80% of the credit on average across developing countries (Vega 1983, Adams & Vogel 1986, Braveman & Guasch 1986, cited in Bali Swain, 2001).

In Vietnam, many credit programs and projects have been implemented in rural areas by Government as well as Non-Government Organisations (NGOs), especial the subsidized credit programs for the poor. These programs have divided borrowers into target groups and non-target groups. It means that there are groups who have been excluded from the programs whereas others have gotten benefit from those. Beside that, the formal financial institutions with strict regulations have also created difficulties in access for people who demanded credit. The formal sector has been specialized in lending for production activities only (Bao Duong & Izumida, 2002). Moreover, Barslund & Tarp (2008) found out from a survey of 932 rural households that up to 70 per cent of all formal loans required collateral to ensure repayment in 2002. The banks even have asked borrowers for collateral with the loans that did not need any collateral in regulations of the State (McCarty & Leader, 2001). In the context only 60 percentage of total rural households in Vietnam had land use certificates in the early 2000s (Hung 2005 cited in Phuong 2006), which are mentioned as principal assets of rural residents. The people in this area have faced the fact that the formal credit segment is available for only some certain groups but not for all groups. On the contrary, semi formal and informal credit sector are more flexible in procedures, lending purposes as well as collateral conditions for loans. These situations have seemed to separate borrowers into the different groups in accessing to credit from the different sectors.

Although formal sector has rapidly increased during last decades, according to Ho (2004), it, in some cases, does not satisfy the growing credit demand, and many borrowers turn to the informal credit sector to meet their production and consumption needs. In developing countries, a majority of rural households still rely on the informal market for their inter-temporal transfer of resources (Dufhues & Buchenrieder, 2005). Around 40% of households in Vietnam did not have access to formal credit sources in 2001 (BWTP, unknown year). While many credit programs of the formal sector provide loans at subsidized level, the informal credit market supplies loans to rural households at interest rates normally higher (Ho, 2004), on average about three times higher (Marsh *et al.*, 2006). Although the cost for getting a loan is so high, many rural households still go to the informal and semi-formal credit sector when they have a demand. Statistical data from GSO (2000) showed that the share of the informal sector is more than a half in the rural market, about 54% of all outstanding loans in 1997/98. Moreover, among people, who had obtained loans, 36% of the total households have suffered from credit rationing (Bao Duong & Izumida, 2002).

With above evidences, it may be assumed that the segmentation of rural credit market is also an issue that has been revealed not only in a specific country but also over the world. However, how this market is segmented is not fully understood. Therefore, policy makers find difficulties to have sound policies to facilitate farmers to have better access to credit. That is why it is necessary for studying this issue from multiple aspects.

The main purposes of this research includes: (i) to clarify the main providers, borrower groups and their characteristics in rural credit market in Vietnam; (ii) to explore the performance of the segmented credit market and (iii) to explain the reasons and conditions for rural credit market segmentation.

The study does not try to test any hypotheses but it investigated the segmentation of the rural credit market under aspect of households' income generating activities. The analysis was conducted by viewpoints of both lenders and borrowers to see how their particular characteristics influence on credit transactions as well as market segmentation. The division of rural credit market into three sectors (formal, semiformal and informal) was chosen for discussing the segmentation in this study.

This thesis is structured in six chapters. Following the introduction chapter, relevant literature is reviewed in Chapter two. Chapter three describes and discuss the situation of rural finance in Vietnam. Next, Chapter four explains research methodology that is used to explore issues in the study and background of study site. The results and discussions are expressed in Chapter five. Finally, Chapter six summarizes the conclusions of the research.

2 LITERATURE REVIEW

2.1 Basic theories of credit segmentation

The *segmentation of market* was defined by Ghate *et al* (1992) as the "existence of several sub-markets separated by boundaries across which the flow of credit is impeded by information barriers". Therefore "an increase in the supply of funds in one segment does not necessarily increase the availability or reduce the price of credit in another, although some funds do flow between segments" (Ghate *et al.*, 1992).

The segmentation in financial markets has been regarded under country or consumer outlooks (Bijmolt *et al.*, 2004) as well as geographic, class of borrowers or region perspectives (Montgomery, 1991). The approach to examine the consumer segmentation is different from the country segmentation in credit market. Classification of country segmentation is usually based on aggregate data (at the national level) reflecting demographic, socio-economic, political, and cultural factors (Jain 1993; Nachum 1994 cited in Bijmolt *et al.*, 2004), instead of consumer-level and domain-specific variables (Bijmolt *et al.*, 2004). Furthermore, these authors emphasized that the geographical factors play essential role but they do not offer a complete explanation for the country segmentation. With consumer segmentation, the assessment is relied on four demographic variables: age, marital status, income, and type of community (Bijmolt *et al.*, 2004). Bijmolt and fellow-workers added that the consumer segmentation is flexible in the sense that obtained segments can be cross-national or country-specific. The probability a consumer belongs to a particular segment depends on his/her demographics and on country segment membership. Although the segments are quite stable over time, the segmentation will not be excessively fixated, and the tendencies could be monitored regarding demographics and ownership levels of particular financial services (Bijmolt *et al.*, 2004).

To explain for the existence of credit market segmentation, several competing theories have been raised by many authors. According to Bali Swain (2009), the traditional explanation has been based on the view point about monopolist power of the village moneylenders. With this power, he/she can charge very high interest rates due to lack of competition.

The second reason, the differences in the costs of screening, monitoring and contract enforcement due to the imperfect information and enforcement (Hoff & Stiglitz, 1990) across lenders cause the segmentation (Bali Swain, 2009; Barslund & Tarp, 2008). In situation of imperfect information and costly contract enforcement, market failures arise from adverse selection and moral hazard, which undermine the operation of financial markets. Aryeetey *et al*, (1997) explained that adverse selection occurs as interest rates increase and borrowers with worthwhile investments become discouraged from seeking loans. The quality in general of loan applications changes disadvantageously as interest rates increase. Further, the risk of default will increase due to borrowers have an incentive to carry out higher returns projects, but which have greater risks attached. Moral hazard happens when some applicants borrow to pay for existing loans or borrow without the intention or the capacity to pay back loans (Aryeetey *et al.*, 1997). This author emphasized that poor information systems encourage segmentation by raising the cost to formal institutions of obtaining credible information on both systemic and idiosyncratic risks for all, especially for the largest clients. In contrast, informal agents get local monopoly power, but constrains their ability to scale up since they rely on localized, personal information. The lender can use direct (geography and kinship, interlinkages with other markets and collateral, usufruct loans and rotating savings and credit associations) or indirect mechanisms (interest rates, terminations and market interlinkages) to bridge these problems (Bali Swain, 2009). Having the same point of view, McCarty & Leader (2001), in a research in Vietnam, claimed that the lending interest rate charged by the banks (VBSP and VBARD) was only weakly responsive to demand and supply conditions, and hence may be leading to market segmentation (McCarty & Leader, 2001).

The third view explained the segmentation in the rural credit markets as relating to the quality or lack of collateral that the borrower can offer to the lender (Bali Swain, 2009). Clients can be treated differently in interest rate or/and size of loan depending on the level of satisfying lenders' requirements on collaterals. Some cases, loanees can be excluded from a given credit lender and have to seek credit from other sources. Due to these conditions, the segmentation of credit market has been occurring as a result.

Other researchers, Aryeetey *et al.* (1997), synthesized three theoretical paradigms for examining the cause of financial market segmentation. They include policy-based explanation, structural and institutional explanations, and synthesizing alternative explanations.

For the first one, the influence emerged which favored ceiling policies on deposit and loan rates leading to raising the demand for, and depressing the supply of funds. Unfulfilled demand for investable funds then forces financial intermediaries to ration credit by non-price allocation mechanism, whereas informal lenders develop at uncontrolled rates. As a result, a segmented credit market will allow borrowers to obtain funds at subsidized rates while others must seek credit in inefficient, expensive informal markets (Aryeetey *et al.*, 1997).

For the second one, Aryeetey *et al. (1997)* focused on imperfect information on creditworthiness and differences in the costs of screening, monitoring, and contract enforcement across lenders which were regarded above. In addition, these authors emphasized that, segmentation may also come from weaknesses in the infrastructure that supports the financial system, such as the legal infrastructure in insurance function, in regime of property rights used for collateral (land tenure case in low income countries). Therefore, market segments that formal banks exclude from these institutional reasons, may nevertheless be served by informal agents who use personal relationships, social sanctions, and collateral substitutes to ensure payment.

The last one, Aryeetey *et al. (1997)* claimed that the explanations for segmentation mentioned earlier are not necessarily mutually exclusive, hence, the authors raised other explanations based on perceptions that were cited from Ghate (1988), Bell (1990), Roemer and Jones (1991), and Seibel (1989). In this light, informal sector credit can be viewed as residual finance, satisfying spillover demand by those excluded from the formal market.

In this paper, we relied on the characteristics of borrowers and lenders, which focused on borrowers' income generating activities and lenders' regulations (both direct and indirect mechanism) and concentrated on the consumer segmentation of rural credit market on both formal, semi formal, and informal sector to make clear the features and performances of the credit market segmentation and explain the reasons for existence of the credit market segmentation in Phu Thuong commune.

2.2 Issues of the rural credit investigated in previous studies

Several studies relating to rural credit have been conducted over the world and in Vietnam, however, different studies focuses on different aspects. In points of views of subsector approach, some authors focused only on the informal sector (Aryeetey, 1998; Dat, unknown year; Madestam, 2005; Ramachandran & Swaminathan, 2001; Zoetelief, 1999) or only on the formal sector (Binswanger & Khandker, 1992; Dufhues & Buchenrieder, 2005; Phuong, 2006). In contrast, many other researchers looked at both formal and informal sectors (Aryeetey, 1992; Aryeetey, 2008; Atieno, 2001; Ayyagari *et al.*, 2008; Barslund & Tarp, 2008; Besley *et al.*, 2001). Clearly, there are different points of view on subsectors of previous studies.

The topics regarded in the studies were also various, from lending policies and governance issues (Atieno, 2001; Corpuz, 2007; Gonzalez-Vega, 2003; Pham & Lensink, 2007) to the financial structure in the rural market (Anand & Galetovic, 2000; Wickramanayake, 2003) and the roles and/or effects of finance to production and wealth of rural households as well as natural resources (Akram *et al.*, 2008;

Baumann, 2001; Binswanger & Khandker, 1992; Gordon, 2000; Tuan, 2006; United Nations Capital Development Fund, 2004).

Besides, other authors have examined about the reasons for successes and/or failures of rural credit programs in rural areas (Besley, 1994; Coleman, 1999; Gugerty, 2003; Huppi & Feder, 1990; Paxton *et al.*, 1996; Timothy, 1994; Yaron, 1994). Moreover, the participation and reflection of households as well as other actors in rural credit markets were also discussed by several authors (Bao Duong & Izumida, 2002; Besley *et al.*, 2001; Komicha, 2007; Marsh *et al.*, 2006).

Access to credit was the most hot aspect that have been explored by many studies but most of them have emphasized on determinants or/and constraints in access to credit (Bofondi & Gobbi, 2006; Diagne, 1999; Diagne *et al.*, 2000; Dufhues & Buchenrieder, 2005; Schenk *et al.*, 1999; Zander, 1992).

The relationship between informal and formal sector in financial markets have been studied by several authors (Aryeetey, 1992; Floro & Ray, 1997; Guirkinger, 2008; Pagura & Kirsten, 2006). Recently, several authors have explored rural credit segmentation (Aryeetey *et al.*, 1997; Bali Swain, 2001; Bijmolt *et al.*, 2004; Dodson & Koenig, 2004; Edwards, 1988; Montgomery, 1991; Nissanke & Aryeetey, 2006; Pinheiro & Moura, 2003; Poon *et al.*, 1998; Tschach, 2003; Yadav *et al.*, 1992), but they have just focused on some certain aspects. Therefore, the segmentation is not fully understood.

The above topics have a more or less connection by direct or indirect way with theme of the credit market segmentation in this paper. The contents of related literatures are discussed deeply in the following section.

2.3 Segmented credit markets and the segments' characteristics

The topic of credit market segmentation concerned not only specific countries but also over the world, from the developed countries in Europe and America to the developing ones in Africa and Asia. Moreover, the detail aspects of segmenting that the researchers have paid attention to were also diversified, including the reasons and performances as well as characteristics of credit market segmentation, the distinction between segmentation and parallelism in credit market, the differences among segments in segmented credit market.

Bijmolt *et al.* (2004) studied on country and consumer segmentation in credit market and have drawn conclusions that both country segments and consumer segments were highly interpretable in European countries. Moreover, consumer segmentation was related to demographic variables such as age and income. In a research on agricultural credit markets in USA over the 1991 – 1993 and 2001 – 2002 periods, Dodson & Koenig (2004), indicated that the cooperative Farm Credit System (FCS) lenders were more likely to serve full-time commercial farmers and farmers who live in less competitive credit markets regions, while, commercial banks were more likely to serve small, part-time, and hobby farmers.

According to previous studies, segmentation of credit market is affected by many factors, including the characteristics of lenders as well as borrowers' and other external elements. Zoetelief (1999) believed that financial decisions do not take place in isolation but they are influenced by various socio-cultural, economic and ecological factors. Similarly, a certain credit transaction can only happen if a series of conditions were satisfied.

Pham & Lensink (2007) added that the amount of credit offered to a particular borrower not only reflects credit decisions by lenders but also reflects the choice of borrowers. Moreover, they pointed out an external factor affecting the segmentation of credit markets. From their viewpoint, the credit segmentation in Vietnam seemed to correspond with certain government policies designed to push the development of the private sector. Not only the reasons from government, Montgomery (1991), in a research on credit market in Italy, stressed that the geographical segmentation of capital markets may have deeper roots than government regulation, so that even regulatory harmonization, banks may not be on an even footing in a particular local market, if their home country or the extent of their other operations differs. In Italy banking markets, he suggested that the geographical segmentation is possibly because of natural, as opposed to regulatory, barriers to capital mobility.

Pinheiro & Moura (2003) analyzed the segmentation of credit market basing on asymmetry of information on borrower creditworthiness. They emphasized the importance of relationship banking as a source of information that causes the segmentation of the credit market. Moreover, these authors claimed that the main features of market segmentation were comparatively strong to changes in interest rates and the cost to outsiders of assessing borrower quality. Tschach (2003) also relied on theory of information asymmetries to explain for the credit market segmentation. This researcher focused on the transactions between banks and entrepreneurs instead of individual borrowers. He argued that, the asymmetry of information made difficult for banks to assess exactly whether certain enterprises are able and/or willing to repay their loans, therefore, it leaded to implicit interest rate ceilings. On the other hand, the reactions of both banks and enterprises for the transactions were based on their RoI (return on investment). The author concluded, hence, as the result of a free market process, unregulated market forces lenders and borrowers to get a stable equilibrium in which the credit market was segmented into an informal (small loan) segment, a formal (large loan) segment and, in between, a "non-market" (medium loan) segment.

Characteristics of lenders and borrowers induced them outreaching each other among credit segments. Klerk (2008) proposed the differences in financial demand of the different borrower groups to make clear for the segmentation in credit market. This author raised interpretation that the poor groups might need savings facilities and micro-credit to cover production costs and emergency expenses, hence, the main providers to the poor belonged to informal sector. To farmers and farmers' organizations, processing and marketing is more capital intensive so the demand for more formal financial service providers is stronger, therefore, they probably require larger size of loan. Moreover, loans for farmers must take into account the time crops and livestock need to mature because farmers have no other source of income, thus, they can face difficulties if they have to start repaying loans too quickly. The author also mentioned for petty traders and households in marginal areas by the consideration that the first group may need credit to buy stock, which they hope to sell within a few days or weeks, while the latter was usually conducted on a small scale.

In another research, Aryeetey (1992) suggested that aside from the operating costs of the agents involved, a number of factors, both economic and non-economic, may be crucial to the segmentation of the credit market. Some factors were listed as evidences for this view such as high transaction costs in seeking formal financial services, "political" costs (e.g. government tampering with private savings), and also direct institutional barriers. He expounded: "political" costs incline to undermine confidence in the formal system and in that connection keep at a distance many people who otherwise would have patronized it. Institutional barriers also result from a lot of bureaucratic requirements that people who needed financial services and who could probably have put some credit to sound economic use cannot satisfy.

From research on the lending policies of informal, formal and semiformal lenders in Vietnam, Pham & Lensink (2007) concluded that sources of credit appears to be segmented not only according to the activities financed but also relying on collateral conditions. The authors gave evidence that households with collateral or with support by a guarantor, as well as clients who borrow for business-related activities are more likely to use formal and/or semiformal credit based on the positive significant coefficients of guarantor and collateral. Besides, the probability of using informal credit increases for female borrowers. In this light, they deduced that households without collateral and requiring loans for consumption purposes have a lower chance to obtain formal credit, hence, they will move towards the informal financial sector.

Another cause that was used to interpret the segmentation in rural credit market comes from the incompatibility between the requirements of given lenders and borrowers' conditions. From the observations in Nepal, Yadav *et al. (*1992) suggested that small, collateral-poor farmers are excluded from the formal sector and are forced to depend on informal sector, which does not require collateral whereas borrowers from the formal sector are collateral-rich, large, productive farmers. In addition, Zoetelief (1999) found out that formal financial institutions favoured the wealthier and more influential farmers and failed to reach the rural poor, therefore, groups and co-operatives were viewed as popular alternatives in rural financing. They were believed to have a potential to reach the rural poor with the lower transaction costs due to that loans could be disbursed to groups or co-operatives instead of to many individual small farmers.

The characteristics and performances of segmented credit market were also discussed by many researchers. Segmentation of financial markets in developing countries are often described in terms of that different groups of borrowers are served by different lending intermediaries (Conning & Udry, 2005). Aryeetey (1992) claimed that the financial market is extensively segmented, in research on relationship between the formal and informal sectors of the financial market in Ghana. In another study, Aryeetey and his co-workers also drew the similar conclusion for the four countries Ghana, Malawi, Nigeria, and Tanzania. Formal and informal lenders were polarized at extreme ends of the market, with relatively little overlap of clientele in these countries (Aryeetey *et al.*, 1997). They emphasized that the countries have substantially segmented financial markets, with weak linkages between formal and informal segments, and the differences in costs and risks cannot be fittingly explained for interest rate differentials among them. Furthermore, interest rates not only vary widely between formal and informal markets but also across informal institutions (Aryeetey *et al.*, 1997).

Through micro-econometric analysis of household surveys, Bao Duong & Izumida (2002) also recognized that the rural credit market in Vietnam was quite segmented. In this study, they found out the formal sector is specialized in lending for production activities whereas the lending purposes of informal sector were various. Research on microfinance in Vietnam, McCarty & Leader (2001), claimed that the segmentation can be looked at from the view point of households who can access and those who cannot access formal credit. According to these authors, the poor were mostly excluded from VBARD and may get once-off "loans" from VBSP, hence, the poor households must turn to relatives or private lenders for loans.

In the other independent research in Puri, a district in India, Bali Swain (2001) identified that there was an existence of segmentation in Puri, in which the formal and the informal sectors show distinct characteristics about interest rate and lending purposes. The formal sector lent mainly for productive purposes at subsidized interest rates, whereas, the informal sector lends small loans for consumption purposes also, at comparatively higher interest rates. In addition, she found evidence of an inverse relationship between the interest rate and the marketability of the collateral offered by the borrowers to secure the loan from the informal sector.

In segmented markets, there are broad differences in risk-adjusted returns since funds and information do not flow between segments. The customers also have limited access to different financial instruments, leading to low substitutability and few informal clients can obtain credit from more than one source (Aryeetey *et al.*, 1997). In their study, Aryeetey and his partners revealed that financial flows from formal to informal markets are negligible. Though informal deposit mobilizers (except for ROSCAs) often maintain bank accounts (89 percent of informal operators in Ghana, 82 percent of them in Nigeria have a bank account), they generally have a limited capital base and little access to formal funds (Aryeetey *et al.*, 1997). These authors affirmed that the main sources of the expanding supply of loanable funds by informal agents are mobilized savings and reinvested profits.

Roemer & Jones (1991), in a research on markets in developing countries, claimed that both parallelism and segmentation have been revealed in credit markets of developing countries. These authors stressed that it is also useful to distinguish between a parallel market and a segmented market. In this respect, the financial repression hypothesis is related to parallelism, whereas the imperfect information paradigm implies that segmentation may persist in spite of liberalization (Roemer & Jones, 1991).

The disparity among credit segments was considered by several authors. Based on an intensive survey of farm households in Nepal, Yadav *et al.* (1992) contrasted the functional differences among segments of the rural financial market. It was found that with formal sources, farm size and irrigation are major determinants of borrowing, whereas family size is the most decisive factor in borrowing from informal lenders. Furthermore, they claimed that there are at least two factors causing segmentation in the rural financial markets in Nepal. First, regulated interest rates in the formal sector lead to credit rationing that favours farm households with collateral, therefore, borrowers without collateral are excluded and hence have to rely on the informal sector. Second, the problem of moral hazard and adverse selection, which arises due to the asymmetric information in the rural financial market, is much less serious in informal lenders than in formal ones. Then, basing on the empirical evidences, they asserted that while market segmentation due to the different information structure is socially efficient, segmentation causing by the regulation of interest rates is not. Thus, given the differential informational structure, the formal sector tends to specialize in providing loans for production purposes, whereas the informal sectors plays the major role in the service of consumption loans.

More detail, Aryeetey (1992) specified that formal credit is often rationed at a lower interest rate than informal lenders' rates. Moreover, the clients did not have to go through any personal harassment in seeking and repaying loans from formal source, as is often connected to borrowing from moneylenders. Obviously, borrowers would first seek institutional finance. He raised evidences that, in Ghana, credit from informal sources would only be sought after failure to obtain bank credit, and 54% of the entrepreneurs would first go to the bank while only 5% of them would contact a moneylender first and 23% would first search for from friends when credit is desired (Aryeetey, 1992).

