

Rural Finance and Hamlets in Vietnam

Takashi OKAE

Summary

Under the Doi Moi policy, financial institutions were created to help individual farmers adjust to the market economy and have enjoyed good performance through a group lending scheme in collaboration with mass organizations. However, there have been no studies that tried to provide detailed information on the functions of those groups and organizations. This study investigates the functions of credit groups and organizations that intermediate bank loans and indicates the importance of hamlets for rural finance in Vietnam.

The author conducted surveys at one village in Red River Delta (the northern rural area which includes the capital, Hanoi). The financing services of Vietnam Bank for the Poor (VBP) are given mainly through the Farmers' Association (FA) under the guidance of the Communist Party of Vietnam. The staff and budget of the FA are insufficient and do not work at all except for the intermediation of bank loans at the hamlet level.

Officially, people borrowing from the VBP should form a joint liability group, called a Saving and Credit Group (SCG). However, almost all households who receive VBP loans do not know that the real function of a SCG is joint liability for defaulting members. They also do not save money. Recently, Agribank's loans were brought through a group lending scheme, and in this case also, joint liability does not function.

Groups in bank loans are merely nominal and never have a joint-liability function. Besides, the FA does not function actively. Nevertheless, there have never been defaults on the loans because intermediation and monitoring are actually made by the hamlet. The hamlet is a basic and minimum unit of all social organizations.

The daily life of one villager is always seen by others in the hamlet, so the transaction cost of monitoring the bank loans is assumed to be zero where the hamlet intermediates the loans. In this village, the modern financial system is penetrating into the rural area step by step, depending on the hamlet.