

**Fig. 3.** Monte Carlo Simulation Results by Stochastic International Grain Market Model: International Rice Price from 2000 to 2020 with Yield Fluctuation

Note: The numbers below the histogram are the averages of projected international rice price.

## Agricultural Finance and Hamlets in Vietnam

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### 1. Introduction

According to the Doi Moi policy, financial institutions were created to help individual farmers adjust to the market economy and have succeeded in reducing transaction costs of their loans through a group lending scheme in collaboration with mass organizations. But there have been no studies that tried to provide detailed information on the functions of those groups and organizations.

This study investigates the actual functions of credit groups and organizations that intermediate bank loans and indicates the importance of hamlets on the reforms in the direction of a market economy.

### 2. Surveyed site

I conducted surveys in one village which has the typical problems of rural areas of the Red River Delta (Northern rural area includes Hanoi Capital) such as high population density and difficulty in market access. Officially people borrowing from the VBP (Vietnam Bank for the Poor) should form a joint liability group, called a Saving and Credit Group (SCG). Actually, a SCG was formed in only one hamlet in that village. I conducted surveys on all the households in two hamlets (one has a SCG, another does not) who received loans from Agribank and the VBP.

### 3. Mass organizations

The VBP's financing service is given mainly through the FA (Farmers' Association) under the direction of the CPV (Communist Party of

Vietnam). The staff and budget of the FA is insufficient and do not work at all except for the intermediation of bank loans at the hamlet level. Officially the intermediation of bank loans is a secondary function of the FA. The FA's original functions are announcement of agricultural policies, dissemination of agricultural technology, and so on. But these functions are operated by the agricultural cooperative. Almost all the farmers who got bank loans whom I surveyed join the FA in order to borrow money from banks and do not pay their membership fees.

### 4. Groups on bank loans

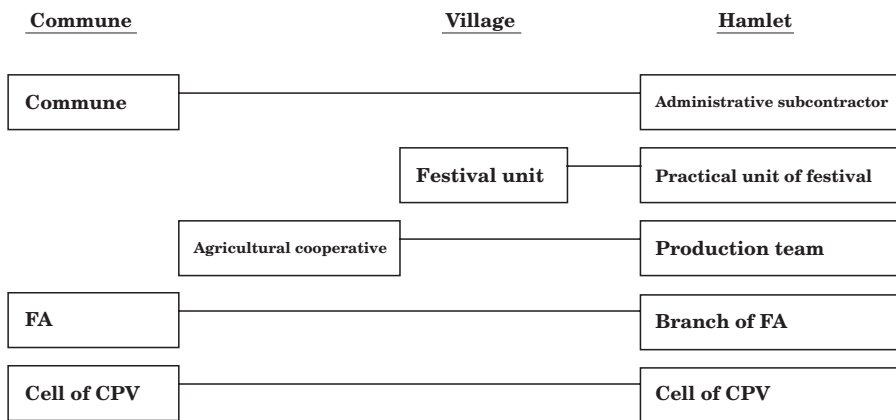
VBP loans play a major role in financing for the villagers. Borrowers of VBP loans ought to join SCGs and are encouraged to save the money monthly for default. But, even in the hamlet which has a SCG, almost all the households who got VBP loans do not know that the real function of a SCG is joint liability for defaulting members. They also do not save money.

Recently Agribank's loans were brought through a group lending scheme. Also in these cases, joint liability doesn't function.

### 5. Conclusion

Groups in bank loans are just nominal and never have a joint-liability function. Besides, the FA does not work actively. But the loans have enjoyed a favorable performance and never have defaulted.

This is because intermediation and



**Fig. 1.** Social Organizations and Their Basic Units

monitoring is actually made by the hamlet. The hamlet is a basic and minimum unit of all social organizations (See Fig. 1).

Daily life of one villager is always seen by others in the hamlet, so the transaction cost

for monitoring the bank loans is assumed to be zero where the hamlet intermediates the loans. It is safe to say that the modern financial system is penetrating into the rural area step by step, depending on hamlets.