To explain the continued separation of the market as well as the co-existence of the segments, Chandravarkar (1987) affirmed that the persistence of the informal financial sector, on the one hand, was a response to the underdevelopment of the formal financial sector, on the other hand, it may be ascribed to the 'autonomous' nature of the informal sector, that is, its comparative advantage in exploiting information and low transaction costs (Chandravarkar 1987 cited in Pham & Lensink, 2007).

Notwithstanding admitting the existence of segmentation in credit market, some studies still recognised the interactions between the formal and informal segments in the areas of credit allocation and savings mobilization (Aryeetey, 1992). There were even the authors raising critical policy-related question that is whether segment-specific advantages can be translated into market efficiency, and measures to promote integration of segments may be necessary (Seibel 1989 cited in Aryeetey et al., 1997).

3 STATE OF RURAL FINANCE IN VIETNAM

3.1 Background and innovative issues in rural financial market

For more than two decades, Vietnam has been in a transitional process from a centrally planned economy to a market economy and is regarded as one of the fastest growing developing economies in the world (BWTP, unknown year; Pham & Lensink, 2007). Its gross domestic product (GDP) has steadily grown over the last years, expanding by about 7% per year (Corpuz, 2007). However, agricultural production still played a essential role in the Vietnamese economy at present with around 70 per cent of the population equivalent 12.5 million households living in rural areas and relying on agriculture for their livelihood (Barslund & Tarp, 2008; Corpuz, 2007). The transition had significant impact on poverty alleviation. According to ADB (2007), the poverty rate was cut sharply between 1993 and 2007, from 58% to 14.7% of the more than 80 million population (Bali Swain *et al.*, 2008b; Corpuz, 2007). It was estimated that 85% of the poor lived in rural areas. Despite a rapid economic growth, the GDP per capita remained relatively low at about US$ 640 in 2005 (Corpuz, 2007).

Since the establishment of the Democratic Republic of Vietnam in 1945, rural finance policy has always attended to the improvement of the rural poor's lives. In 1947, the Production Credit Department was set up with the mandate of lending to farm households at subsidized interest rates using the national budget. At a later time, in 1951, the National Bank was formed to provide loans directly to farm households (Ngoc 2005 cited in Corpuz, 2007).

When Vietnam was temporarily divided between the North and the South, while the bank system in the North continued providing cheap loans to farm households, the bank system in the South stopped extending loans to farmers. But when farms in the North were collectivized, direct lending also was halted to rural households in the region. Then, the rural households in the South were lent again for production recovery in 1975 after the American army was driven out of the country. Up to 1978, the farms in the South were also collectivized, therefore, state-owned commercial banks (SOCBs) cut their lending for individuals and rural households since they were mandated to allocated credit only to state enterprises and production cooperatives (Corpuz, 2007).

In the late eighties of the 20^{th} century, Vietnam was well-known in the world with "Doi Moi" process. Initiated in 1986, "Doi Moi" literally means "change" and "newness" and is the Vietnamese term for reform and renovation. It was aimed at restructuring institution, regulation, administration, investment and foreign trade structure and policies to transform the centrally planned economy into a market economy with 'socialist characteristics' (Bryant 1998 cited in Phuong, 2006). After the innovation, there have been a lot of changes in social economic development in general, and in financial system in particular.

Before Doi Moi, Vietnam's banking system was a mono-tier system, in which the State Bank of Vietnam (SBV) played the role of both central and commercial bank. With the position of central bank, SBV regulated monetary policy, managed the national reserves and issued banknotes. As the role of commercial bank, it mobilized savings from public and distributed credit to enterprises. After the reform, the banking system switched to a two-tier system in 1988. SBV, since then, has only undertaken managing responsibilities of Central bank. The commercial banking responsibilities has been transferred to four SOCBs (BWTP, unknown year). These commercial banks resumed providing loans to individuals and rural households (Hao, 2002 cited in Corpuz, 2007).

Since 1996 until now, many remarkable policies and legal reforms have been promulgated relating to operations of financial system in Vietnam. They are listed below:

- Government Decree 178, and Prime Minister's Decision 67 (both declared in 1999) permitted a larger flexibility for commercial banks in deciding on loan guarantee requirements;
- SBV Decision 241 in 2000 switched to a base rate method of setting interest rates;

• The Law on Credit Institutions (proclaimed in 1997 and then adjusted and supplemented in 2004) regarded to registration of non-credit institutions with banking activities;

• Politburo Directive 57 (10th October 2000) reviewed the operation process of the People Credit Funds (PCFs) and guided to consolidation and improvement of the PCF system;

• Civil Code (2005) clarified rights and obligations with regard to private lending and borrowing;

• Co-operative Law (2003) provided a framework for the development of credit co-operatives (McCarty & Leader, 2001).

In order to help rural households move toward a better quality of life and improvement of income through expanding their production activities, at the same time awareness of the importance of a developed rural economy, many credit supported programs were formulated by the government institutions in Vietnam during the recent decades. Most of these programs had a credit component with interest rates which are heavily subsidized, about two times lower compared to commercial interest rates. They are either by the National Government or by Provincial Governments and are intended to increase rural production, stimulate the growth of business enterprises, eradicate hunger, and alleviate poverty.

The program for agro-forestry development was promulgated by Decision 67 in 1997. All farmers can get loans from this program. The maximum amount of loan that a household can obtain without collateral is VND 10 million. The interest rate is 1.03% per month for loans that are to be repayed in a year or less and 1.18% per month for long-term loans.

The program of Hunger Eradication and Poverty Reduction (HEPR) also named "the 135 program" launched by the Vietnamese government in 1997, focusing on improving poor people's access to financial services, specially in rural regions (BWTP, unknown year). Under this program, cheap loans (interest rate of 0.5% per month for borrowers who live in remote and marginal areas, 0.65% for other ones) were provided to the rural poor with purposes for the children education, for creating employments, for agriculture and forestry production, and for the protection of the environment. The first phase of HEPR ended in 2005 and it is now in the second phase of implementation, covering the period 2006-2010. The maximum of loan size without collateral is VND 20 million (Corpuz, 2007).

The Ministry of Labour, Invalids and Social Affairs (MOLISA) and the Ministry of Agriculture and Rural Development (MARD) operate a variety of microfinance schemes, called "the 120 program" supporting reforestation and job creation. They involve highly subsidised lending requiring repayment, although anecdotal information suggests a high level of defaults. The program lent nearly 50,000 clients 1,070 billion VND (equivalent $75 million). Loans were delivered with 0.6 percent monthly interest rate and duration up to 36 months (McCarty & Leader, 2001). Similarly, the MARD program for reforesting five million hectares provided credit with free or low interest rate (7% per year) to farm households for reforestation activity (McCarty & Leader, 2001).

The program aims at implementing the Prime Minister's Decision 80 in 2002 that encouraged the use of agricultural products through contracting. According to the Decision, the Government provided credit for 70% of planting costs with interest of 3% per year in a period of 8 years through the State's Development Credit Fund to producers and processors who have the contract for use the agricultural products.

In 2004, with Forest Protection and Development Law, the State allocated natural forest and land for planting production forests and the people who are allocated forest lands can use the land as collateral. To support for this law, the Government provided low interest preferential credit for 70% of planting costs to farmers and forest enterprises for establishing the production forest.

The State Government's Resolution 120 allows a cooperative to borrow from the State Treasury a maximum loan of VND 100 million at 0.5 percent interest rate per month with the five years duration (Corpuz, 2007).

In 2009, the Prime Minister promulgated two Decisions (No.131 and No.443) on subsidizing 4% interest rate to all individuals, households, companies, cooperatives for production purposes. According to these decisions, the interest rate that the borrowers have to pay in practice for their loans equals to the interest rate which was required by banks minus 4%. The Government will pay for these differentials. Maximum duration that borrowers are subsidized is 24 months. This support will be prolonged to 2011.

Most projects or programs of the Government were disbursed through the state-owned financial institutions in which Vietnam Bank for Agriculture and Rural Development (VBARD) and Vietnam Bank for Social Policy (VBSP) are the major deliverers.

Formal, semi-formal, and informal sectors exist side by side in Vietnam credit market (Chi, 2004; Corpuz, 2007) in which formal credit is expanding its share of total credit, while in parallel, a sizeable informal sector continues to operate. Different needs in the loan market are served by different segments, and the formal sector focuses almost entirely on production loans and asset accumulation (Barslund & Tarp, 2008).

Currently, rural credit is provided by 5 State-Owned Commercial Banks (SOCBs), 20 Rural Joint Stock Commercial Banks (RJCBs), 905 People Credit Funds (PCFs), 70 credit cooperatives (BWTP, unknown year; Ngoc 2005 cited in Corpuz, 2007; McCarty & Leader, 2001), and a lot of lenders from semiformal and informal sector. Among the SOCBs engaged in rural lending, the VBARD and VBSP are the most important in terms of total outreach and total loan portfolio devoted to the rural sector (Corpuz, 2007)

The market remains dominated by VBARD and VBSP. The lending interest rate charged by these banks was only weakly responsive to demand and supply conditions (McCarty & Leader, 2001). The participation of rural people in credit market increased over time. Data from the 1992-93 Vietnam Livings Standards Survey revealed that 47 percent of rural households had taken loans. By 1997-98, this figure rose to 54.67 percent (McCarty & Leader, 2001), much higher in comparison with non-transition developing countries such as Uganda (10.25%)or Peru (29.50%) (Pham & Lensink, 2007). It is recorded that for all sources of credit, loans provided to rural households are less risky than loans provided to urban households, whereas loans for business and consumption purposes have a higher default rate than housing loans (Pham & Lensink, 2007).

In short, Vietnam banking system had a lot of changes in both structure and function in the past decades, especially after "Doi Moi". Great number of policies and legal reforms were promulgated relating to operations of financial system. The financial system has seen a significant development in operating scale. Many projects and programs which comprise credit component were implemented in rural areas. Therefore, the number of rural clients is increasing over time.

3.2 Formal credit sector

With the above regarded concept, the formal rural financial sector in Vietnam comprises system of SOCBs, RJCBs, PCFs (BWTP, unknown year) which are established by legal documents (Law on Credit Institutions, Governmental Decrees, etc,.).

This sector is characterized by the dominance of SOCBs with a lending share of 73.5 per cent of the total credit to the whole economy (World Bank, 2002 cited in Pham & Lensink, 2007). Among them, VBSP, VBARD, and PCFs are major credit suppliers to rural households.

In 2002, VBSP was the leading micro-credit provider to poor households in rural areas with 58% of the market share, followed by VBARD with 24% while PCFs had a 3% market share of the rural credit market (BWTP, unknown year). By 2003, these providers reached approximately 7 million households, among them 3 million rural households, equivalent to over 90% of the outreach of rural financial services in Vietnam (BWTP, unknown year).

3.2.1 Vietnam Bank for Agriculture and Rural Development

One of the significant developments that appeared immediately after the restructuring of the Vietnamese banking system was the creation of the VBARD in 1988, separating from the State Bank of Vietnam. This bank has the most extensive network, containing around 2,000 branches nationwide with a registered capital of 5.17 billion VND and a trust investment of US$ 600 million* (Ngoc, 2005 cited in Corpuz, 2007). In 2001 VBARD served about 35% of low-income households (Chi, 2004). A report about nine provincial branches showed that almost half of bank loan funds went to loans of over 5 million dong (scale of a small loan is less than 5 million VND according to the bank's definition) where as 16 percent of its customers were getting loans of only up to one million dong (McCarty & Leader, 2001).

Up to now, VBARD has been the largest provider of financial services to rural areas and the second largest provider to poor households. By the end of year 2003, VBARD distributed credit to 0.8 million of poor households accounting for 15% of total of poor households who obtain formal loans in the whole country (Hung 2005 cited in Phuong, 2006).

The first financial function of this bank was to provide directly financial services to rural households in agriculture, forestry and fisheries sectors. In 2004, VBARD's outstanding loans to farm households was about VND 82 billion, equivalent to about 58% of the bank's total loan portfolio. Approximately 90% of its total funds for lending of this bank were mobilized from savings and deposits. The rest of its funds came from borrowings and entrust investment projects, mostly from the World Bank and the Asian Development Bank. From the previous survey, McCarty & Leader, 2001 found that the minimum deposit accepted by VBARD branches is 50,000VND but result from key informant interview has shown that at present, this standard has been raised to 100,000 VND.

VBARD supplied borrowers with loans for farm production purpose, for business operations, for seeking employment abroad, for procurement of vehicles including motorbikes, housing loan, and loans for recovery from natural calamities. Repayment rate of loans in this institution was high, ranging from between 98% to 100% (Corpuz, 2007).

VBARD required no collateral for i) loans amounting to 30 million VND if the purpose of the loan is for farm production; ii) loans of 50 million VND for households that are engaged in fisheries, livestock raising or suffering from avian influenza; and iii) loans of 20 million VND for exported labor (Corpuz, 2007)

Group lending techniques, in which credit was disbursed through joint liability groups (JLGs) has been employed by VBARD, to increase its outreach in rural areas. The JLGs played the role as social collateral which replaces physical collateral (Izumida & Duong 2001 cited in Phuong, 2006). This technique has been applied by support of rural organizations including political and administrative organizations such as Farmer Union, Woman Union, and Veteran Union (VU) as well as the indigenous village groups.

3.2.2 Vietnam Bank for Social Policy

The Vietnam Bank for the Poor (VBP) known as a non-profit bank was established in 1995 by the Prime Minister's Decision 525. At that time, VBP was a part of VBARD to serve credit for the poor with subsidized interest rate. In October 2002, VBP was separated from VBARD and became independent bank named Vietnam Bank for Social Policy by the Prime Minister's Decision 131.

Since 2002, VBSP has offered widespread subsidized credit to poor households, totalling about US$452 million† in credit to some 2.7 million households (World Bank 2002 cited in Pham & Lensink, 2007). By the end of the year 2003, these figures increased to approximately 10,349 billion VND for

* Approximately 10.8 billion VND (at 1USD = 18,000 VND)
† Approximately 8.136 billion VND (at 1USD = 18,000 VND)

about 2.8 million of poor households (Hung, 2005 cited in Bali Swain *et al.*, 2008a). The loan size in average was 3 million VND with maximum loan term of 36 months (Bali Swain *et al.*, 2008a)

This bank lends to production purposes, also lends to students for their tuition fees and other expenditure during study time. The lending interest rate of VBSP is two times lower than that in other lenders (from 0.5 percent to 0.65 percent per month depending on beneficiaries). Therefore, its capacity in saving mobilization is limited because this bank cannot mobilize deposits and saving at market interest rate. The operational capital of the bank mainly depends on State's budget.

To get the loans from VBSP, applicants are not required collateral security but they have to be members of the JLGs which are organized by local mass organizations such as Woman Union, Farmer Union, Veteran Union, Youth Union (YU) and so on. These organizations have played a very important role in selecting good borrowers, in guiding borrowing procedures, and in monitoring loan repayments. Amount of JLGs in VBSP was about 300,000 groups (Corpuz, 2007).

3.2.3 People Credit Funds

After the collapse of an earlier cooperative system, PCFs were established in 1993 by the Prime Minister's Decision 390. They were modeled upon the Caisse Populaire system in Quebec, Canada with support from Development International Desjardins (DID) (BWTP, unknown year). The PCF is a cooperative credit organization whose operations are based on the principles of member volunteerism. The PCF system was organised in a two-tiered structure, with the Central Credit Fund (CCF) as the apex institution, and the individual PCFs working at retail level in communes. The main purposes of this institution is getting mutual support among members, enhancing individual and team strength to improve the effectiveness of their production, services, business activities, and their living standard. It is estimated that, in 2001, 56% of borrowers in PCFs were low-income households (BWTP, unknown year).

PCFs are among the few organisations in Vietnam that aims to mobilise savings from members. As a result, PCFs have not relied on external subsidies, since 66% of their resources come from mobilised savings (BWTP, unknown year).

Up to November 2004, this system included a Central People Credit Fund and about 900 PCFs, and reached nearly 1,000,000 members (BWTP, unknown year). Total of outstanding loans was VND 3,089.132 billion (Hung, 2004). About 52% of the total outstanding loans of PCFs were used for agricultural production, 32% for traditional jobs, 7.5% for living conditions improvement, and 8.5% for other purposes (Corpuz, 2007). This institution has required simpler, more convenient procedures for obtaining loans. However, PCFs network covered just 6% of the rural households, of which 5% are the poor households. The loan repayment rate throughout the system remained high (above 98%) (Chi, 2004; Phuong, 2006).

3.2.4 Rural Joint Stock Commercial Banks

The RJCBs system was formed in the early 1990s with the function to provide agricultural loans to rural households within the region where the head office is located. Almost RJCBs had been restructured or merged from rural credit cooperatives. Although established by contributing capital from their members, the Government has still kept 10% of the shares of RJCBs. The average registered capital of RJCBs was around VND 9-10 billion. Only 1.3% of total loans disbursed were the over due loans (Corpuz, 2007; McCarty & Leader, 2001).

However, their role to lending in rural areas has been limited due to low capital base, small number of branches as well as inadequate banking services and heavy concentration in only two biggest business centres, namely Hanoi and Ho Chi Minh City. Up to now, it is estimated about 20 RJCBs that have served approximately 10,000 rural households (McCarty & Leader, 2001). With 15% of the credit market, RJCBs focused on lending Small and Medium Enterprises (SMEs) and individual consumers (World Bank 2002 cited in Pham & Lensink, 2007).

The procedures for obtaining loans from such banks were simple. Most staffs of RJCBs have dual roles, as technical personnel and provider, thus, they also help the applicants complete the required documents. They have gotten advantage from friendly relationship with rural populations, and the use of simple lending procedures.

3.3 Semiformal credit sector

It is necessary to mention about semiformal credit sector in Vietnam context. As other developing countries, in the past decades, Vietnam got many supports from developed countries and non-government organizations (NGOs) for investing in rural development. All major multilateral and bilateral donors and several NGOs had a part in microfinance programs in Vietnam (Putzeys 2002 cited in Bali Swain *et al.*, 2008b). Hence, many credit funds, saving- and credit groups as well as community-based credit organizations were set up and operate under social political unions' management with budget support from NGOs or social political organizations. However, these organizations have not been specialized institutions in banking system that supply financial services long-term and regularly for all clients who have demand, but only provided credit and sometimes savings services within predetermined periods in set beforehand regions for target groups. Moreover, the Government has not conceded them as banks or microfinance institutions. Therefore, naming semiformal sector for these organizations seems suitable.

Semiformal financial sector plays an increasingly important role in providing small loans to marginal groups, especially to the poor, ethnic minorities, and women living in Vietnam rural areas. This sector has relied on micro-financial programs implemented by mass organizations such as WU, FU, VU, Labour Confederation and so on. These organizations have owned and managed members' savings and other funds that may come from donors. They have disbursed credit directly to target beneficiaries and beside that, implemented the activities of organizations themselves. In some cases, the lending activities were integrated with other activities in projects or programs that the lenders belong to as a component (Corpuz, 2007).

The providers of semiformal sector have already provided financial services more than 15 years to the poor in whole country, particularly in rural and remote areas. Though volume of outstanding loans has been small in comparison with the formal system, they have adjusted their products and procedures for obtaining loans to meet the demand of the poor. In 2002, semiformal organisations had a 7% share of the rural credit market (BWTP, unknown year). The interest rate of loans from semiformal lenders was usually sustainable commercial interest rates (Tuan, 2006).

Up to now, there were more than 50 international providers that have involved in semiformal credit sector in Vietnam (see appendix 3 for more details). They applied various lending models such as village banking, Grameen Bank, solidarity groups. Under these models, to obtain loans from these lenders, applicants have to be members of the groups which were formed by lenders or mass organizations. Several NGO lenders have diversified their services to meet borrowers' demand. For instance, Capital Aid Fund for Employment of the Poor (CEP) has offered specific loans (housing improvement loans, weekly loans for labourers and monthly loans for common workers) and also provided micro insurance, covering risks related to health, life and livestock; Save the Children Japan has combined credit services with social services, such as child nutrition, antenatal care and food security; SNV has implemented a village banking model integrating training and market research assistance (BWTP, unknown year). To the present time, some NGOs have transferred its credit programs to local communities for self management such as Action Aid, Save the Children UK or reduced scale (Vietnam Plus) or prepared for transforming (Save the Children US).

Semiformal credit lenders have several advantages for lending in rural areas. First of all, they have rarely required collateral for loans. In the "5 Cs" bases of making decision for lending ("5 Cs" including Capital, Collateral, Conditions, Character, Capacity to repay), they have focused only Character of borrower. They have actively gotten information on their clients and potential customers as well. It might be one of essential factors for high repayment rate (more than 90%, especially 99% on average with programs implementing through WU) in this sector (BWTP, unknown year; Chi, 2004).

Secondly, services are provided frequently, quickly and conveniently. Borrowers do not come a long way nor do they wait for a long time to get loans because they are in the community. Semiformal lenders usually apply simple procedures so customers also do not get trouble with long and complicated application form when asking for loans.

Thirdly, semiformal lenders have usually provided small savings and also small loans with flexible repayment schedule (monthly or weekly instalments). Hence, their services are suitable to the poor's demand.

Furthermore, semiformal programs have often delivered loans with added assistant services such as regular savings with small amount (some schemes even focused primarily on mobilizing savings, with lending considered a secondary function (McCarty & Leader, 2001)), micro insurance covering risks related to health, life and livestock, production techniques, health care, building capacity for women, promoting human development and empowering members of the community, especially women and the poor, etc,.

3.4 Informal credit sector

Informal credit is the most diversified sector of rural credit market in term of providers, types and scales of lending, interest rates, durations as well as repayment methods. Informal financing regimes used to be the most important sources of rural credit. Most informal lenders provided short-term credit for emergency situations and vital demands of rural households that are not satisfied by the formal providers (Bali Swain *et al.*, 2008a). It accounted for around 60–70% of total credit in the early 1990s (Pham & Lensink, 2007). Though, recently this sector has become less important due to the rapid expansion of formal sector with two typical representatives are VBARD and VBSP, the role of informal credit sector is still essential in rural credit markets.

The major actors groups of the informal financial network providing credit to households include i) private moneylenders; ii) relatives, friends and neighbors; and iii) rotating savings and credit associations (ROSCAs) (BWTP, unknown year; Corpuz, 2007; McCarty & Leader, 2001; Pham & Lensink, 2007).

Three types of private moneylenders exist in Vietnam. Firstly, the "traditional" type of lending has engaged lending in cash based on mutual confidence, using simple procedures, without any written loan contracts. Such traditional loans have been typically short-term, sometimes just for a few days. The second type is the "mortgage and pawn-broking". It has been similar to the first type, in general, but the lenders have required collateral from borrowers. The last one of private moneylenders, which is increasingly common, is through small traders, input suppliers, shops keepers and marketing agencies in local areas. This type can provide credit in cash or in kind (McCarty & Leader, 2001). The private moneylenders have been characterized by diverse, flexible operations. Their loans were usually small scale and short-term (specified by season or by days). The interest rates were recorded 3 to 20 times higher in comparison with other providers, ranging from 3% to 10% per month, even 20% per month in emergency cases (McCarty & Leader, 2001; Tuan, 2006). Moneylenders are usually wealthy families who live in the communities or villages near by their customers. Therefore, they have advantages in gathering information of their clients to secure for lending.

For the second group, loans have usually been charged at either zero or low interest rates. Relatives, friends and neighbors have often provided loans without collateral or written contract. Repayment terms have been very flexible, even can be rescheduled in case of need. The using purposes of these loans have been quite varied for both consumption and production. Hence, these sources of lending have been often the first choices when rural households seek for credit, especially in marginal cases when households suffer from illness, production diseases, natural disasters or if households carry out major events such as wedding or building houses. Form of loans from relatives, friends and neighbors can be made of both cash and kind.

With ROSCAs, there are many names for this type of lenders in Vietnamese such as “ho” (in the North), “hui” (in the South), “phuong”, “chung”, or “bieu” groups. There are two common types of ho/hui including "credit type" and "supportive type". In the former the participants aim to earn additional income from interest, while the latter aims at mutual assistance among members (McCarty & Leader, 2001). Some of these ROSCAs have been created for special purposes such as weddings, funerals or New Year’s celebrations (BWTP, unknown year). These groups have commonly existed for generations but have rarely been officially acknowledged. Ho/hui groups are usually voluntarily established by a group of individuals from 5 to 20 people (McCarty & Leader, 2001). Members of ho/hui are normally acquainted with each other, live in the same regions or have similar jobs. They have mobilized regular savings from the members daily, weekly or monthly. ROSCAs have provided loans usually to members and sometimes to outsiders. Decisions on interest rates, membership, and loan amounts are either made jointly by all members, by a bidding process, or only by the leader/keeper of a ho/hui. Interest rates determined by bidding are common.

3.5 Challenges of rural credit market in Vietnam

Despite innovations during the last decades, the rural credit market in Vietnam still faces many challenges. It comprises the institutional aspect as well as implementing the operation of credit market.

A fact of concern is that the poor have great difficulty in accessing formal commercial credit sources, especially the VBARD (Bao Duong & Izumida, 2002). Despite of improvments in participator’s proportion in market, 36% of the total households suffered from credit rationing (Bao Duong & Izumida, 2002). The banking products in formal sector were not diversified and suitable for the poor in some cases. Though lending for groups was one of the bank’s innovation, it still remained problem that most of the lending through groups was the same size and duration to all “group” members whereas their credit demands as well as borrowing purposes were very various (Bali Swain *et al.*, 2008a). A ‘one size fits all’ approach to spreading out credit was not going to be the most effective (Barslund & Tarp, 2008). The banks did not pay attention to small savings that suits poor’s capacity. Repayment schedules in most banks were yearly or at the end of lending duration so it may not be matching with the income flow and spending habit of the poor.

The formal sector usually required land use certificates, houses or fixed assets for collateral (about 70 per cent of all formal loans (Barslund & Tarp, 2008)) even for the loans without any collateral in regulations of the Government (McCarty & Leader, 2001). This strict regulation caused most of the households to fail to gain access to formal credit because currently, only 60 percent of total rural households have land use certificates (Hung 2005 cited in Phuong 2006).

From the side of lenders, they have also faced difficulty in enforcing pledges and mortgages. There were not many cases where land has been liquidated in the event of a farmer’s default (Bao Duong & Izumida, 2002). Banks were not usually allowed to seize land from defaulting farmers, even if the use rights have been pledged. It is more or less impossible to evict farmers and auction their land because of the lack of legal infrastructure and assistance from local authorities (Wolz 1997 cited in Dufhues & Buchenrieder, 2005).

Another problem related to management regime is that despite the policy of subsidized interest rate, which was promulgated by the Government, only targeted the poor households, many loans from the VBSP have gone to other groups. The case study in Ha Tay province is a typical example. Up to 70 percent of the households in this study that got loans from VBSP were medium and better-off households. Whereas, only 20 percent of the households that obtained loans from public funds and projects are poor (Bali Swain *et al.*, 2008a). This problem not only distorts the Government’s policy but may create negative social impact due to unpleasant reaction of the poor group.

In addition, most semiformal lenders lack of clear legal status, except CEP. They also have no detailed legal framework for operation. Thus, they have no authority to have relation with other organizations or access to the foreign capital markets or to mobilize public savings. As a result, it has prevented them from expanding operations. Taking the Microfinance Loan Fund component in the World Bank's Rural Finance Program as an example: With budget around 24 million USD, this fund dedicated to lending to eligible microfinance institutions (MFIs) in the form of refinancing loan portfolios. However, this component has not been disbursed in years because there was no real MFI in Vietnam (Chi, 2004).

Furthermore, the credit programs supported by external organizations have usually been implemented within short periods, so they have faced difficulties in maintaining as well as developing credit activities in long-term direction and plan with available conditions of communities who take over the programs. Responsibility for operating the micro credit programs has usually been local people who come from the social political organizations and were not specialized on finance, therefore their capacities in managing and running operations have been limited.

Finally, some formal institutions have still maintained complicated and time-consuming procedures, creating high transaction costs in household lending (Le 2003 cited in Pham & Lensink, 2007).

How the state of rural finance and its challenges are revealed in the study site and how it impact on the segmentation of credit market will continue to be discussed in chapter 5 after learning about the research methodology and background of study site.

4 METHODOLOGY AND BACKGROUND OF STUDY SITE

4.1 Conceptual framework and Basic concepts

Rural credit market comprises a lot of rural borrowers as well as rural lenders. The rural borrowers belong to three groups of households: agricultural households, mixed households, and non-farm households. These groups are different in social network, physical and human capital, and income generating activities. From lenders side, formal, semi formal and informal credit sector are simultaneously in existence in rural market. They also have the distinct characteristics in regulations, financial capacity, and aims of operations. The credit transactions between lenders and borrowers, who have the separate features, create the different credit segment by interest rate, size, duration and purpose of loan.

This research emphasizes income generating activities from borrowers' side and regulations from lenders' side among their characteristics to explain the segmentation of rural credit market in Phu Thuong commune.

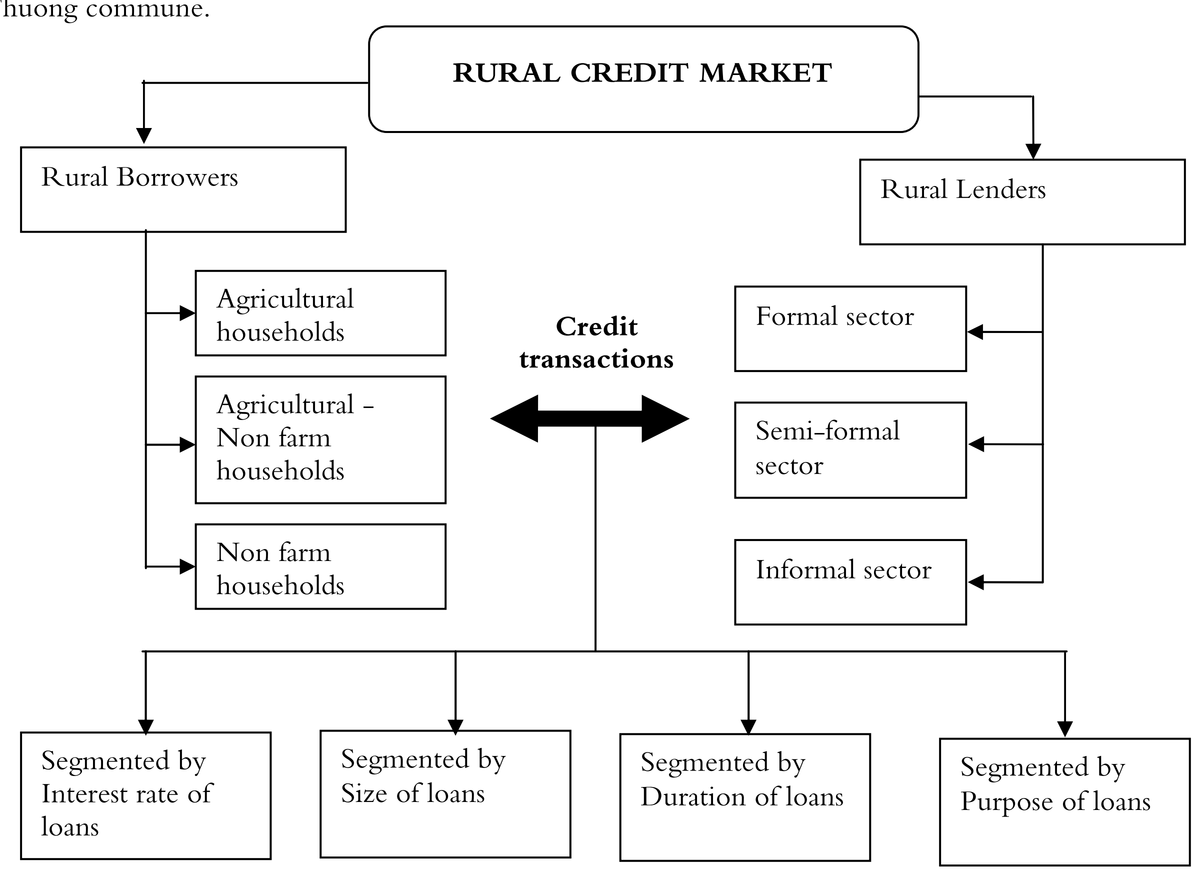


Figure 4.1: Framework for analysis

There are many different concepts and definitions from different authors for a certain terminology. In this study, the basic concepts and terminologies are used with following meanings:

Rural credit market is the market in rural areas, in which lenders and borrowers contact each other for selling and buying credit. In that light, rural areas are large and often isolated areas of a country, sometimes with low population density. According to Vietnam Bank for Social Policy (VBSP), rural areas consists: of communes and towns that belong to districts and communes belonging to towns or cities (district's counterpart in administrative function that belong to provinces) (Vietnam Bank for Social Policy, 2009).

Formal sector is regarded as the sector in which loan transactions are "bound by the legal regulations of a country" (Ellis, 1992), and is controlled directly by the State Bank. It includes banks, credit cooperative institutions, and other registered financial institutions.

With semi-formal sector, it provides loans to "selective range of borrowers" and "conforms to certain development targets" (Pham & Lensink, 2007). Its operation is allowed by local authorities but not monitored directly by the State Bank. It operated under the management of local social political unions and budget supports from non-government organizations (NGOs).

Informal sector is "not regulated by public authorities, and the terms and conditions attached to each loan are personalized, therefore vary according to the bargaining power of borrowers and lenders in each case" (Ramachandran & Swaminathan, 2001) and transactions in the informal sector do not lean on formal contractual obligations enforced through a codified legal system (Ayyagari *et al.*, 2008). It refers to the financial services supplied by moneylenders such as rich farmers, traders and others in the rural economy who lend money on the basis of personal knowledge of each transaction (Ellis, 1992).

Agricultural households are households who base mainly on farm and livestock husbandry for their income; mixed households earn money partly from farm, livestock husbandry and the rest from non farm activities such as small trade, handicraft, seasonal worker, jobs that getting regular salary every month; whereas non farm households are ones that get income principally from small trade, handicraft, seasonal work. The last group has occupied the biggest portion of total households in the study area.

4.2 Research methodology

Both quantitative and qualitative approaches were used in the research. While quantitative refers to counts and measures of things, qualitative research refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things (Bruce 2001 cited in Tuan, 2006). Quantitative approach to measure objective facts, focus on variables, value free, independent of context, many cases and subjects while qualitative style to construct social reality, cultural meaning, focus on interactive processes and event, values are present and explicit, situationally constrained and few cases and subjects (Neuman 2003 cited in Britha Mikkelsen, 2005). Quantitative approach finds out the numbers or figures as evidences to prove the arguments or interpretations from qualitative results. Conversely, qualitative method scrutinizes deeply on the numbers from quantitative outcomes to identify the reasons and the essence of objectives.

In the thesis, quantitative method aims at looking for figures related to characteristics of credit market in general, features of the different credit sectors as well as the different groups of borrowers. Regarding general characteristics of credit market, this method focused on number of credit sources, total volume of credit, average interest rate, number of borrowers, average duration of loan, average size of loan. With feature of credit sector, quantitative method was used to identify the differences in their participations in rural credit market in term of size, duration, interest rate and number of loan that they applied to the different borrower groups. Relating to groups of borrower, the method was used to determin the size, duration, interest rate and number of loan that they received from the different credit sectors as well as other figures related to labour and economic status of households. These figures expressed both relative value and absolute value and were formulated comparatively among credit sectors as well as among groups of borrowers. Moreover, specific figures were considered in relationship with whole sample's. Majority of data which were used for quantitative analysis were synthesized from secondary sources and household survey.

Qualitative method expressed the concepts and perspectives about rural credit market, the process, procedure and obstructions in access to credit from the different lenders. These issues were mentioned for each group of borrower. Moreover, the qualitative approach helped making clear about the way to organize and operate credit groups. More important, this method was used to investigat the reasons and conditions leading the different borrowers to prefer given credit sources but not others when they have demand. In addition, some special cases of lenders and borrowers' behaviors were listed through qualitative analysis. Data were used for qualitative analysis getting mainly from group discussions and in depth interview.

4.3 Data collection

4.3.1 Secondary data collection

Secondary data were collected and synthesized from several sources in both communal and provincial level. Statistical data on social economic status, state of using land, and the orientation and plan for development of the commune were taken from official annual reports. The information related to credit transactions such as borrowers, outstanding loans, interest rate, loan duration, etc,. were gained from reports of Women Union, VBARD (Cho Mai branch), VBSP (branch in Phu Vang district) and TYM fund. In addition, legal documents of lenders will provide regulations or rules of different financial institutions in term of subjects or beneficiaries, procedures, lending process, collateral regime. Data gathered from secondary sources are fundamental basis contributing for establishing and adjusting appropriately the next steps in the research.

4.3.2 Primary data collection

Primary data were collected from meeting with key local authorities, key informant interviews, group discussions, household surveys and observations.

Key local authorities' discussion

Key local authorities were chosen including the representative of Commune People's Committee, the Head of Woman Union and the Administrative staff of the commune and Heads of villages. The aim of these meetings is to get overall point of view as well as background information of the commune in term of natural resources, income generating activities, social economic context of study site, role of communal authorities in credit transactions, strategy for developing in the future and credit market status in Phu Thuong commune. The results of these meetings are essential foundation for implementing the next steps in study.

Borrowing group discussions

Three groups were selected randomly by author based on the borrower list that was provided by local authorities. Each group has from 10 to 12 people represented the different groups in income generating activities. The first borrower group includes the farmers who base mainly on agriculture - which was regarded as agricultural household group, the second group combines the households who rely on non farm activities such as the small trade, traditional handicraft jobs - which was recorded as non farm household group. The last one is group of households that are multiform in income from agriculture, small trading, handicraft occupations to wages - which can be called as mixed household group. The idea for choosing groups by income generating activities is based on assumption that the different households in income sources will have the different behaviour in getting credit.

These discussions aim to gather information related to i) the major lenders in Phu Thuong commune; ii) the characteristics of lenders and borrowers in rural credit market; iii) regulation issues of each credit sector for obtaining a loan; iv) purposes of using loans; v) reasons why borrowers choose given sources to ask loans; vi) difficulties households face to when asking for credit; vii) the factors influencing on supporting households to obtain credit as well as viii) the expected loan's characteristics that are suitable to them.

Tools were used for these group discussions including seasonal calendar, ranking, drawing chart, Venn diagram. The borrower characteristics of income generating activities such as what they do, when they start, when they harvest, what periods they need labors, capital and so on were expressed through seasonal calendar. With this tool the author can see the flow of costs and revenues as well as the periods of leisure and busy time around year. By facilitating of researcher, the reasons for their behaviors in obtaining credit, the obstacles for asking loans as well as characteristics of main lenders will be listed. Then ranking tool will tell us what reasons are most important, what constraints are major in access to credit. Drawing pie chart is necessary to understand how they use loans, structure of loan purposes. The organizations or individuals that effect on borrowing of households and the influence levels of each factor will be classified by Venn diagram.

Non borrowing group discussion

For non borrowers group, the discussion focus on i) the social economic characteristics of group, ii) the reasons why they do not obtain credit and iii) their expectations in access to credit.

Seasonal calendar, ranking tools were used for this discussion. As above, with seasonal calendar, income generating activities of non borrowers will be shown. The difficulties or reasons they do not get loans will be revealed by the questions for matrix ranking. In addition, scoring these answers will expose the main issues of them in access to credit.

Lenders group discussion

Using information from key local authorities meetings and borrower group discussions, the group of lenders was determined. They are bank staff (VBARD and VBSP), manager of TYM fund, Head of Woman Union, one representative of ROSCAs and two representatives of goods suppliers who sell goods on credit to local people.

The objectives of this discussion are to find out i) the characteristics of lenders and major group of borrowers in rural credit market; ii) the pattern of lending in rural areas; iii) the institutional or regulation issues for obtaining a loan; iv) obstacles in outreach clients in rural areas; and v) target groups as well as priority using purposes in lending development strategies of the different lenders.

Some techniques were used to explore information in this discussion, for example, drawing diagram and chart to display the differences and similarities among credit providers in term of lending process, interest rate, loan term, and loan size. Seasonal calendar for lending activities was used to see when and for what using purposes they disburse capital for during the year, and how it is matched with borrower demands. Moreover, scoring tool was applied to determine the main constraints for expanding the credit market in rural areas.

Key informant interviews

Three key informants were selected from people who are well-informed about rural credit market in the commune. Semi structured interview technique with check-lists was conducted to get information. These interviews intend to confirm information gathered from the previous discussions and meetings, and also supplement missing data.

Household survey

45 households were selected randomly from the borrower list providing by local authorities. The result of selecting was 7 agricultural households, 26 non farm households and 12 mixed households. Questionnaires were used for the survey. The purposes of household survey were to assemble detail information of the different borrowers for understanding deeply about their characteristics and their behaviors in access to credit. Content of questionnaire covers a broad range from household's characteristics of income sources, assets, land, education levels, households size, number of labors, types of social networks such as mass organizations, interest groups in production, ROSCAs that household participate in, to household's behaviors related to credit access like sources or sectors that household get credit from, characteristics of given loans that household applied, procedures and conditions for obtaining loans from the different lenders, difficulties that household face to when asking credit, and purposes of using loans. In addition, the influencing factors on making decisions of household in credit transactions were mentioned.

Household in-depth interviews

Three different households who come from the different groups (pure agricultural households, non farm households, and mixed households) were chosen randomly to conduct in-depth interview. The purposes of these interviews are to understand deeply the contexts and explanations for participation in credit market as well as their choices of lenders. Check lists with open-ended questions were used to get information from these households.

Observations

Observations were implemented during field work period. This technique is important to add missing data from the previous methods due to the hiding information as well as exceeding the knowledge of interviewees. Using observations can help researcher affirm information providing by local people. Moreover, results from this technique can suggest to the researcher the suitable ways to facilitate for interviewing as well as discussing.

4.4 Data analysis

Secondary data were analyzed first to get overall information for primary data collection. During field work, gathered information from observations, key informant interviews, discussions were taken note and classified every day. Results from household survey were coded and processed by Excel Microsoft software.

The information were classified and organized into the different topics, including background of study site information; general information of rural credit market in Vietnam; structure of credit market; lenders - borrowers characteristics; regulation issues of credit transactions; obstacles of accessing to credit; features of segmented credit market in term of size, interest rate, duration, as well as using purposes.

Collected data were analyzed and synthesized in the form of descriptive statistics by tables, charts, figures and diagrams to support for arguments and conclusions in chapter 4 and chapter 5. The numbers in analyzing were organized in form of both overall and means of data. Moreover, data were arranged in both the different household groups and whole sample. Some special cases of qualitative data were organized by boxes.

4.5 Site selection and research process

The research was carried out in Phu Thuong commune, Phu Vang district, Thua Thien Hue province. The study site was selected based on the following criteria: i) belong to rural areas; ii) diversified in finance sources (both formal, semiformal and informal sectors; and iii) diversified in income generating activities.

Before making decision on the research site selection, the pre-survey was conducted by visiting the field and talking with local people to get overall picture in comparison with the predetermined criteria. After research site was identified, the discussion with key local authorities was implemented to gather background information of the commune, which were foundation for the next steps. Then, group discussions, key informant interviews, household surveys and observations were deployed to assemble data in a broad range from socio-economic conditions, in general, to credit market, in particular, in the study site. Next, secondary data and primary data, which were gained from field work, was synthesized and analyzed for writing thesis.

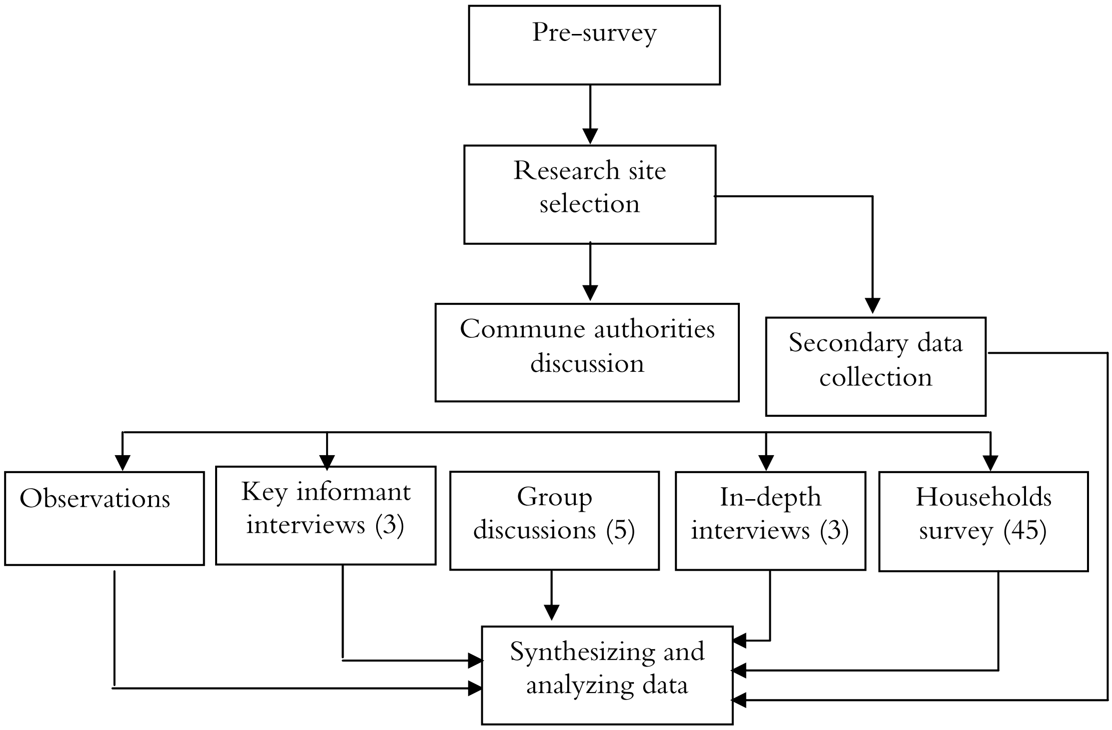


Figure 4.2: Site selection and Research process

4.6 Background of study site

4.6.1 General information

Thua Thien Hue is located in the Central Region of Viet Nam. The Gross Domestic Product per capita in Thua Thien Hue province was 1,003 USD/person in 2009 (Thua Thien Hue People Committee, 2009). According to the Decision No. 86/2009/QD-TTg dated June 17th, 2009 by the Prime Minister, the economic structure is expected as follows: 45.9% from service industry sector, 42.0% from industry and construction, and 12.1% agriculture, forestry, and fishery by 2010. With about 1 million people and 5009 km^2 area of natural land, Thua Thien Hue is divided into nine administrative units, Phu Vang district is one of them.

Phu Vang is a coastal lowland district. Similar to other areas in Central Vietnam, Phu Vang belongs to monsoon tropical region with dry and rain seasons. Topography was partitioned by river and lagoon system. Natural area of Phu Vang district is 28,031 ha in which 10,829.44 ha for agriculture and about 6,800 ha water surface of lagoon. Most of the population belong Kinh ethnic group and they are quite congregate in living. In 2009, the population density of Phu Vang was 647 people/km2, standing the second place in comparison with other districts and city in Thua Thien Hue province (Phu Vang People Committee, 2009). The district has a policy for the reviving and development of traditional handicraft jobs such as processing fishery-agricultural products, art carpentry, tailoring and embroidering.

Phu Thuong is one of 20 communes of Phu Vang district, about 15 km on the West-North far from the district centre. According to local authorities, the commune was established in the early half of the nineteenth century under the Reign of Nguyen Kings. Hence, there are many big family clans with close mutual relationship for a long time in the commune, especially in financial connections. Beside the diversity of income generating activities such as farming, construction services, small trading and tourism, several traditional jobs are still well-known at present such as food services (Nam Pho rice noodles), bricklayers or carpenters .

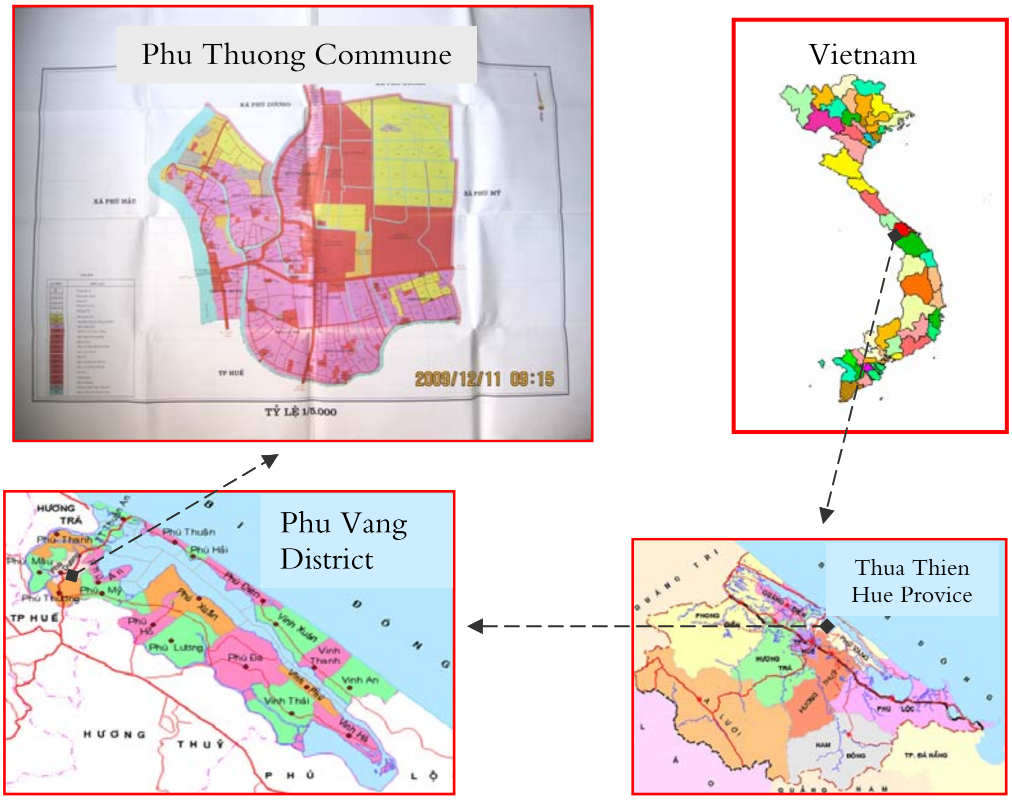


Figure 4.3: Location of the study site in Vietnam

4.6.2 Natural and Physical conditions

Total 587.5 ha of natural land area in Phu Thuong belongs to lowland area. The commune is circled by Huong river and Nhu Y river in the West and the South so it is convenient for waterway transportation, exploiting materials for construction and providing water for farming and raising poultry. With position nearby Hue city and Thuan An beach, and crossing of National Road No. 49, the commune also has advantages in transportation, exchange of goods, as well as developing small trade, tourism services and commerce. These characteristics contribute to the diversified development of income generating activities, thus, it effects more or less on credit demand of households.

4.6.3 Social-economic situation

Phu Thuong commune is a crowded population commune in Phu Vang district. Population density in this commune was 2291 people/km^2 (in 2009), much more higher than that in Phu Vang district. Poverty rate of the commune is low, only 2.02% of total households are poor.

The economic structure of Phu Thuong includes commerce and service, craft industry, and agriculture. Contributions of these sectors in communal GDP were approximately 64%, 25%, and 11%, respectively (source: Local authorities meeting).

The main activities in trade and service sector were foods services, transportation, resident and relaxing services, and selling materials for construction. The traditional jobs in Phu Thuong commune included making traditional hats, cooking rice noodles (well-known with Nam Pho rice noodles), carpentry, making traditional incense. Besides, making brooms and leather shoes, tailoring, doing construction were also activities involving significant number of labours. Due to rapid urbanization, land for agriculture was narrowed so contributing of this sector also has decreased over time. Rice and cash crop were main plants in farms of local people. Livestock, buffaloes, pigs, poultries were raised with small scale. There are only 4 households investing at medium scale with size of more than 30 heads of pig per farmhouse (Phu Thuong People Committee, 2009).

Table 4.1: Some common social-economic characteristics in Phu Thuong commune

Items	Unit	Value/Amount
Total natural land area	Ha	587.5
Population	Person	13,461
Total of households	Household	3,262
Number of poor households (183 people)	Household	66
Rate of poor households	%	2.02
Policy households	Household	81
Paddy area	Ha	149
Rice productivity	Ton/ha/year	12.1
Total cereal amount	Ton	1,832
Number of Buffalo	Head	126
Number of Pig	Head	1,100
Number of Poultry	Head	22,545

Source: Phu Thuong People Committee (2009) Annual Social-Economic Report

The development of commerce and service industry is not only expressed by their portion of communal GDP but also revealed by number of enterprises and households participating. In 2009, the commune had about 652 small and medium enterprises operating on trade and service industry sector. Craft industry sector was also developed with 208 enterprises. More than two third of households in Phu Thuong commune relied on non farm activities for their income. The number of pure agricultural households was only about 324, equivalent to 10% of total households. In addition, a mixed group carried out simultaneous agricultural and non farm activities, occupying about 23% of total.

Table 4.2: Roles of economic sectors in Phu Thuong commune

Items	Unit	Value/Amount**
Contribution of commerce and service sector in communal GDP(*)	%	64
Contribution of craft industrial sector in communal GDP(*)	%	25
Contribution of agricultural sector in communal GDP(*)	%	11
Number of Service industrial, commercial enterprises	Enterprise	652
Number of Small and medium handicraft enterprises	Enterprise	208
Number of Pure agricultural households	Household	324 (9.93)
Number of Non farm households	Household	2,180 (66.83)
Number of Mixed households	Household	758 (23.24)

Source: Phu Thuong People Committee (2009) Annual Social-Economic Report

(*) Calculated by author based on information of local authorities meeting

(**) Numbers in parentheses are percentage in total households

Workforce in the commune is quite abundant with 6506 people. Most of them has job in the commune or adjacent areas. Insignificant minority of Phu Thuong people goes overseas for getting jobs (6 cases in 2009). Less than 3% of labour force is unemployed.

The participation of labours in economic sectors is similar to the pattern of enterprises and households. Labours in commercial, tourism, service industries, traditional handicraft and other non farm activities occupy the highest proportion, with nearly 70% of total labours. Group of agricultural labours and mixed labours who carry out both farm and non farm activities hold much less proportion with 10.05% and 17.63% of labour force, respectively.

Table 4.3: Labours' structure by income generating activities in Phu Thuong commune

Items	Amount	%
Total of labors	6,505	100
Number of the unemployed	173	2.659
Non farm labors	4,531	69.65
Agricultural labors	654	10.05
Mixed labors	1,147	17.63

Source: Calculated by author from Phu Thuong People Committee (2009) Annual Social-Economic Report

At present, the cooperative model still exists in the commune. Phu Thuong Agricultural Cooperative provides input materials and ploughing service for production of more than 600 members. These goods and services were usually supplied on credit. Members of cooperative have to pay after harvest time. In addition, the cooperative has supported from 50 to 60% credit capital for its members who want to expand production scale as well as practice new handicraft jobs (Thua Thien Hue Cooperative Union, 2009a).

Results from group discussions showed that, beside Phu Thuong Agricultural Cooperative, there were some other providers serving local people with credit. In formal sector, VBARD and VBSP are two major lenders. In semi formal sector, TYM Fund reveals as an important provider. ROSCAs and shopkeepers are many other alternatives in informal sector for borrowers.

5 RESULTS AND DISCUSSIONS

5.1 Credit sectors in Phu Thuong Commune

The credit market in Phu Thuong commune was recorded with the operations of both formal, semi formal and informal sector. These three credit sectors simultaneously existed in this commune. In each sector there were many different lenders. Though undertaking the same responsibility in financial field of rural areas, the different sectors have been specified by particular characteristics. Table 5.1 and table 5.2 provide information relating to main lenders as well as their features in the commune market.

Formal sector was the banks which run following the financial laws from the State and was controlled by the Central State Bank. The providers belonging to this sector were professional lenders in credit market. Most formal lenders were commercial organizations that operate for profit. Only VBSP was non-profit institution in banking system.

Semi formal sector included organizations which were admitted by the authorities in community. Their lending was not professional but as an extra function that supported their main responsibilities. The lending in semi formal sector was undertaken by mass organizations or International Non Government Organizations (INGOs) through projects or programs.

Informal sector was not officially recognized by law documents or by the authorities. Lenders in this sector might be individuals or group of people. Their operations were not shown publicly, even some of them were illegal.

Table 5.1: Main lenders in Phu Thuong credit market by sectors

Formal sector	Semi formal sector	Informal sector
VBSP	TYM Fund	ROSCAs
VBARD	Phu Thuong Agricultural Cooperative	Shopkeepers*
Sacombank		Moneylenders
		Relatives and friends

Source: Group discussions, household survey, 2009

(*) including people and enterprises who provide credit in kind such as foods, agricultural input materials, building materials

From table 5.1, we can see that representing for formal credit sector in Phu Thuong commune were VBSP, VBARD and Sacombank (a commercial bank). In there, VBSP and VBARD were main lenders, Sacombank has just been established here and occupied only small share in the market.

With about 937 borrower households and more than 9 billion VND loans outstanding (source: VBSP lending report, 2009), VBSP is the biggest lender in Phu Thuong commune for both aspects number of clients and total amount of credit. This bank has responsibility for providing credit to the poor and students. All loans from VBSP were subsidized by the Government; therefore, the interest rate was lower in comparison with other bank systems. Lending in this bank was implemented through credit saving groups which were established by social political organizations in commune such as WU, FU and VU. These institutions have guaranteed for none-collateral loans of their members, hence, the bank has only considered the requirements for credit in the applicant list which was submitted by them. WU, FU and VU have played intermediate role in monitoring loan procedures and loan usage of borrowers, and collecting loan interest instead of the bank. Among of them, WU was the biggest partner of VBSP in the study site. Beside the supports of the local social political institutions, the bank has used the joint liability regime to enforce repayment upon borrowers. In this light, if one member has a default loan, the whole group will be rejected in the next disbursements. Regarding to principal loans, VBSP has carried out directly disbursing transactions and collecting repayments in People' Committee Office of the commune.

VBARD is also big provider in the commune. Lending in this bank was deployed by two ways. The first was lending directly to clients. Loans through this channel required collateral and usually were big loans (over five million VND). The second lending method was implemented indirectly through credit groups which were established by social political organizations or by group of households and individuals. This way was applied to small amount and none-collateral loans. The lending management in this bank was similar to VBSP's pattern, but one step shorter. VBARD has contacted directly to credit groups instead of social political organizations like VBSP's method. Though operating in rural areas, VBARD is a commercial bank so the interest rate in this bank was equal to other commecial banks at about 1 to 1.2% per month.

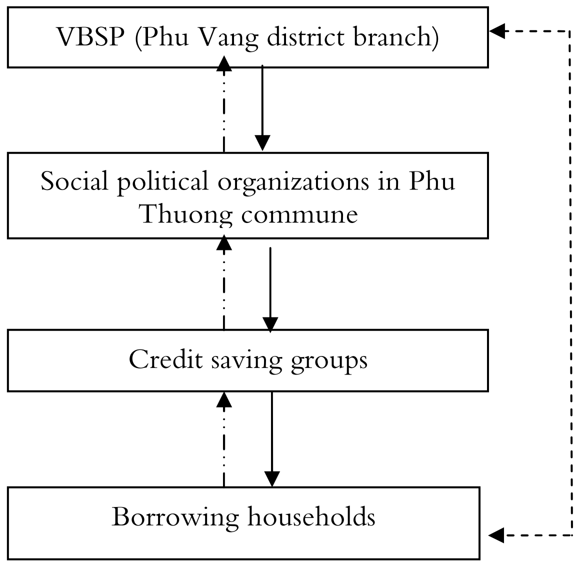


Diagram 1: Lending management in VBSP

Source: Group discussions

- Monitoring loan usage and loan procedures
- Repaying interest of loan
- Disbursing and repaying principal loans

Semi formal credit sector in the commune includes TYM Fund and Phu Thuong Agricultural Cooperative (PTAC). In which, TYM Fund has provided credit in cash while the Cooperative has served both in kinds and in cash. However, total amount of credit that was provided by the Fund much bigger than that from the Cooperative.

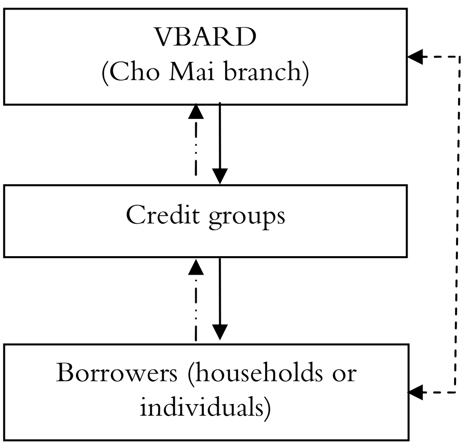


Diagram 2: Lending management by group in VBARD

Source: Group discussions

- Monitoring loan usage and loan procedures
- Repaying interest of loan
- Disbursing and repaying principal loans

TYM Fund stands for "Tau Yeu May" in Vietnamese, means "I love you" in English. The fund has origin from a credit program of the Central Vietnam Women's Union (VWU). On January, 1992, Chairwomen of VWU signed Decision No.11/QD regarding implementation of TYM Fund Project, and one month later, the Government promulgated Document No.563/KTDN permitting VWU to carry out the project. The credit project was a replication of the Grameen Bank in Bangladesh.

TYM Fund targets at women having low income, in the working age, having good health, volunteering to join and committing to executing TYM's regulations. The aims of TYM Fund is to improve the life quality and status of poor and poorest women and their families by providing groups of women in community with appropriate financial and non-financial services, offering them opportunities to participate in economic activities and raising their role in society. By the end of the year 2009, TYM had 41 branches in 10 provinces and cities of Vietnam with more than 40 thousand members (TYM Fund, 2009). In Thua Thien Hue province, TYM Fund has operated in 4 communes and Phu Thuong commune was one of them.

The TYM Fund in Phu Thuong commune established and started its operation since end of the year 1997 as a credit provider with credit an saving services in community (The health micro-insurance has serviced in other provinces of TYM Fund system but it has not appeared in Phu Thuong TYM Fund). Its members are women who come from Women Union of the commune. At present, this lender provides loans to 675 clients (its members also) in all 8 villages of the commune with total amount more than 2 billion VND. At present, loan size of TYM Fund is from 1 to 8 million VND. The Fund was organized into groups of 5 members. The managing regime of TYM Fund has based on joint liability among group members. Due to this mechanism, the rate of repayment was so high, up to 100% of loans. Credit are disbursed every year relied on members' requirement and agreement of other members. For loans at all size, borrowers have to return weekly instalments during 50 weeks. Every week, the group leaders collect fixed amounts of money including interest, a part of principal loan, saving money and a small amount for mutual helping fund from members.

Another credit source in semi formal sector is PTAC. It is the social professional association in the commune with more than 630 members. The cooperative has provided agricultural services to their members and other clients in community such as ploughing fields, irrigating, supplying fertilizer, pesticide, training course on handicraft jobs. In some cases, this organization has served credit to the members who want to expand business and production scale (Thua Thien Hue Cooperative Union, 2009b).

The lenders belonging to formal sector such as VBARD, VBSP have provided credit only in cash to their customers whereas semi formal and informal have supplied credit both in cash and in kind. Furthermore, some semi formal and informal lenders have delivered credit with assistant services like PTAC with technique for raising livestock, cultivating rice, agricultural input sellers with using fertilizer or TYM with guideline for managing family finance.

Informal credit sector has found varied kinds of lender, combining ROSCAs, moneylenders, shopkeepers, friends and relatives.

ROSCAs is a traditional form in rural credit market. In this pattern, members are both lenders and borrowers. Members in a ROSCA are usually people who come from the similar situation of job, place for living, or who are relatives and friends. All ROSCAs members contribute regularly amount of money to common fund, and this fund will be sent each member in turn.

The credit source from ROSCAs was popular in Phu Thuong commune. Most people taking part in ROSCAs have daily income. They give contribution every day, every week or every month. There are three kinds of ROSCAs in the commune. One disburses common fund every ten days, another one allocates the fund every fifteen days, and the last one give the fund every month. The order for getting the common fund was identified by biding, choosing randomly through lottery ticket, or negotiating among members. Number of members and amount of money contributing each time as well as delivering mechanism were varied. Number of people in a ROSCA was about five to twelve depending type of ROSCAs. Scale of contribution depends on economic condition of members, changes from ten thousand VND to more than hundred thousand VND per day or from hundred thousand VND to million VND per month. The popular level in sample households was from ten to fifty thousand VND per day. According to local people, the big ROSCAs which has amount of contribution per day bigger than fifty thousand VND were usually delivered to outsiders of group, thus, getting high risk, therefore, there were not many people joining these ROSCAs.

Shopkeepers were found as lenders in the commune. They are input material providers for agricultural production or construction, and also small traders who owned a shop for selling foods and other consumption goods. These lenders usually supply credit in kind to acquaintance in community under form of selling goods on credit. The most popular of goods in these relation are foods, building materials, fertilizer and livestock feed.

Moneylenders are also credit providers in Phu Thuong commune. There are about four to six big moneylenders in the research site. They are rich people in community. Their lending operations were not showed publicly. The interest rate fo these lenders was recorded much higher than other providers, from 1.2 to 5% per month depending on lenders as well as borrowers. Nevertheless, this source is still a common alternative in urgent cases of local people.

Relatives and friends are also sources for asking loans. The interest rate of these lenders is normally very low or even free of charge. However, data from field work have shown that local people rarely get credit from their relatives and friends. They have explained that because it was not many rich relatives and friends in rural areas so it was difficult to require for credit from them, unless in special cases.

In short, it can be said there have been an existence and operation simultaneously of formal, semi formal and informal sector in credit market in Phu Thuong Commune. Within each sector, the lenders have been various, especially in informal sector.

Beside the similarities in business place and responsibility in supplying loans to local clients, each lender has had particular characteristics in term of kind of credit products/services, scale and duration of credit, number of transactions, interest rate, loans purposes, as well as process of disbursing credit.

Table 5.2: Characteristics of main lenders in Phu Thuong Commune

Items		TYM Fund	PTAC	ROSCAs	Shop-keepers	Money-lenders	VBARD	VBSP
Kinds of credit		Cash	Cash and kinds	Cash	Kinds	Cash	Cash	Cash
Default rate by total number of loans (%)		0	0	2 - 3*	1- 2*	...	2 - 3*	3.02
Default rate by total amount of loans (%)		0	0	2 - 3*	1 - 2*	...	2 - 3*	1.80
Average loan size (Million VND)		5	5	3	4	1 - 5*	10 - 12	7.792
Interest rate (%/month)		1,815	1	0 - 1.5	1 -1.5*	1.2 - 5*	1 - 1.2	0.5 - 0.65
Loan term (month)		12 (50 weeks)	6	3 - 12	Not defined	Not defined	12 - 60	12 - 72
Repayment schedule	Principal loan	Weekly	At the end of duration	Daily, weekly or monthly	Flexible	Flexible	Every 6 months or every year or at the end of duration	Every 6 months or every year
	Interest	Weekly	At the end of duration	Daily, weekly or monthly	Flexible	Flexible	Monthly or every 3 months	Monthly or every 3 months

Source: Compiled by author from VBSP lending report in 2009; TYM lending report in 2009 and Lenders group discussions

(*) Estimated (...): Facts occurred but no information

5.2 Differences among formal, semi formal and informal lenders

The co-existence of formal, semi formal and informal credit sector in Phu Thuong commune was revealed by the operations of many lenders. Beside the similarities in business place and responsibility in supplying loans to local clients, each credit sector as well as each provider had many particular characteristics in term of kind of credit products/services, scale of credit, number of transactions as well as other characteristics of credit contracts and process of disbursing credit.

Table 5.3: Characteristics of credit contracts by credit sectors

		Formal sector	Semi formal	Informal
Number of loans	Amount	52	46	76
	%	29.89	26.44	43.68
Total of credit (Mil. VND)	Amount	486.3	268	340.1
	%	44.44	24.49	31.08
Loan size (Mil. VND)	Mean	9.35	5.83	4.48
	Sd	4.63	2.16	3.15
Interest rate (%/month)	Mean	0.877	1.730	1.617
	Sd	0.287	0.300	1.111
Loan term (month)	Mean	28.91	8.73	4.27
	Sd	12.72	1.43	4.31
Collateral requirement		No in VBSP No in VBARD (for loans under 5 mil.VND) No in Sacombank (for clients have salary) Yes in VBARD (for loans over 5 mil.VND) and Sacombanks (for clients have no salary)	No	No Sometimes yes in moneylenders
Purposes		Production and education in VBSP Production in VBARD Production and consumption in Sacombanks	Production and consumption in TYM Production in PTAC	Production and consumption
Waiting time for loan		1 day - 6 weeks	1 -2 weeks	Within 1 day

Source: Household survey, 2009

Table 5.3 showed the characteristics of credit contracts by credit sectors. In which, the duration of loans in formal credit sector has been longer than that in the rest sectors. Nearly 29 months have been loan term in average in formal providers while in semi formal and informal these figures were much shorter, about 9 months and 4 months, respectively. However, the remarkable point is the duration of loans from shopkeepers, relatives and friends were usually not defined clearly before borrowing.

The bigger loans were also recorded in formal lenders with loan size up to 9.35 million VND. In contrast, semiformal and informal credit providers have lent much smaller than that in formal sector, with about 5.8 and 4.5 million VND per loan in average.

The question outstanding here is why formal sector holding advantages in both size and term of loans. Results from discussions have suggested that it has related to capital capacity of lenders. VBARD and VBSP were both professional lenders therefore their scale of capital were much bigger than other ones in semi formal and informal sector. Due to that financial base the formal lenders could provide bigger loans in long term. This explanation is also matching with the empirical data from household survey where total amount of credit from formal sector has occupied more than 44% of total market. Semi formal and informal providers have kept in turn 24.49% and 31.08% of total credit volume. However, there has been the difference in order of the sectors by number of credit transactions. It has been displayed statistically that although informal sector has not distributed the biggest amount of loans in market but it has kept the first position in number of loans with 79 transactions equivalent to 44.63% of total whereas formal sector has only stayed the second place.

Regarding to the interest rate, data from survey have shown that there has been the large gap between formal sector and two remainders. The interest rate among semi formal and informal lenders was recorded equal to each other, at level of 1.6% to 1.7% per month that about two times higher than that in formal lenders. This distinction can be interpreted by two main reasons. Firstly, this was an influence of the subsidized interest rate from VBSP on the average interest rate of the whole sector. Because VBSP's interest rate was about two times lower than the average level of market, hence, when calculating this figure in average for whole sector, the result would be low. Secondly, moneylenders usually have allocated credit at very high interest rate, therefore, it has raised the average level of interest rate of whole informal lender group. These two contrasting trends have expanded the gap between formal and informal credit sector. According to a staff of TYM Fund, the interest rate is only 1% per month but the authour's calculations, based on her data, revealed that the real interest rate is 1,815% per month. The reason of this disparity was explained by weekly repayment method that TYM has applied to its borrowers. The TYM Fund staff has ignored the fact that the principal loan has reduced every week, hence, her result on interest rate was smaller than that in reality.

The way to take back the loans was diverse among the different sectors as well as among credit providers. Repayment of loans included two parts. One part is principal loan and another one is interest of loan. The most flexible repayment schedule has belonged to informal sector. The informal lenders have not separated principal loan from interest of loan. They have often combined the interest of loan in prices of goods or in regular instalments. That is why some borrowers had not answered exactly interest rate of their debts. Two in three lenders of this sector have not fixed repayment time to their clients. These were shopkeepers and moneylenders. For ROSCAs, they have determined time for repaying daily, weekly or monthly that depending on the type of ROSCAs and the number of people in group. Two lenders in semiformal sector also have not distinguished between the interest and principal loan. All loans from TYM Fund have to be repayed during 50 weeks. Every week borrowers have to return a given amount of money depending on their loan size. This amount of money has included not only the interest of loan and principal loan, but also amount of saving and small part for mutual helping fund which was used in cases of sickness or death of members. After every five years, the borrowers will get back their savings.

In aspect of conditions and regulations for accessing credit, the differences among lenders were more obvious in table 5.3 with a lot of particular characteristics in each credit provider. While the regulation on purposes for using loans was quite strict in major formal lenders, this rule in informal ones was very elastic. Most loans from VBSP and VBARD have been accepted only for production. VBSP also has serviced loans for education purpose according to the Government program. Whereas, all kinds of informal lenders even have not cared for what purposes the loan was used for as long as their clients could repay loans with the given interest rate on time. Both TYM Fund and PTAC were semi formal lenders but TYM Fund has seemed more flexible than PTAC in loan using regulation. Borrowers could ask loans from TYM Fund for both consumption and production purposes while PTAC has only supported to investment purposes. Target group of VBSP and VBARD was poor or low income households but Sacombank - the other formal lender- has paid attention on group of people who get salary every month. VBSP, semi formal providers and ROSCAs have focused on their members only. Their clients have to be their members. While on the contrary, shopkeepers and moneylenders have agreed with almost any group of clients.

To get loan with amount bigger than 5 million VND, VBARD's clients have to give collaterals to secure for their loans. In case of Sacombank, if customers were not staffs of a certain organization, they also have to show collaterals. All remainders of loans, borrowers have used guarantee from mass organizations (TYM Fund, PTAC and VBSP cases) or their own prestige (moneylenders, shopkeepers and ROSCAs cases). In case of moneylenders, people could get loans without collaterals, however, the interest rate would be lower if they give moneylenders the worth assets. People who want to obtain credit from VBSP have to satisfy the essential condition about borrower's wealth status which was identified by local authorities. According to that condition, borrowers have to be a member of a poor household which is settled in the commune every year. Beside the common regulations, VBSP has required borrowers having at least one inheritor for repaying the debt in case the death of borrowers.

The waiting time in VBSP was revealed longer than 6 weeks in some cases (see table 5.3) due to economic crisis or tight cash supply policy from Government to avoid inflation (during 2008 - 2009). Some cases even VBSP has used amount of repayment cash which just collected from borrowers to disburse immediately to other clients, so if there are many default borrowers, the time for waiting of new customers will expand. A leader of VBSP saving credit group has explained: "In this period, the bank prioritizes clients who get loans for education purpose because the bank seems to lack of cash temporarily. People who require loans for other purposes have to wait till the next time".

Related to mechanisms to monitor clients and manage loans, some loaners have relied on peer pressure among members such as TYM Fund, VBSP, ROSCAs, while others have based on the financial laws in general like VBARD, Sacombank or the interventions from local authorities in case of PTAC, or leaned on themselves such as moneylenders, shopkeepers. Those mechanisms have not influenced similarly on repayment rate, however, they have contributed significantly to control this rate under 4% of both number and amount of loans (see table 5.2).

Another difference among lenders was the process of allocating credit. Data from household survey and group discussions have confirmed this process was really varied in rural credit market. Unlike most loans from other providers that were delivered directly, VBSP and TYM Fund has supplied capital with assistances of intermediates. Formal loaners have to complete legal procedures before disbursment, thus, the period of waiting for loans in formal sector in general was longer than that in other sectors, except Sacombank case. The procedures for getting credit from formal lenders were also recorded more complicated, in comparison with other ones, especially in case of VBSP. While no idea of complicating in semiformal and informal credit sector, VBSP was reflected as a lender with the most complicated loan procedures (see table 5.4).

Table 5.4: Commenting of households on loan procedures in different lenders (% of sample household agree with)

Lenders	Complicated	Normal	Simple	No ideas*
VBARD	4.40	53.38	31.11	11.11
VBSP	40.00	20.00	35.56	4.44
Other commercial banks	0.00	0.00	8.89	91.11
TYM Fund	0.00	37.77	55.56	6.67
Moneylenders and shopkeepers	0.00	35.55	48.89	15.56
Relatives and friends	0.00	86.67	13.33	0.00
ROSCAs	0.00	60.00	17.78	22.22

Source: Household survey, 2009

(*) Some households have not obtain credit from or not sure about the given lenders so they have no ideas

In summary, the differences among three credit sectors are clearly in aspects of credit contract terms, managing mechanism, conditions and regulations as well as process for getting credit. The duration of loans in formal credit sector has been longer than that in the rest sectors in average. Formal sector has stood at the first place in term of total credit volume while informal sector has kept the first position in number of loans and the flexible repayment schedule. With respect to the interest rate, there has been the large gap between formal sector and two remainders, in which, this figure in formal lenders has been about a half of that in semiformal and informal lenders. Conditions and regulations for getting credit are extremely different among lenders. While these rules were quite strict in major formal lenders, they were very elastic in informal ones. The process of allocating credit in formal sector has been recorded most complicated, in comparison with other ones.

5.3 Non borrowing group characteristics

From aspect of participation in credit market, households can be divided into borrowing group and non borrowing group. Relating to this respect, McCarty and Leader (2001), in a research conducted in Vietnam, found out that microfinance market in Vietnam was segmented into those who can access VBARD and those who cannot. These authors emphasized that the poor were mostly excluded from the attractive formal market of the VBARD (McCarty & Leader, 2001).

To look at this aspect of segmentation in study site, besides collecting data from borrower group, we gathered information of non borrowing households through a group discussion. Results from the discussion revealed two main groups of non borrowing people, including group of no demand households and group of households who want to get loan, mainly from formal credit sector, but have obstacles. The particular characteristics of each group have suggested explanation for this segmentation.

For no demand group, no investment needs and sufficient capital by themselves have been the reasons that they had raised for not borrowing. The households who are elderly, have no workforce or handicapped ones have not invested in any production activities, hence, they have said no with credit. Some households have expressed that they had not obtain loan because they can serve capital by themselves. These households normally are better off households.

With impeded group, there have been many answers for the question why they did not get loan. First of all, lack of collaterals has been main reason for households who want to ask credit from

VBARD and other commercial banks. These households have not the "red book" for their land or they are very poor without valuable assets to give the banks as collaterals.

Secondly, some households lack of information on credit market. They had not known where and how to get loans. This group includes households who do not have close relationships with communities and local authorities who participated in process of delivering credit, or are not members of social political organizations, thus, they have not gained any information related to borrowing alternatives.

Table 5.5: Clients characteristics and reasons for not borrowing

	Reasons	Features
No demand groups	No investment needs	Elders, no labor forces or handicapped
	Sufficient capital by themselves	Better off households
Impeded groups	Lack of collaterals	Land without the "red book"* or/and poor households
	Lack of credit market information;	No close relationship with communities and local authorities who participated in process of delivering credit; or No participatory in social political organizations
	No prestige; Afraid of debts	Bad debts history or Very poor
	Not belong target group of lenders	Better off, government salary households or; No close relationship with local authorities who participated in process of delivering credit; or/and Not fulfill paying tax and other duties regulated by local government; or/and No participatory in social political organizations; or/and Bad debts history
	Complicated procedures;	Low level in schooling
	High interest, short duration	Very poor agricultural households

Source: Non borrower group discussion, 2009

* Certificate of the right to using land in Vietnam

Thirdly is the group of households who have been afraid of debts or without prestige so they have not dared to request credit. These households have been featured by very poor or have a bad debt history status.

Next is common reason of people who have not belonged to target groups of lenders. If they are better off households, they will not be accepted for subsidized loans from VBSP or other supported programs which are aimed at the poor. In rural areas like the study site, households getting government salary have been considered as the wealthy, so these people have also had obstacles in access to cheap credit. Other credit sources such as TYM Fund, PTAC have targeted only at their members, therefore outsiders who have not participated in social political organizations such as Women Union, Agricultural

Cooperative have been excluded from these lenders. In addition, when households have not fulfilled paying tax and other duties regulated by local government, or/and they have a bad debts history status, the local authorities have not confirmed that they belong to the poor group, therefore, they have not received credit from the poor target programs. It is interesting to find out that, in some cases, even borrowers have not been a part of target group, but they have had close relationship with local authorities who participated in process of delivering credit, thus, they have been helped from local authorities to get loans. This situation has usually occurred with the pro poor credit program supplied by VBSP.

Another reason has related to complicated procedures. Several households who are low level in schooling have met obstacles in satisfying the lenders' requirement on procedures. They have not known how to make procedures with many documents, when and where to submit their loan applications. Hence, these households have been outsiders of credit programs.

The last one is the reason from very poor agricultural households. These households have claimed that the loan terms have not been suitable with them. According to that, the interest rate was so high and the duration of loan was too short in comparison with their expectations. That is why they have not joined into credit market.

The group of very poor households or/and have a bad debts history have also had difficulties to aquire loans from informal and semiformal sector. Most of lenders have not believed in their ability to repay the loans, hence, they have not dared to give this group credit. This may be one of the vital problems that makes this group cannot escape from poor and bad debt status.

The rest of the impeded groups have accepted keeping the same production scale, lessening consumption expenses. At the time that the author conducted the study, the gained data had shown that they have tried to mobilize all owned capital that they can to pay for their demand. This group has also expressed that maybe in future they will obtain credit from a certain lender in informal sector as a supplement to satisfy their demand if conditions to get credit from formal source do not change. In this case, further research on how they respond to deal with the blocked situation in accessing to credit for long term is necessary.

5.4 Characteristics of client groups in Phu Thuong Commune credit market

The information from field work has revealed that there were three groups of households divided by income generating activities. The pattern of borrowing was influenced by the income generating pattern. They are agricultural households, mixed households, and non farm households.

Table 5.5 showed that there was significant difference among three groups in average areas of land that each household owned. This figure was biggest in agricultural group and smallest in non farm group. Land area of the first and the second group was much larger than that in the third group, about five to six times. It seems that the households in the last group have chosen non farm jobs due to their disadvantage in land.

Agricultural group was also the biggest in family size and number of labours with 5.57 people and 2.86 people, respectively. The common traits of three groups was high ratio of dependent people. In which, the mixed households was group that has had the highest in dependent ration with nearly 55% of total people in household. This group has usually had three generations living together, thus, proportion of the old and children quite high. This point was also confirmed by the first position of the group in age of household head indicator. In general, the mean age of household head in non farm households was younger than that in two remainders. The majority of households belonging to the third group were nuclear families with two generation living together, the dependents were children only, hence, this group had the lowest in percentage of dependents. Due to the advantage in labour, the non farm group has received highest income in comparison with other groups.

Table 5.6: Characteristics of client by household group categories

	Total sample (n=45)		Agricultural households (n= 7)		Mixed households (n=12)		Non farm households (n=26)	
	Mean	sd	Mean	sd	Mean	sd	Mean	sd
Land areas (m^2)	1,546	1,603	3,414	1,730	2,616	1,623	551	305
Family size	4.78	1.65	5.57	3.36	4.25	0.62	4.81	1.27
Number of labors*	2.42	0.92	2.86	0.90	1.92	0.90	2.54	0.86
Ratio of dependents (%)	49.30	15.70	48.72	15.42	54.90	18.20	47.20	13.94
Age of household head	49.56	12.22	54.86	10.98	58.00	6.66	44.23	11.94
Average number of loans	3.87	1.37	4.14	0.90	3.83	0.83	3.81	1.33
Average amount of credit	24.32	6.89	17.47	5.06	23.58	6.44	24.77	5.98
Total income (million VND)	40.03	17.21	35.93	16.30	35.83	15.04	43.07	18.51

Source: Household survey, 2009

(*) Number of labors was counted for people who were healthy and from 18 to 60 with male, to 55 with female

With respect to the participation of households in credit market, agricultural group has received the biggest number of loans, with 4.14 loans/household on average. However, this group has tended to obtain loan with small size, therefore, average amount of credit in agricultural households was the smallest. The othe two groups were quite similar to each other in number of loans and amount of credit that the households had. In average, mixed group and non farm group have received about 3.8 loans with amount of credit from 23 to 25 million VND per household.

Regarding to schooling status of household head, data from survey were analyzed and presented in table 5.7. In general, the ratio of household head at secondary level in schooling was significant, with more than 42% of total. Especially, this rate was highest in agricultural group, up to 71.43%. Numbers of household head getting advance training on a certain job were not much in general, only 20% in total sample. However, this figure was not equal among groups. While no one of household heads in agricultural group was trained in advance level of occupation, this number in mixed group was 33.33%. This pattern might be explained by their income generating activities. Agricultural production seems a traditional job so the farmers can conduct without advance training. Instead of learning from training center, they have imitated their ancestors. With respect to official work of some household head in the second group, people have to get specific training courses for their works. That is why the portion of household head at advance training level was the highest among three groups.

Table 5.7: Schooling status of household head by household groups and school levels (%)

	Total sample (n=45)	Agricultural households (n= 7)	Mixed households (n=12)	Non farm households (n=26)
Primary school	13.33	14.29	25.00	7.69
Secondary school	42.22	71.43	25.00	42.31
High school	24.44	14.29	16.67	30.77
Advance training on a certain occupation	20.00	0.00	33.33	19.23

Source: Household survey, 2009

The results of household survey expressed that, beside the differences in land area, income and human capital, the different groups had particular features in amount of required credit and purposes for borrowing. Each group had specific social economic conditions. Their income generating activities have also not been similar to each other. Therefore, credit demand of them has been different. In the context of credit market in rural areas, the banking sector has often allocated loans with the same size, same duration, same interest rate to target groups. This has lead to the differences in satisfaction among household groups.

The figures from table 5.8 expressed that, in general, the level of satisfaction in loan term has been higher than that in loan size. More than 77% of total households thought that the duration of loans that were provided by lenders has been suitable, whereas, for loan size, this figure has been only 60%. Among three groups, agricultural households have had the highest satisfaction in both loan size and loan term at level of 85.71%. Mixed group has seemed least fulfillment with both clauses on size and duration in credit contract. The last category had the largest difference in satisfaction between size and term in their loans. Almost 85% of households in this group have said that duration of loans which were provided by lenders had been suitable with their demands, while only 53.85% of them were pleased with the amount of credit that they had received.

Table 5.8: Required credit in comparison with received loan in fact by household groups

	Total sample (n=45)	Agricultural households (n= 7)	Mixed households (n=12)	Non farm households (n=26)
Ratio of households were satisfied loan size (%)	60.00	85.71	58.33	53.85
Ratio of households were satisfied loan term (%)	77.78	85.71	58.33	84.62
Households willing continue to obtain credit (%)	91.11	85.71	91.67	92.31

Source: Household survey, 2009

Because of unsatisfied about loan size, almost all of sample households (91.11%) has expressed willingness to continue for obtaining credit in near future. Especially to VBSP - the lender has provided subsidized loans - this ratio has been highest, at level of nearly 100%. In comparison with other groups, the portion of agricultural households who want to get more credit has been the lowest, at 85.71%.

One household of this group has said that amount of received credit at the moment has been enough for his family's demands and he has not dared to increase his debts for expanding scale of production due to potential risks.

The different groups have not been the same in credit demand. Moreover, their loans have been used for many different purposes. The sample households have obtained credit to solve a series of investing demand, including farming, livestock husbandry, small trading and craft, building houses or buying commodities, paying old debts, spending for education, anniversaries, and buying foods. The differences of client groups in borrowing purposes were revealed in table 5.9.

For total sample, number of household getting loans for foods and investing on small trade and crafts have occupied the biggest proportions, up to 55.56% of households. Education purpose has also held a significant rate with one third of total households. The remarkable purpose has been to pay for the previous debts. Though this purpose has kept less than 9% of total households but it has been an ominous sign for repayment because using loans for that purpose had meant the households could not get benefit which was usually expected for paying back. Furthermore, it has shown that the households have had many debts at the same time.

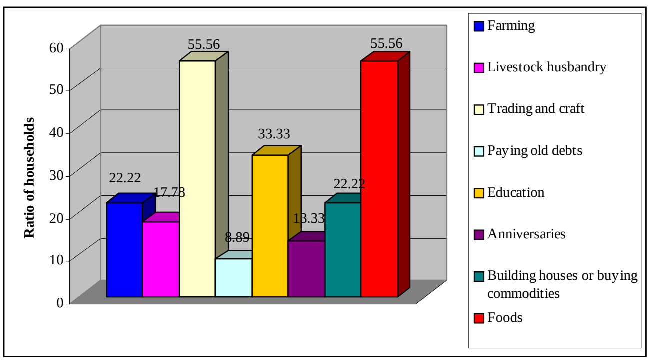
In agricultural group, farming and foods purposes have taken the biggest ratio of households. Approximately 86% of households have gotten credit for foods purpose. This purpose has been recorded as credit in kind from shopkeepers. Agricultural households had the biggest size of family, so lack of cash to buy foods has temporarily occurred, especially before harvesting period. Anniversaries have occupied a considerable position in agricultural group and mixed group with 28.57% and 25% of households, respectively. In rural areas, people still keep more or less traditional life style, therefore, they value anniversaries. That is why some households have recorded obtaining credit for this purpose.

Table 5.9: Percentage of sample households by borrowing purposes (%)

Borrowing purposes	Total sample	Agricultural households (n= 7)	Mixed households (n=12)	Non farm households (n=26)
Farming	22.22	57.14	50.00	0.00
Livestock husbandry	17.78	28.57	33.33	7.69
Trading and craft	55.56	14.29	50.00	69.23
Paying old debts	8.89	28.57	8.333	3.85
Education	33.33	28.57	16.67	42.31
Anniversaries	13.33	28.57	25.00	3.85
Building houses or buying commodities	22.22	14.29	16.67	26.92
Foods	55.56	85.71	41.67	53.85

Source: Household survey, 2009

In mixed group, the major proportion of number of households has obtained loan for production purposes. A half of households in this group have used credit for farming, trading and craft



while one third of them has asked loan for investing in livestock husbandry. Foods have been continued purpose that many households spending for in this group with more than 40% of households.

Figure 5.1: Borrowing purposes

No households of the non farm group have spent credit on farming. The ratio of non farm households getting loan for livestock husbandry has been insignificant, with only two households equivalent to 7.69%. This pattern can be explained by the poor situation on land areas of non farm households. These households owned small area of land, so instead of agricultural production, they have obtained loan for trading and investing on craft activities. Percentage of non farm households getting credit for trade and craft purposes have been revealed as highest position in comparison with other groups.

As regard above, non farm families have been mentioned as nuclear families so ratio of children is quite high. It might lead to the non farm group to be the top of households who take credit for their children's expenditure on education. 42.31% of non farm households have used credit for education purpose. Many households of this group have expressed that they spend money on schooling of their children with expectation that their children can get official jobs in future. Foods, together with education, have also been borrowing purpose of many households in non farm group. They have highlighted that because they did not conduct agricultural activities, thus, they were not self-sufficient of rice or vegetables. Therefore, these households have usually obtained credit in kind every month from food shops and repaid about one to three months later.

In a concise manner, in terms of the participation of households in credit market, it can be divided into non borrowing and borrowing households. The early ones included no-demand households and impeded households. The reasons for not participating in credit market of non borrowing households are various, from immanent reasons of households to reasons coming from lender side. Among borrowing households, agricultural group has received credit with the biggest number of loan, however, this group has tended to obtain loan with small size, therefore the average amount of credit in agricultural households is the smallest. The two other groups were quite similar to each other in number of loans and amount of credit. Related to characteristics of client groups, all groups are recorded highly in dependent ratio. However, there are significant differences among borrower groups in household's features and credit transaction characteristics.

5.5 Segmented credit market

In the previous sections, general characteristics of credit market as well as of lenders and borrowers have been discussed. This section will look deeply at the segmentation of market. How it is segmented, how behaviours of lenders and borrowers in segmented credit market are, what differences among credit sectors as well as borrowing groups are should be specified in this section. Data from households survey and group discussions were exploited to answer those questions.

5.5.1 Segmented by loan size

In respect of volume, credit market in Phu Thuong commune can be separated by amount of loan per household. From table 5.10, we can see that there were differences among three group of households in term of total credit. Agricultural households have obtained credit with the smallest amount in average, about 17.47 million VND per household. Mixed group and non farm group have been not much different in credit volume with around 24 million VND each household. These figures have agreed with results from group discussions when the participants had stated that credit demand of agricultural households is smaller than other groups. They have explained that because non farm activities need more working capital in comparison with farm production, therefore farmers do not get more credit than traders or handicraftsmen do.

The figures on table 5.10 expressed that, in general, sample households have received loans mainly from formal sector. Of which total 24.32 million per household, formal sources have occupied more than 44%, equivalent to 10.81 million VND while semi formal sources have shared the smallest portion with 24.5%. However, to each group of households, this pattern has not always been followed. Formal sector has kept the first position in group of agricultural households and group of mixed households with 50.7% and 59.37%, respectively,whereas, in non farm group, informal sector instead of formal sector held the biggest part in average amount of credit per household with 39.6%. This group, different from the remainders in structure of credit sources, has gotten loans from three sectors with not much disparity in proportion. Semi formal sector has in turn seized the end position in agricultural group and the second place in both mixed group and non farm group.

Table 5.10: Average amount of credit per sample household by credit sectors and household groups * *(million VND)*

	Total sample (n=45)		Agricultural households (n= 7)		Mixed households (n=12)		Non farm households (n=26)	
	Mean	Sd	Mean	Sd	Mean	Sd	Mean	Sd
Formal sector	10.81 (44.42)	8.86	8.86 (50.70)	4.88	14 (59.37)	6.98	7.77 (31.37)	6.94
Semi formal sector	5.96 (24.50)	3.26	2.29 (13.07)	2.29	6.17 (26.17)	3.64	7.19 (29.03)	2.17
Informal sector	7.56 (31.08)	6.63	6.33 (36.23)	5.54	3.41 (14.46)	1.99	9.81 (39.60)	7.31
Total	24.32 (100)	6.89	17.47 (100)	5.06	23.58 (100)	6.44	24.77 (100)	5.98

Source: Household survey, 2009

(*) Numbers in parentheses are percentage figures

The differences among three groups can be interpreted by particular features in income generating activities of each group. Agricultural production has the long time for capital turn over, so it needs loans with long duration. Moreover, the investment in this kind of production requires a big amount of capital but not regular. This request can be satisfied by formal lenders; hence, the first and the second group have mainly obtained credit from this sector. On the contrary, non farm activities need regular working capital and also have the shorter time for getting back capital. It means that people who conduct non farm activities will prefer credit sources which supply regularly with the shortest time for waiting loans. Since this reason, non farm group has looked for credit from all sectors and asked the most amount from informal lenders.

Looking from lender side through table 5.11, for total sample, loans have recorded the biggest size in formal credit sector and the smallest size in informal sector. This pattern has been confirmed in group of agricultural households and group of non farm households.

All groups have received credit with biggest amount from formal lenders. The reason for these choices have interpreted simply that because the interest rate of formal loans are much lower than that in semi formal and informal sector, hence, people have tried to get as much as possible from formal credit sector. In addition, to satisfy specific credit demands of each borrower, they have sought more from other sources.

Table 5.11: Average loan size by credit sector and household groups (*million VND*)

	Total sample (number of loans=174)		Agricultural households (number of loans=29)		Mixed households (number of loans=46)		Non farm households (number of loans=99)	
	Mean	Sd	Mean	Sd	Mean	Sd	Mean	Sd
Formal credit (52 loans)	9.35	4.63	6.89	2.85	8.84	3.96	8.42	3.69
Semi formal credit (46 loans)	5.83	2.16	2.29	1.38	6.17	1.75	6.93	1.47
Informal credit (76 loans)	4.48	3.15	3.41	1.34	2.72	0.61	5.31	3.63
Total	6.29	4.02	7.19	2.65	6.15	3.76	6.60	3.42

Source: Household survey, 2009

(*) including people or enterprises who provide credit in kind such as foods, agricultural input materials, building materials

The agricultural group has had the distinction of average loan size from semi formal lenders in comparison with other groups. In place of informal sector, farmers have obtained loans, with the smallest amount, from semi sector, at level of 2.29 million VND per loan. While this figure in the two rest groups has been much bigger, more than twice the agricultural households' loan size in the same sector. This differential was caused by unfitting between the repayment schedule regulated by semi formal lenders and production traits of agricultural borrowers. TYM Fund, the major semi formal lender, has required weekly repayment. Of course, bigger loan size is also bigger in amount of weekly instalment. While, as regarding before, capital turn over period of agricultural production is quite long, thus, farmers have no regular income to fulfill instalments as regulation. Therefore, they have not dared getting, nor has the TYM Fund accepted offering a big loan. Conversely, the households who have non farm activities such as small trade usually get income by cash regularly every day. This character has been a strong foundation leading the two other groups to get loans from semi formal sector.

With mixed households, they have only asked for small loan size, at level of 2.72 million per loan, from informal lenders. The question should be raise in here regarding why this group just gets small loans from informal sector. The answer for this question has been found out from group discussion and in depth interview results. According to those data, this group has both income sources, one from agriculture and another from non farm activities, hence, they can more or less be self-sufficient by their diversified income. Therefore, they have only gotten credit from informal providers in urgent cases to avoid high interest rate which had been mentioned like a character of informal loans.

Data from table 5.10 and table 5.11 indicated amount of credit per household as well as per loan. In this part, the discussion will focus more deeply on the segmentation of credit market into big size and small size. So, how many percent of transactions in each scale of loan are belong to a certain credit sector? How is different among three groups in share of loan transactions in each scale? These questions should be posed in this context.

Table 5.12: Share of credit transactions by loan size and credit sector for total sample

	Formal sector		Semiformal sector		Informal sector		Total market	
	Number of loans	%	Number of loans	%	Number of loans	%	Number of loans	%
Number of loans up to 5 mil. VND	18	10.34	18	10.34	54	31.03	90	51.72
Number of loans over 5 mil. VND	34	19.54	28	16.09	22	12.64	84	48.28
Total	52	29.89	46	26.44	76	43.68	174	100

Source: Household survey, 2009

According to results from group discussions, clients can ask for loans without collaterals under group lending regime at level of 5 million VND from VBARD. In addition, based on group discussions, loans with amount over 5 million VND have been mentioned as big scale, otherwise, loans have been arranged in small scale.

Figures in table 5.12 reveal that for total sample households, majority of transactions has come from informal sector. Number of loans from this sector have held 43.68% of total 174 loans. Formal and semi formal sector have kept the similar portion at 29.89% and 26.44% of total loans, respectively. These results reflect a feature in rural society where people are usually close in community relationship, thus, the mutual assistances among local people as well as the informal exchanges are very common. Therefore, quantity of informal transactions in credit market also keeps a major part. Moreover, the alternatives in formal credit sources are not much in rural areas in comparison with urban regions. Even though in case formal sources are available, rural people are not sure that they can obtain loans from there. These reasons have lead people go to informal lenders.

In aspect of loan size, the loans have mainly belonged small scale. However, the disparity in ration between two scales has been slight. Number of loans up to 5 million VND has occupied 51.72%, whereas this number in loans over 5 million VND was 48.28% of total transactions. For small loans, transactions have been mainly implemented in informal sector with more than 31% of total loan, equivalent to 60% number of loans up to 5 million. For big scale, local people have asked from both formal, semi formal and informal lenders with not much difference in proportion. The biggest share have belonged to formal sector with 19.54% of total loans, it means approximately 40% number of loan over 5 million VND. Informal lenders have provided big loan with smallest portion, at 12.64% of total loans, equivalent 26% of loans in this scale.

Table 5.13: Share of credit transactions by loan size and credit sector for agricultural households

	Formal sector	Semiformal sector	Informal sector	Total market

	Number of loans	%	Number of loans	%	Number of loans	%	Number of loans	%
Loans up to 5 mil. VND	5	17.24	7	24.14	11	37.93	23	79.31
Loans over 5 mil. VND	4	13.79	0	0.00	2	6.90	6	20.69
Total	9	31.03	7	24.14	13	44.83	29	100.00

Source: Household survey, 2009

With agricultural households, figures in table 5.13 show that, situation of credit transactions have been the same as total sample's. It means that a major part of transactions has come from informal sector and most loans have belonged to small scale. However, the level of these figures is different from those in total sample.

Number of loans from informal sector have occupied nearly 45% of total 29 loans. Formal and semi formal sector have kept in turn about 31% and 24% of total loans. Agricultural households have explained that, since their income sources have only based on farm so it is not always they have enough money to buy goods that they need such as foods, fertilizer, seeds, pesticide, or feeds. Therefore, they usually get these goods on credit. And because these goods are only available at shopkeepers, so they have gone to that informal source for asking for this kind of credit.

In term of loan size, there have been 23 of 29 loans, accounting for more than 79% of total loan, belonging to small scale. Almost a half of these loans have come from informal lenders. For loans over 5 million VND, local people have received from both formal and informal lenders but mainly from formal sector (4 of 6 transactions). No loan at this scale has been gotten from semi formal providers. These figures can be demonstrated by looking at goods that agricultural households had bought and financial capacity of each sector. These households have often bought normal goods which are not high price and with small volume. In addition, financial capacity of formal lenders is much larger than that in informal ones. Therefore, most loans in agricultural group are not bigger than 5 million VND and borrowers have usually required small loans from informal sector but from formal sector for big loans.

Table 5.14 provided information about loans of mixed households. Transactions of this group have some features similar to that in whole sample and agricultural group. Firstly, small loans have occupying majority with 54.35% of 46 loans and these transactions have been mainly carried out by informal lenders with three fifth of total 25 transactions. Secondly, people usually have received big loans from formal sector, at 28.26% of total, equivalent 60% of transactions in this scale. No loan over 5 million have been asked from informal lenders.

The distinction character of this group is the biggest part of transactions has belonged to formal sector instead of informal sector. More than 41% of total transactions have been implemented by formal lenders in comparison with about 26% in semi formal sector and 33% in informal ones.

Table 5.14: Share of credit transactions by loan size and credit sector for agricultural - none farm households

	Formal sector		Semiformal sector		Informal sector		Total market	
	Number of loans	%	Number of loans	%	Number of loans	%	Number of loans	%
Number of loans up to 5 mil.	6	13.04	4	8.70	15	32.61	25	54.35

VND								
Number of loans over 5 mil. VND	13	28.26	8	17.39	0	0	21	45.65
Total	19	41.30	12	26.09	15	32.61	46	100.00

Source: Household survey, 2009

For the last group - non farm households, the statistical figures on transactions by loan size express in table 5.15. The characters about credit transactions of this group have some points similar to that in whole sample and other groups. These are the majority of transactions belonging to informal sector, and this sector also being the main sources of loans with small scale. According to that, more than 48% of total transactions in non farm have occurred in informal sector, the rest of transactions has been shared between formal and semi formal lenders with 24.24% and 27,27% of total 99 loans.

Table 5.15: Share of credit transactions by loan size and credit sector for none farm households

	Formal sector		Semiformal sector		Informal sector		Total market	
	Number of loans	%	Number of loans	%	Number of loans	%	Number of loans	%
Loans up to 5 mil. VND	11	11.11	4	4.04	28	28.28	43	43.43
Loans over 5 mil. VND	13	13.13	23	23.23	20	20.20	56	56.57
Total	24	24.24	27	27.27	48	48.48	99	100

Source: Household survey, 2009

The different trait here is instead of small loans, big scale of loans have occupied majority in total loans with 56 loans, accounting for approximately 57%. The providers for loans over 5 million have not been formal lenders but semi formal and informal ones. These two sectors have in turn supplied 23.23% and 20.2% of total loans. It is approximately 41% and 31% of total 56 big loans. The non farm households have explained that their demands to credit are quite big, they even have required not only one loan over 5 million VND but also several of this loan. Formal lenders usually apply credit rationing in terms of number of loans and amount of credit per household, especially with fiduciary loans or loans without collaterals. Therefore, they have gone to semi formal and informal sector where number of loans is not restricted.

Table 5.16: Number of borrowing households by credit sectors

	Total sample (n=45)		Agricultural households (n=7)		Agricultural - Non farm households (n=12)		Non farm households (n=26)	
	No. of hhs.	%	No. of hhs.	% *	No. of hhs.	% *	No. of hhs	% *

Formal, semi formal and informal sector	31	68.89	5	11.11 (71.43)	9	20.00 (75.00)	17	37.78 (65.38)
Formal, semi formal sector	2	4.44	1	2.22 (14.29)	1	2.22 (8.33)	0	0.00 (0.00)
Formal and informal sector	4	8.89	1	2.22 (14.29)	2	4.44 (16.67)	1	2.22 (3.85)
Semi formal and informal sector	6	13.33	0	0.00 (0.00)	0	0.00 (0.00)	6	13.33 (23.08)
Semi formal sector	2	4.44	0	0.00 (0.00)	0	0.00 (0.00)	2	4.44 (7.69)

Source: Household survey, 2009

(*)Numbers in the first row are compared with the total sample; numbers in second row (in parentheses) are compared with each group of households

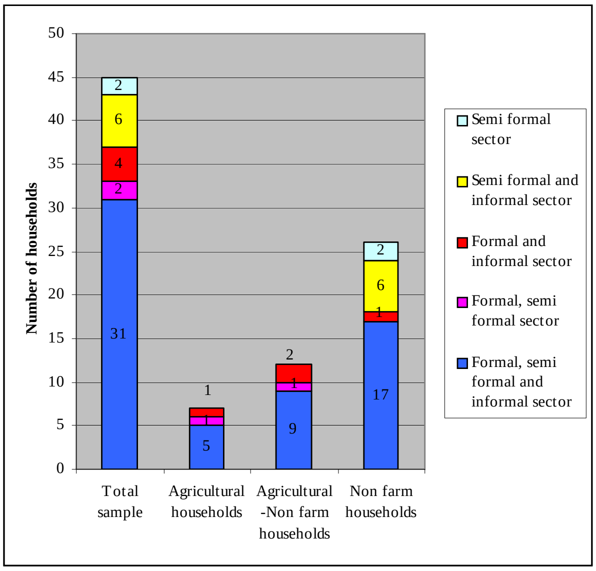


Figure 5.2: Sectors of borrowing

Though credit market have been segmented by loan size in aspect of credit sectors as well as groups of households as mentioned above, the market has still included the interaction among credit sectors. Figures from table 5.16 showed that most households have received loans from two to three sectors and only 4.44% of them have just obtained from one lender. The most common in total sample as well as in each group is households getting credit from all three sectors. There are nearly 69% of total households receiving loans from all sectors, of which, non farm households have occupied the biggest share, at 37.78%. In comparison within each group, the rate of households who received credit from both formal, semi formal and informal sector has held more than 65% in all three groups. It seems that the sample households have had big demand of credit, hence, they have taken as much as possible amount of credit, suitable with their conditions, from all sectors. Of course the prioritized order of lenders in their choices is differential among groups due to their different conditions.

Briefly, agricultural households have obtained credit with the smallest amount in average, of which 50.7% come from formal sector. Mixed group and non farm group have been not much different in credit volume. However, the biggest part in volume of credit of agricultural households and mixed households has come from formal sector, whereas, in non farm group, the biggest share has belonged to informal sector. Looking from ratio of transaction by loan size, majority of loans in agricultural households and in mixed households have been small size (up to 5 million VND), and has belonged to informal sector. For non farm households, on the contrary, big size loans (over 5 million) have occupied the majority of loans, and have come from semi formal and informal lenders. Though segmented by loan size, the market has still included the interaction among credit sectors. Most households have received loans from two to three sectors, only 4.44% of them have just obtained from one lender.

5.5.2 Segmented by duration

Together size and duration of loan are also features that both lenders and borrowers pay attention to. In fact, the demand on loan durations of the different borrowers is not similar. In addition, from lender side, the different providers also target at the different groups of clients with distinct duration of loan. So what are the characteristics of lenders as well as borrowers in term of loan? How has this feature been segmented in Phu Thuong credit market? These questions will be interpreted in this part.

Table 5.17: Average loan period by credit sectors and household groups

	Total sample (n=45)		Agricultural households (n= 7)		Mixed households (n=12)		Non farm households (n=26)	
	Mean	Sd	Mean	Sd	Mean	Sd	Mean	Sd
Formal sector	28.91	12.72	22.06	11.59	27.42	13.86	29.11	13.55
Semi formal sector	11.37	2.18	10.13	2.27	11.11	2.71	11.61	1.92
Informal sector	5.12	4.16	1.74	2.89	7.85	4.09	4.92	4.67
Total	17.22	11.38	13.14	8.31	20.33	11.85	14.45	11.86

Source: Household survey, 2009

In general, there has been a big gap between credit sectors as well as groups of borrowers in terms of loan duration. For total sample, average of credit period was recorded at 17.22 month. However, this figure in formal sector is much bigger than that in other sectors and mean of sample. Formal lenders have provided loans with approximately 29 months of duration in average, it means more than 5 times longer than that in informal sector.

Reason why loan period is extremely different among sectors can be answered by looking at characters of lenders and purposes of loans. Survey data have showed that all loans from formal lenders are bigger than 12 months, even reached up to 48 months in case borrowing for education. According to Government policy, VBSP will provide loan to households who has one or more members studying at universities or colleges with duration equalling period of study time. Moreover, some big loans in VBARD have come to 60 months in duration. In addition, majority of loans from informal sector has been used for foods temporarily. Informal providers have not had enough financial capacity to supply credit so long. Furthermore, though loan terms in informal sector are usually unspecified before hand, but the borrowers have often spent priority for repaying first to avoid high interest rate. Therefore, the figure of loan term in formal sector has stayed at high level while in informal lenders has remained at low level.

In specific group, this pattern has been repeated. Loan term is always longest in formal sector and shortest in informal one. However, the level of gap in loan duration between formal and informal sector is not similar among different groups. For agricultural group, loans from informal lenders have had the shortest term, at level of 1.74 months, it means more than 12 times smaller than that from formal lenders. With mixed households and non farm households, this gap is only about 3.5 times and 5.9 times, respectively.

Table 5.18: Number of loans by duration scale and household groups

	Total sample (numbers of loans=174)		Agricultural households (numbers of loans=29)		Mixed households (numbers of loans=46)		Non farm households (numbers of loans=99)	
	No. of loans	%*	No. of loans	%*	No. of loans	%*	No. of loans	%*
Number of loans up to 6 months	*57*	*32.76*	11	6.32 (37.93)	8	4.60 (17.39)	38	21.84 (38.38)
Number of loans from 6 to 12 months	*76*	*43.68*	11	6.32 (37.93)	25	14.37 (54.35)	40	22.99 (40.40)
Number of loans longer than 12 months	*41*	*23.56*	7	4.02 (24.14)	13	7.47 (28.26)	21	12.07 (21.21)

Source: Household survey, 2009

(*)Numbers in the first row are compared with total sample, numbers in second row (in parentheses) are compared with each group of households

Figures in table 5.17 and table 5.18 have revealed clearly that from lenders' aspect, segment of loans with duration shorter than 6 months has belonged to informal lenders while formal ones in turn have taken segment of term loan longer than 12 months. The rest segment from 6 to 12 months of loan period has been occupied by semi formal lenders.

Among three segments, the segment of loan duration from 6 to 12 months has held the largest portion with 76 loans, accounting for 43.68% of total loans. The segment of loans longer than 12 months has kept the smallest rate with 23.56% of total loan. Through group discussions it has been found that because most loans have served consumption and production purposes at small scale so borrowers usually asking for medium period of loan. Whereas, numbers of borrowers getting loan for big investment such as building storehouse, buying equipments of paying education fees are not much. Therefore, the segment of long term loan has had smallest share.

From borrower's aspect, fragmenting within each household group is not strong, except in case of mixed households. It is due to the diversity in credit sources that borrowers obtain loans from. Because the different credit lenders are extremely different in loan period, hence, if borrowers get loan from many sources, the duration will be varied. In particular case of mixed group, the segment of short term loan has revealed much smaller share in comparison other segments within group as well as other groups, at level of 4.6% of total loans and 17.39% of loans in the group. It is caused by the special feature in income sources of this group. In this light, mixed households have income from both farming and non farm activities, thus, this group can more or less fulfill temporary deficit for daily foods. That is why this group has not gotten so much short loans, which are mainly for foods.

In short, regarding to duration of loans, there has been a big gap among credit sectors. Formal lenders have provided loans with long time of duration in average, more than 5 times longer than that in informal sector. The rest segment from 6 to 12 months of loan period has dominated by semi formal lenders. From borrowers aspect, segmenting within each household groups by loan duration is not strong, due to the diversity in credit sources that borrowers obtain loans from.

5.5.3 Segmented by loan purposes

Through the micro-econometric analysis of household surveys, Bao Duong & Izumida (2002) claimed that the rural credit market in Vietnam is quite segmented. In that light, they found out the formal sector is specialized in lending for production activities whereas the lending purposes of informal sector are quite diverse. How rural credit market in study site is segmented? How are the market in particular Phu Thuong case different from general market in previous research in rural credit field? In this part, these questions will be discussed.

Table 5.19: Lending purposes in the different lenders

Lenders	Education purpose	Production purpose	Consumption purpose
VBARD	Depend on clients	Yes	Depend on clients
VBSP	Yes	Yes	No
Sacombank	Yes	Yes	Yes
TYM Fund	Yes	Yes	Yes
PTAC	No	Yes	No
Moneylenders	Yes	Yes	Yes
Shopkeepers	No	Yes	Yes
ROSCAs	Yes	Yes	Yes
Relatives and friends	Yes	Yes	Yes

Source: Compiled by author from Group discussions, Key informant interview and household survey, 2009

Information about lending purposes has been collected and cross checked through Group discussions, Key informant interview and household survey. The results have been synthesized and presented in table 6.18. According to that, the lending purposes have been recorded differently among credit sectors as well as among lenders in each sector. The lenders are divided into two groups by level of variety in credit products, including group of lenders with multiform credit services and group of lenders with uniform credit services. The first group has comprised Sacombank, TYM Fund, moneylenders, ROSCAs, and relatives and friends. The second group has embraced VBARD, VBSP, PTAC, and shopkeepers. The first group has provided loan mainly in cash to clients for both production and consumption purposes and education. The second group has delivered credit in kind or in cash or both for either education and production purposes or consumption and production objectives. Especially, PTAC has only served loan for production demand.

From table 6.18, it can be concluded in general that credit market in Phu Thuong commune has been segmented in term of lending purposes. In this respect, the segment of production purpose has been supplied by all lenders whereas the segment of education aim and the segment of consumption purposes have been distributed over some lenders.

Loans for spending on education have not been accepted by VBARD (cases of loans without collaterals) PTAC and shopkeepers. Support to production activities is the mission of PTAC, hence, this organization focus just on production purpose. With shopkeepers, they have mostly delivered goods, thus, it is difficult for them to serve education purpose, which has mainly based on credit in cash. The segment for education has been prioritized by VBSP due to assistant policy for pupils and students from the Government. Other lenders have accepted their clients using loans for education but not set priority like in VBSP.

Credit for consumption has not been targeted by VBSP, PTAC and VBARD (cases of loans without collaterals). The rest of the providers have supplied credit for consumption, but in fact, most of them have not cared whether the borrowers use loans for consumption or not. Only in particular case of Sacombank has seemed targeting at this purpose when Sacombank has concentrated its promoting on people who do not conduct production or trade activities but work as official labour and get salary every month.

With VBARD, regarding to lending purpose, there is the difference between information from key informant interview and information from group discussions and household survey. Staff of VBARD have affirmed that lending on education and consumption is one of many services of VBARD. However, results from group discussion and household survey have revealed that VBARD provides only credit for production purpose. Author has cross checked information one more time and recognized that VBARD will supply clients with education and consumption loan if clients have regular and stable income (salary in normal case) and have financial capacity to repay loan, other cases VBARD only lends production purpose, especially for loans without collaterals. In the study sample, all loans from VBARD have been asked for production and most of them are small and without collateral loans (not bigger than 5 million VND), thus, information of local clients is different from that of VBARD's representative.

In comparison with study of Bao Duong & Izumida (2002), Phu Thuong case has had some different points. That is rural credit market has been segmented by lending purposes into segment of production purpose and segment of other purposes not completely from formal or informal sector aspect but also from the different lenders. In this light, each credit sector in general can take part in all segments. Only looking at each lender, the distinction in segment that this lender participates in is clear. From the aspect of each lender, it can be identified clearly that a certain lender supplies certain segments, like discussed above.

It is worth to note that reality purposes of loans have been different from that in credit contracts. Sometimes in the application, the borrowers had required loan for this purpose but after getting loan they had used it for other purpose or divided it into many parts for many purposes. Table 5.20 has expressed this situation.

Table 5.20: The differences between purposes for using credit on paper and in reality (% of sample household)*

Loan purposes	On paper	In reality
Production	84.44	88.89
Consumption	17.78	100
Education	15.56	33.33

Source: Household survey, 2009

(*) One household may get many loans for several purposes, hence, total is over 100%

The figures in table 5.20 are the ratio of sample households who had used loans (whole or a part of loans) for a certain purpose. It is interesting to see that the disparity between loan purposes on paper and in reality was the most obvious with consumption purpose. There have been only about 18% of surveyed households who had submitted application for consumption but 100% of them using credit for this purpose. This disparity can be explained by two reasons. The first, most consumption credit in kind from informal lenders have not required loan applications with exact using purpose. The second, because some lenders have not given loan if requiring for consumption, whereas all lenders accept loan for production purpose, therefore borrowers have tended to ask loans for production and then they have shared those loans out between education and consumption purposes. This situation can make potential risks higher because using loans for consumption does not create profit like for production, therefore, borrowers may fall into bad debt status. Moreover, most loans which were applied for production are without collaterals, thus, if borrowers change loan purpose from production to consumption, lenders will have to deal with difficulties in withdrawing the loans.

The rate of households using loans in reality has been higher than that on paper not only in consumption case but also in production and education purpose. Government policy on supporting credit to education applies only to students who are studying at universities or colleges, not to pupils in primary, secondary and high schools. Therefore, there has been few households (less than 16%) who have required credit for this purpose on application, whereas in reality more than twice as many households spend loans on education in general.

In summary, with regard to loan purposes, the segmentation has not been only from each credit sector aspect, but also from the different lenders. One group of lenders has provided all types of credit services and another group of lenders has provided only one to two among production, education and consumption loans. It is worth to note that reality purposes of loans have been significantly different from that in credit contracts. Most borrowers had required loan for a certain purpose in the application, but after getting loan they had used it for other purposes or divided it into many parts for many purposes.

5.5.4 Segmented by interest rate

Interest rate is the important term in credit contract. Both borrowers and lenders care about this term when they carry out loan transactions. Table 5.21 provides the figures related to average interest rate of loans and evidences about the segmentation of rural credit market in the study site.

In general, the segmentation of interest rate has been revealed clearly among credit sectors, especially between formal sector and the two other sectors. It has been separated into subsidized-low interest rate and market-high interest rate. Average interest rate of loans in formal sector is lowest, approximately a half of that in semi formal sector and informal one. The low level of interest rate at 0.877% per month on average of this sector had been reached because of the concessionary interest rate from VBSP's loans. Accounting for the significant quantity of loans in formal sector, VBSP has served credit with subsidized interest rate by policy of the Government, at 0.5% to 0.65% per month.

Table 5.21: Average interest rate of loans by credit sectors and household group categories (%/month)*

	Total sample (n=45)		Agricultural households (n= 7)		Mixed households (n=12)		Non farm households (n=26)	
	Mean	Sd	Mean	Sd	Mean	Sd	Mean	Sd
Formal sector	0.877	0.287	0.675	0.171	0.838	0.197	0.961	0.345
Semi formal sector	1.730	0.300	1.560	0.310	1.694	0.369	1.763	0.260

Informal sector	1.617	1.111	2.027	1.070	1.369	0.578	1.586	1.223
Total	1.316	0.861	1.281	0.869	1.139	0.536	1.441	0.957

Source: Household survey, 2009

(*) Interest rate of loans from semi formal and informal lenders are not always be counted by month, author has calculated and unified them into month

It is interesting to note that semi formal sector, instead of informal sector as normal expectation, has held the highest interest rate among three sectors. Both TYM Fund and PTAC of semiformal sector have provided loan with fixed interest rate at level of 1.815% per month and 1% per month, respectively. Moreover, the number of loans from TYM Fund have occupied the majority in total loans of semi formal, hence, it has lead the interest rate of the sector in average to level of 1.73% per month. Regarding the informal sector; even though it has included moneylenders who have lent with high interest rate, at around 2% -5%/month, has only kept the second position in comparison with the interest rate of two other sectors. One of reasons here is due to some providers giving credit at the very low interest rate in informal sector. Relatives and friends have often lent money with subsidized interest rate, even at 0%. The survey results have revealed that these lenders have given loans as helping due to kinship or friendship instead of profit, thus, they have not asked high interest rate. Moreover, few ROSCAs which have been established among official staffs have also provided loan free of charge in lending to members. They have explained that, because they were colleagues so should help each other in difficult situations of life. That will make the relationship among them be tighter, not only in life but also in work. The reasons relating to social aspect for setting low interest rate among relatives, friends and colleagues have contributed to lower the interest rate of whole sector. Another reason causing the average interest rate to be not so high in informal sector is because of the small proportion of the high interest rate loans from moneylenders in the total volume of informal credit. Amount of money that had been borrowed from this source has just occupied 18% of total (61 million VND in comparison with 340.1 million VND).

Dissimilar to the segmentation among credit sectors, the segmentation of interest rate among household groups is not apparent. Average interest rate of loans in three groups have not fluctuated much, changing from 1.281% per month in agricultural group to 1.441% per month in non farm group. This situation is caused by the variety in credit sources that households can ask for loans. As mentioned in part 5.5.1, the sample households have borrowed from not only one but also many lenders from three credit sectors, therefore, average interest rate within group have been mixed among loans. However, there is a distinction that should be considered in agricultural households. That is loans from informal sector which have been obtained by this group have reached to more than 2% per month, beeing the highest level within this group as well as in comparison with other groups. Loans from informal sector of agricultural households have mainly been lent by moneylenders, who have charged high interest rate normally. By doing so, the loans belonging to informal sector of agricultural group have incurred high interest rate.

To get a deep view on the segmentation of credit market, the interest rate will be classified into different levels for discussing continuously. Table 5.22 shows the figures related to this issue.

Table 5.22: Number of loans by interest rate scale and household groups

	Total sample (numbers of loans=174)	Agricultural households (numbers of loans=29)	Mixed households (numbers of loans=46)	Non farm households (numbers of loans=99)

	No. of loans	%*	No. of loans	%*	No. of loans	%*	No. of loans	%*
Interest rate lower than 1%/month	37	21.26	8	4.60 (27.59)	12	6.90 (26.09)	17	9.77 (17.17)
Interest rate 1%/month or higher	137	78.74	21	12.07 (72.41)	34	19.54 (73.91)	82	47.13 (82.83)

Source: Household survey, 2009

(*)Numbers in the first row are compared with total sample, numbers in second row (in parentheses) are compared with each group of households

From table 5.22 it can be found that in general, loans with interest rate over 1%/month which can be called market interest rate, have occupied the majority of total loans, accounting for up to 78.74%. This pattern has been repeated in all three household groups. Ratio of loans with market interest rate has been relatively similar among the different groups, at level of about 72% to 83%. Loans with interest rate lower than 1%/month, which can be called subsidized interest rate, have kept only 21.26% of total loans. Within each group, this figure in non farm households has been smallest at around 17% while at from 26% to 27% in two rest groups.

The segmentation of loan numbers by scale of interest rate has suited with trait of credit market in rural areas. Because lenders who provide subsidized interest rate are not much, only VBSP, relatives and friends, and several ROSCAs (which have been established among colleagues in State institutions) while credit providers with market interest rate are abundant, including commercial banks (VBARD, Sacombank), semi formal lenders, moneylenders, a lot of shopkeepers, and the rest of the ROSCAs.

From above discussions, it can be concluded that beside duration, purpose and amount of loans, the segmentation of interest rate has been revealed clearly among credit sectors, especially between formal sector and the two rest sectors. It has been separated into subsidized-low interest rate in formal sector and market-high interest rate in informal and semi formal sector. Average interest rate of loans in formal sector is lowest, approximately a half of that in semi formal sector and informal one. From borrowers' aspect, the segmentation of interest rate among household groups has not been clear because of the variety in credit sources that households ask for loans.

5.6 Reasons for segmenting of credit market in Phu Thuong commune

The sections above have discussed about main lenders, borrower groups in rural credit market and clarified their characteristics; made clear the differences between borrowing and non borrowing groups as well as among borrowing groups in lending - borrowing transactions. By doing so, the questions what structure of rural credit market is, what the different characteristics among borrowers as well as among lenders in lending are, how the rural credit market segmented is have been clarified. The remaining questions are what reasons and conditions make the rural credit market segmented, why are there differences in choosing credit sources among borrowers. This section will interpret these questions through policy-based explanations, information and conditions of transaction.

5.6.1 Policy-based reasons

Government policies are the important factors influencing financial markets, in general, and the segmentation of credit markets, in particular. The impacts of policies on segmenting of rural credit market are in some cases direct, some others indirect. It can influence the whole market or just some sectors in the market. Its effects may either be temporary or long term.

Empirical evidences in study site have demonstrated that several legal documents have influenced on segmenting of credit market in Phu Thuong commune. First of all, the rule on the maximum interest rate of Civil Code (2005) and the regulation on basis interest rate of State Bank of Vietnam (SBV) have framed the interest rate of commercial banks. According to the Civil Code, all credit institutions are not allowed to lend at interest rate 150% bigger than the basic interest rate, and SBV set the basic interest rate changing from 7% to 8%/year during 2009, therefore, most commercial banks, including VBARD and Sacombank, applied interest rate within 10.5% to 12%/year. It also means that commercial banks will hold the segment by interest rate from 7% to 12%/year, even from 10.5% to 12%/year because all banks want to get maximum profit.

In recent years, the Government has promulgated many programs which provide subsidized interest rate to target groups, including the poor and students. The interest rates in these programs have been regulated by the Government at level 6% to 7.8%/year (equivalent with 0.5% to 0.65% per month). These programs have created a new sub-segment in formal sector with low interest rate in rural credit market, in which, VBSP is the unique lender. Moreover, this policy has pulled significant amount of clients from other lenders, especially from informal sector such as moneylenders, shopkeepers, who often charge high interest rate, coming to VBSP to get subsidized interest rate. An evidence for this status is that even though subsidized credit programs has been built for the poor and households who have members studying at universities or colleges, the data from VBSP and local authority revealed that, nearly 24% of total households in Phu Thuong commune have obtained credit from VBSP under the title of poor households. However, the rate of poverty in the commune is only 2.02% of total households. In addition, the expansion of low interest rate segment will make semi formal and informal sector tend to get a smaller share of the market, more or less.

Another policy in last period that has influenced the segmentation of the credit market was the credit rationing policy in the period from the late half of year 2008 to the early half of year 2009, to deal with the quick increase of inflation rate. Hence, the borrowers had to rely on informal and semi formal credit for urgent needs, though the interest rate in these sectors were higher. Analysing data from household survey and individual interviews has revealed that due to this policy, the borrowers had difficulties to get loans from formal sector as the waiting time for loans was longer than before, in some cases up to 3 months. Most borrowers have responded that they do not know the roots of reason why they cannot get loans with the short waiting time like before the late half of year 2008. Their answers have been only because "the banks' capital was not available at that time". Many loans for education from VBSP had to wait several months. Instead of getting money after starting of the term in colleges/universities from 1 to 1.5 months, the VBSP's borrowers have received those loans in the third, even the fourth month of the semester. In VBARD source, the effect of credit rationing was not only on the waiting time for getting loans but also on volume of loans. All credit group leaders have allowed credit without collateral only for loans smaller or equal to 5 million VND like other clients, instead of the priority level of 10 million VND as before 2008 from this bank. The increasing demand for credit from informal and semiformal sector has influenced more or less on the segmentation of market. According to that, the borrowers who had credit demand for education and production would change into relying much more on informal and semiformal sources as compared to before.

Briefly, from aspect of policy, the rules on maximum interest rate have framed the interest rate of lenders. In addition, many subsidized interest rate programs provide to target groups have created a new sub-segment in formal sector with low interest rate in rural credit market. Moreover, the expansion of low interest rate segment will make semi formal and informal sector tend to have a smaller share of the market, more or less. On the contrary, credit rationing policy has caused the difficulty to the borrowers on getting loans from the formal sector; hence, they had to rely on informal and semi formal credit for imperative needs.

5.6.2 Information and conditions of transacting reasons

Together with policy, an issue that can influence on segmenting of credit market is related to lack of information. In some cases, depending on the variety or lack of information, borrowers were lead to the different credit sources. Table 5.23 shows the information channels for obtaining credit of local borrowers.

Table 5.23: Information channels for obtaining credit

Information sources	Total sample (n=45)	Agricultural households (n=7)	Mixed households (n=12)	Non farm households (n=26)
Neighbors	42.22	71.43	33.33	38.46
Local authorities	82.22	100	100	69.23
Mass communication means	11.11	14.29	16.67	7.69
Relatives or friends	28.89	28.57	25.00	30.77
Introductions of commercial banks	8.89	0	0	15.38

Source: Household survey, 2009

From table 5.23, it can be said that local authorities contributes the important role in orienting local people go to the given lenders. Local authorities usually provide information related to formal credit sector, especially information about VBSP and VBARD. That may be essential reason explaining why there were 37 among 45 households getting loans from formal sector (see table 6.15). It is interesting to note that no one of agricultural households as well as mixed households get information from commercial banks, while this figure in non farm groups is more than 15%. It may be due to this, that no one of agricultural group obtain credit from commercial banks, whereas there are 4 households in non farm group having loans from Sacombank. Box 5.1 illustrates how information affect borrowers' decisions.

Box 5.1 Why I do not borrow from commercial banks

Mrs. G, a member of agricultural - non farm households, said about the reasons she has obtained loan from VBSP: "The Head of Women Union in the commune have let me know how to get a loan from VBSP, thus, I borrowed 5 million VND from this bank in early of year 2009. I stay at home for doing garden and housework. I have not opportunity to contact with other banks or official organizations, so I do not known where and how to ask credit from commercial banks. Moreover, I am not good in doing loan procedures, which may be not easy in these banks. Therefore I have only borrowed from VBSP where I have been helped in procedures from the Head of Women Union, not from other banks".

Source: In depth interview, 2009

However, in many cases, though information is clear, people know where to get credit, but it is not always they get loans from that sources, table 5.24 shows this situation.

Table 5.24: The distinction between awareness about available credit sources and practice in borrowing from certain lenders (% of total households)

Credit sources	Awareness	Gotten loans already
VBARD	95.56	40.00
VBSP	93.33	66.67
TYM	88.89	86.67
Sacombanks	15.56	8.89
Moneylenders	80.00	28.89
ROSCAs	57.78	57.78
PTAC	24.44	15.56
Shopkeepers	93.33	84.44
Relatives and Friends	35.56	4.44

Source: Household survey, 2009

The numbers on table 5.24 revealed that, though people have information about credit sources and have credit demands but they are not sure how to get loan from these sources. This status was shown by ratio of households getting loans from a certain lender is always equal or much smaller than percentage of households being aware of it. To explain why this scene exists, we continue interpreting with other reasons below.

Other conditions also have affected the segmentation of credit market. From lenders aspect, lenders' development strategies in market are recorded as the factors that impact directly on segmenting. Lenders have based on the particular strategy to set the terms and conditions of credit contract that are suitable for their target group. By doing so, they have selected by themselves the given client groups in the separated segments. For instance, the mission of VBSP is to support credit to the poor, therefore, this bank has designed the loan with low interest rate, small size and without collaterals that appropriate to the poor. As a result, the credit segment of subsidized loan has appeared.

Some cases, due to applying the strict regulation for getting loan from banks have excluded a certain group of borrowers and forced them go to other sources, which are more elastic in procedures. McCarty & Leader (2001), in a research on credit market in Vietnam, claimed that besides what may be once-off "loans" from the VBSP, poor households must turn to relatives or private lenders for loans. Another author, Phuong (2006) in a research on access to credit of rural household in Northern Vietnam stated that the formal credit sector cannot fully satisfy rural households' demands for loans, hence, leaving a large market for the informal credit sector to operate.

In the study site, commercial banks such as VBARD, Sacombank have required collateral under type of asset or witness of having salary for obtaining credit, thus, people who are without valuable properties and/or are not official staffs, cannot received loans from these banks (except for the under 5 million VND loans from VBARD), and the borrowers had to go to semi formal or informal credit sources for satisfying their demands. Particularly, according to local authorities, the ratio of households who have certification for using land or "red book", which has considered as the most worth asset of rural people that be used as collateral, is just around 60% of total households – the same situation for general Vietnam several years ago. The reason why this figure has remained at low rate during last year was also raised in discussion with local authorities. In this light, many households cannot get the "red book" because they are using land that is owned by their ancestors, which related to the interests of many people in family/clan. It is very difficult for them to collect the signatures of all members in their clan to get the "red book" as requirement from authority's regulation. Hence, the rural people have relied much more on semi formal and informal sector. Segmenting of formal credit market in this situation can be seen as dividing into one segment for poor group and another one for rich group. That is why VBARD was named as "bank for the rich" by local people. Box 5.2 expressed a story from a borrower who has obstacles with VBARD.

Box 5.2 Why I choose shopkeepers but not VBARD for my loan

> Mr. T, an agricultural household head, has confined: " I have 1500 m^2 of garden land that my parents have owned before. Now both of them died and I keep this land. I need around 15 million VND to invest in raising pigs. I have asked from VBARD and this bank has required me showing collaterals under type of valuable assets or land use certificate. However, my land is without land use certificate and I also have no worth asset. Hence, VBARD has refused my application. At the present, I have built a new pig cage already but I am in debt to shopkeepers and my younger sister. I have received credit in kind (building materials) from Mr. H (a shopkeeper) and gotten 5 million VND from my sister to buy breeding pigs and pay for bricklayers who build the pig cage. Of course, Mr. H and my sister have not required me to have collaterals".

Source: In depth interview, 2009

Contrary to formal sector, informal lenders have applied flexible rules for obtaining loans, so these providers would occupy the segment serving credit for immediate needs or for people who are refused by formal lenders. Many rural people obtain their loans from informal sources because it is easy to borrow money from them and the loans are available at the time as borrower needs it (Corpuz, 2007). Even charging high interest rates, the informal financial institutions are still essential sources providing urgent loans timely and easily (Tuan, 2006). This situation have also occurred in Phu Thuong commune when many borrowers have expressed that though high interest rate, shopkeepers and moneylenders had been their choices because of simple and rapid procedures. Moreover, these providers provide both production and consumption credit, hence, they have become good alternatives for consumption demands which are denied from VBSP.

Box 5.3 Why I choose TYM Fund to get a loan

> Mrs. X, a member of TYM Fund during the last 11 years, talked about her choice among many credit sources: "I have a small shop for buying foods and other household goods so I just have borrowed 8 million VND from TYM Fund for working capital. There are several sources for asking loans in my commune but I have chosen TYM Fund because the conditions and repayment schedule that this lender has required are appropriate to me. To get a loan, I just register at group leader and about one to two week later, I go to group leader house, show my identity card and sign my name to get loan. I have to pay back this loan during 50 weeks since the time I receive it. I have income from shop, though not much but every day, hence, I can repay easily by weekly instalments for that debt. Moreover, included in the 200,000 VND I pay weekly, 20,200 VND is my saving money. I really like this service, because other lenders do not accept small amount of saving weekly like that. After every 5 years, I get back this saving account to spend on other purpose".

Source: In depth interview, 2009

Borrowers are not always to remain passive or be pushed into a certain sector for credit. Sometime, they are active side to choose the suitable lenders for their conditions by themselves. TYM Fund is a typical case of this situation. This lender has not only provided credit to the member, but also collected regular saving. Repayment schedule that TYM Fund has applied is easy for borrowers who have small income every day. Therefore, this provider has seemed to shape a segment of credit service for small traders with saving service. Box 5.3 expressed the reasons leading a borrower making decision about where she goes to ask for a loan.

In short, information and conditions of transaction are also the reasons for segmenting of credit market. In many cases, depending on the variety or lack of information, borrowers were lead to the different credit sources. However, in some cases, though information is clear, people have credit demands and know where to get credit but it is not always they get loans from that sources. From lenders aspect, lenders' development strategies in market are recorded as the factors that impact directly on segmenting. Some other cases, due to applying the strict regulation for getting loan, formal sector have excluded a certain group of borrowers and forced them go to other sources which are more elastic in procedures. Contrary to formal sector, informal lenders with flexible rules for obtaining loans have occupied the segment which serving credit for immediate needs or for people who are refused by formal lenders. Moreover, providing both production- and consumption credit; hence, informal lenders have become good alternatives for consumption demands.

5.7 Similarities and Differences in findings

The results from Phu Thuong commune case study reveal both similarities and differences in findings in comparison with previous studies.

Some similar points are related to the reasons causing the credit market segmentation. In this light, the author and McCarty & Leader (2001) both had found out that the subsidized lending interest rate charged by the banks (VBSP and VBARD) is one of the reasons leading to the segmentation of credit market in Vietnam. The study in Phu Thuong commune had also conceded that information affects the credit market segmentation, as is the conclusions in research of Aryeetey *et al*, (1997) for case studies of Sub-Saharan Africa countries, as well as Tschach (2003), and Pinheiro & Moura (2003) in Brazilian credit market. Another reason leading to the segmentation of credit market is the different collateral conditions that the borrowers can offer for their loans. This finding has also been raised before by Bali Swain (2009), (2001) and Pham & Lensink (2007) in their studies.

Data from the study in Phu Thuong commune had also identified the same performances of credit market segmentation as the conclusion in the study of Bali Swain (2001). In that light, the formal sector lent mainly for productive purposes at subsidized interest rates, whereas, the informal sector lends small loans for consumption purposes, at comparatively higher interest rates.

The last one is related to policy issue. Aryeetey *et al*, (1997), Pham & Lensink (2007) and the author all had recognized that policies from the Government are essential factors influencing on segmenting in credit market.

Besides, the study has some different points in reason for credit market segmentation, exclusive groups as well as lending purposes.

Firstly, Bali Swain (2009) had found out that monopolist power of the village moneylenders is a reason causing the segmentation in credit market. In Phu Thuong case, though moneylenders existed in the commune, the author has not yet found any evidence of monopoly causing segmentation. Montgomery (1991), in a research on credit market in Italy, stressed that geographical conditions are deeper roots of segmenting credit market than government regulations. Furthermore, Aryeetey (1992) had suggested the reason of high transaction costs in seeking formal financial services. Whereas, in the study, the author had seen that not only the terms of credit transactions, information and transaction conditions, but also policy issue are the main reasons of the credit market segmentation.

Secondly, Yadav *et al. (*1992) had concluded that small, collateral-poor farmers are excluded from the formal sector and are forced to depend on informal sector, whereas the empirical evidences from the study had revealed that many formal credit programs have targeted to the poor, and many cases have been lending without collaterals.

Finally, a different point that the author has found is about lending purpose in formal credit sector. Bao Duong & Izumida (2002) argued that the formal sector had been specialized in lending for production activities, while the author had evidences to affirm that this sector provides credit not only for production, but also for education and consumption purposes.

6 CONCLUSION

6.1 Conclusion

The research aims to understand how the credit market is segmented in Phu Thuong commune – a rural region of Thua Thien Hue province. It concentrates on answering the questions: Is there segmentation? And; Is there a good match between availability of credit, their characteristics and the conditions, needs of the borrowers in the rural market in Vietnam?

This study was based on synthesizing the related literatures and analyzing data from field work which comprises the results from a household survey, group discussions, individual interviews and observations. The research was designed with view point from both lenders' side and borrowers' side. The comparisons were conducted among lenders as well as among borrower groups.

The results of the study reveal that there is a simultaneous existence and operation of many lenders (formal, semi formal and informal sectors) and borrower groups in Phu Thuong Commune. Among them, VBSP is the biggest lender in the commune with more than 9 billion VND of loans outstanding.

Beside the similarities in business place and responsibility in supplying loans to local clients, each credit sector have particular characteristics in terms of kind of credit products/services, scale and duration of credit, number of transactions, interest rate, loans purposes, as well as process of disbursing credit.

Segmentation of financial markets in developing countries are often described in the sense that different groups of borrowers are served by different lending intermediaries (Conning & Udry, 2005). In Phu Thuong case study, the segmentation of credit market is not completely across lenders as well as borrower groups. However, the segmentation here is recognized in each terms of a credit transaction. In that light, the credit market is segmented in aspects of purpose, duration, interest rate, and amount of loans.

With regard to loan purposes, the segmentation has not been completely from each credit sector aspect but from the different lenders. One group of lenders has served all credit services and another group of lenders has provided only one to two among production, education and consumption loans. It is worth to note that reality purposes of loans have been significantly different from that in credit contracts. Most borrowers had required loan for a certain purpose in the application but after getting loan they had used it for other purposes or divided it into many parts for many purposes.

Regarding to duration of loans, there has been a big gap among credit sectors. Formal lenders have provided loans with long time of duration, informal sector have lent short period loans, while semi formal lenders have dominated medium term of loans. From borrowers aspect, segmenting within each household groups by loan duration is not obvious, due to the diversity in credit sources that borrowers obtaining loans from.

In terms of loan size, agricultural households have obtained credit with the smallest amount in average, and majority of that comes from formal sector. Mixed group and non farm group have been not much different in credit volume. However, the biggest part in volume credit of agricultural households and mixed households has come from formal sector, whereas, in non farm group, the biggest share has belonged to informal sector. Looking from ratio of transaction by loan size, majority of loans in agricultural households and in mixed households have been small size (up to 5 million VND), and has belonged to informal sector. For non farm households, on the contrary, big size loans (over 5 million) have dominated and the majority of loans have come from semi formal and informal lenders. Though segmented by loan size, the market still has interaction among credit sectors, and only 4.44% of borrowers have just obtained from one credit sector.

Beside duration, purpose and amount of loans, the segmentation of interest rate has been revealed obviously among credit sectors, especially between formal sector and the two other sectors. Average interest rate of loans in formal sector is lowest, approximately a half of that in semi formal sector and informal one. From borrowers' aspect, the segmentation of interest rate among household groups has not been clear because of the variety in credit sources that households ask for loans.

About the reasons of segmenting credit market, policy issue, information and conditions of transacting have recorded as main reasons.

From aspect of policy, the rules on maximum interest rate have framed the interest rate of lenders. In addition, many subsidized interest rate programs provided to target groups have created a new sub-segment in formal sector with low interest rate in rural credit market. Moreover, the expansion of low interest rate segment will make semi formal and informal sector tend to have a smaller share of the market, more or less. On the other hand, credit rationing policy has caused the difficulty to the borrowers in getting loans from formal sector; hence, they had to rely on informal and semi formal credit for urgent needs.

In many cases, depending on the variety or lack of information, borrowers were lead to the different credit sources. From lenders aspect, lenders' development strategies in market are recorded as the factors that impact directly on segmenting. Some other cases, due to applying the strict regulation for getting loan, formal sector have excluded a certain group of borrowers and forced them go to other sources which are more elastic in procedures. Contrary to formal sector, informal lenders with flexible rules for obtaining loans have occupied the segment, which serve credit for immediate needs or for people who are refused by formal lenders.

6.2 Lessons learnt

Some lessons that the author has drawn after conducting the study may be concerned for the further research. They are mainly in the way to design the study.

First of all is aspect to look the credit market segmentation. The study has discussed only the categories of income generating activities and ignored assessing the segmentation of market in relation to wealth status, as several previous researches, because of the low percentage of poor household in the commune. However, it can be based on other categories to assess segmentation such as gender, settlement situation, transportation condition, ethnic group, etc, to get broader view of the credit market.

Selecting randomly borrowers households from the list that was provided by local authorities has the limitation of mainly covering borrowers in formal and semiformal sector. It was difficult to represent for all credit sectors due to the sensitive issues that borrowers have wanted to hide when they get loans from informal sector, especially from moneylenders. This problem may be mitigated by getting borrower's information from authorities both at commune and village level. In addition, it can be better if researcher combines asking from authorities and using "snow ball" technique to collect representative borrowers. In "snow ball" technique, the researchers start with a certain borrower and then gain more information about other borrowers from this person. This process will continue for the second, the third borrower and so on. The borrower list will be made longer as the "snow ball" becoming gradually bigger after rolling from the mountain. However, it needs long time to conduct study.

Regarding to the difficulties in collecting data related to interest rate of loans from informal sector in general, from moneylenders in particular, the author addressed this issue by asking from many indirect sources. Most interviewees who have obtained credit from moneylenders did not answer or provided inaccurate data related to interest rate because they were afraid of the effect on moneylenders and the next time they can be refused by these lenders. It was more difficult to get that information from moneylenders. Therefore, the author had gotten that information and cross checked from the neighbours of borrowers and moneylenders, as well as from small shopkeepers in the villages (who usually get a lot of news through transactions with their clients every day). Of course the information getting by this way is not completely accurate but at least the researcher can get general picture and it is much more credible than that in direct collection from borrowers and moneylenders.

Another limitation in the study is the way to analyze the segmentation of credit market in terms of purposes and interest rate of loans. For segmented by loan purposes, the author has only regarded to the ratio of sample households who had used loans (whole or a part of loans) for a certain purpose. It will be better if the researchers investigate in both proportion of number of surveyed households and the rate of loan amount that households using for a certain purpose. Furthermore, when analysing the segmentation by interest rate; though a number of lenders all belong to the informal credit sector, the disparity among lenders is very big, so the researchers should divide this sector into relatives, friends and ROSCAs group on the one hand and moneylenders and shopkeepers group on the other, to see the differences.

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8 APPENDICES

Appendix 1: Lending characteristics by credit sectors in percentages (1997-1998)

	Credit volume (%)	Number of loans (% of loan contracts)	Loan purposes (% of credit volume)			Loan allocation (% of credit volume)		Gender of contractor (% of credit volume)	
			Business	Consumption	Housing and other uses	Rural	Urban	Female	Male
As a percentage of total credit volume 14,987,843,000VND	100	-	64.88	13.06	22.06	64.71	35.29	31.09	68.91
Formal credit sector	46.57	42.34	59.45	28.43	19.44	58.59	24.52	33.47	52.47
Semiformal credit sector	2.27	3.53	2.56	2.50	1.28	1.84	3.07	2.83	2.02
Informal sector	51.16	54.13	37.99	69.07	79.28	39.57	72.41	63.70	45.51

Source: Compiled by author from Pham & Lensink, 2007

Appendix 2: Rural households loans, average loan size and average borrowing interest rate per month by sources (1997-1998)

	Informal financial sector	Formal and semiformal financial sector
Ratio of loans (%)	51	49
Average loan size (1,000 VND)	1,752	3,209
Average borrowing interest rate (%/month)	3.95	1,26

Source: Compiled by author from McCarty & Leader, 2001

Appendix 3: Characteristics of major lenders in semiformal credit sector

Providers	Average size of credit groups	Number of groups	Number of members	Lending models	Number of provinces covered	Lending monthly interest rate (%)	Savings deporsits monthly interest rate (%)	Outstanding loan balance		Outstanding savings balance				Is there scheme intergrated?
								US$	Million of VND	Obligatory (US$)	Voluntary (US$)	Total US$	Total Million of VND	
CEP (**)		11,112	54,346	Grameen Bank				6,309,275		1,335,036	332,397	1,667,433		
Vietnam-Belgium Credit Project (VWU) (**)		5,500	49,444	Grameen Bank				2,953,067		887,867	1,000	888,867		
Action Aid Vietnam (**)		5,540	22,792	Grameen Bank				1,476,467		252,600	686,533	686,533		
Save the Children UK (**)		250	21,000			2.0		213,333		0	100	100		
TYM Fund (**)		4,203	19,462	Grameen Bank				2,405,337		985,803	99,471	1,085,274		
Save the Children US (**)			10,365	solidarity group				383,400		4,067	5,900	9,967		
Save the Children Japan (**)		1,627	8,030	village banking				208,867		39,600	0	39,600		
SNV (**)		830	7,651	village banking				301,467		30,133	53,467	83,600		
Vietnam Plus (**)		1,000	6,200	Grameen Bank				150,000		48,000	113,333	161,333		
VWU-Thach Ha, Ha Tinh province (**)		487	5,388					168,733		75,067	0	75,067		
Rabo Bank (*)	60				8	0.7			82,291				11,930	Yes
German Restructuring Bank (KFW2) (*)	18				3	Market rate			51,538					Yes
IFAD (*)	12				1	1.0			41,193				32	Yes
UNFPA (*)	17				8				25,808				745	Yes
UNICEF (*)	13				22	1.0	0.15-1.0		14,565				6,402	Yes
American Oxfam (*)	5				5	1.0	0.5		10,005				3,643	
Vietnam-Sweden MRDP (*)	40				5	1.0	0.2-0.6		10,000					Yes
German Restructuring Bank (KFW1) (*)	15				1	1.2			7,988					Yes

Source: Compiled by author from BWTP, 200?; McCarty & Leader, 2001 (*) as of 2000 (**) as of Sept. 2004

Appendix 4: Average loan size by lender and household groups (*million VND*)

	Total sample (number of loans=174)		Agricultural households (number of loans=29)		Agricultural - non farm households (number of loans=46)		Non farm households (number of loans=99)	
	Mean	sd	Mean	sd	Mean	sd	Mean	sd
Formal credit (52)	9.35	4.63	6.89	2.85	8.84	3.96	8.42	3.69
Of which VBARD	11.22	5.40	5.00	0.00	12.000	3.85	9.50	4.38
VBSP	7.64	3.23	7.43	3.05	6.55	2.02	6.75	2.80
Other banks	13.75	4.79	-	-	-	-	11.25	2.50
Semi formal credit (46)	5.83	2.16	2.29	1.38	6.17	1.75	6.93	1.47
Of which TYM Fund	6.15	2.13	1.83	0.75	7.00	0.87	7.29	0.96
Phu Thuong Cooperative	4.00	1.29	5.00	-	3.67	1.15	4.00	1.73
Informal credit (76)	4.48	3.15	3.41	1.34	2.72	0.61	5.31	3.63
Of which Relatives and friends	9.50	0.71	-	-	-	-	9.50	0.71
Moneylenders	5.03	3.00	4.13	2.18	2.25	0.35	6.67	3.14
Shop keepers*	3.67	3.13	3.23	0.65	2.91	0.72	4.10	4.05
ROSCAs	4.92	2.94	2.00	-	2.67	0.52	5.78	3.00
Total credit	6.29	4.02	7.19	2.65	6.15	3.76	6.60	3.42

Source: Household survey, 2009

(*) including people or enterprises who provide credit in kind such as foods, agricultural input materials, building materials

Appendix 5: Average number of loans per sample household by credit sectors and household groups

	Total sample (n=45)		Agricultural households (n= 7)		Agricultural - non farm households (n=12)		Non farm households (n=26)	
	Mean	Sd	Mean	Sd	Mean	Sd	Mean	Sd
Formal sector	1.16	0.73	1.29	0.49	1.58	0.51	0.92	0.74
Semi formal sector	1.02	0.49	1.00	0.58	1.00	0.60	1.04	0.34
Informal sector	1.69	0.99	1.86	1.21	1.25	0.62	1.85	0.97
Total	3.87	1.37	4.14	0.90	3.83	0.83	3.81	1.33

Source: Household survey, 2009

Appendix 6: Ratio of loan numbers by credit sector and household groups

	Total sample (n=45)		Agricultural households (n=7)		Agricultural - non farm households (n=12)		Non farm households (n=26)	
	Number of loans	%	Number of loans	%	Number of loans	%	Number of loans	%
Formal sector	52	100.00	9	17.31	19	36.54	24	46.15
Semiformal sector	46	100.00	7	15.22	12	26.09	27	58.70
Informal sector	76	100.00	13	17.11	15	19.74	48	63.16
Whole credit market	174	100.00	29	16.67	46	26.44	99	56.90

Source: Household survey, 2009