

Corporatism, Credit and Clients

A political economy analysis of government credit programs for the poor in Vietnam

by

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Abstract

Political economic analysis of state-run rural finance programs in Asia have largely followed two schools of thought. First, rational choice economic approaches have assumed that political interests of politicians will inevitably override economic efficiency of such programs. Given the rationing of limited resources that takes place in the political arena, the more government involvement there is in credit programs, the less likely it is the poor and other vulnerable groups will access loans and development services. More recent approaches have drawn from studies of the efficacy of the many informal financial institutions (known as ROSCAs) that have existed for centuries in rural Asia. Lessons from informal practice have focused analytical attention on social capital, mutual aid and empowerment; once again diminishing the potential role of the state as a financial intermediary.

Vietnam provides an interesting counterpoint to both of these schools of thought. The stunning success (as measured through outreach and market share) of government rural finance programs through state-owned development banks and mass organizations has pushed NGOs and private banks out of the rural finance picture. I argue that the critical characteristic of the Vietnamese credit model lies in the increasing embeddedness of the Vietnamese state in rural society. Vietnamese credit programs and state banks use credit as a means both to reduce poverty by bringing the poor into the market and also to strengthen state institutions at the local level. The key logic to the expansion of the market and state is the replacing of traditional, informal credit arrangements and forms of governance with institutions of the modern market and the modern state.

TABLE OF CONTENTS

ABSTRACT	II
LIST OF FIGURES	VI
LIST OF ABBREVIATIONS	VII
ACKNOWLEDGMENTS	VIII
INTRODUCTION.....	1
CHAPTER 1.....	3
Key Terms	3
Microfinance	3
Poverty	4
Institutions and the State.....	5
Social Capital	7
Finance, institutions and rural livelihoods	8
The political economy of rural credit	9
Informal finance and the state	14
Semi-formal institutions	17
Getting to the Point: Towards an Analytical Framework	19
Methodology	20
CHAPTER II	22
Poverty and Poverty Reduction	24
Governance and State Society Relations	28
Corruption, Inequality and Change	30
Mass Organizations	31

CHAPTER III.....	33
Socialization and Credit Cooperatives	34
The Crafting of the Contemporary Banking Sector.....	37
State Banks in Transition	38
The Bank for the Poor.....	40
Links with the Woman's Union.....	42
CHAPTER IV	46
Economic Structure	46
Political Structure	49
Mass organizations	50
Village Structure and Politics	51
Who is poor, anyhow?	53
Perceptions of poverty.....	55
Informal Financial Services	56
Informal Credit and the Poor.....	58
Official views of informal finance.....	60
Formal financial Services Available in the Commune	62
Accessing Loans.....	62
Mass organizations, credit groups and village structures	66
Structure of Rural Credit Groups.....	68
Official views of the formal sector	71
Control over loan use	72
Repayment rates.....	75

CHAPTER IV	78
The Political Economy of Rural Finance Revisited	78
Microfinance, Corporatism and the State	82
ANNEX 1: MAP OF VIETNAM	86
BIBLIOGRAPHY	87

List of Figures

Table 1:	Poverty Incidence in Vietnam	25
Table 2:	Formal financial sector outreach	39
Table 3:	Market share of financial institutions by sector	39
Table 4:	VWU Outreach through linkages with VBARD and VBP	43
Figure 5:	The procedure to request loans from the VBP	69
Map 1:	Poverty in Nghe An Province	47
Map 2:	Vietnam Political	86

List of Abbreviations

ADB	Asian Development Bank
CPV	Community Party of Vietnam
GDP	Gross Domestic Product
Ha	Hectare
HH	Household
HEPR	Hunger Eradication and Poverty Reduction
Km	Kilometer
LPRV	Localized Poverty Reduction in Vietnam Program
MOLISA	Ministry of Labour, Invalids and Social Affairs
PCF	People's Credit Fund
PPA	Participatory Poverty Assessment
PPC	Provincial People's Committee
ROSCA	Rotating Savings and Credit Association
SHB	Share Holding Banks (Joint Stock Banks)
SRV	Socialist Republic of Vietnam
USD	United States dollars
VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
VBSP	Vietnam Bank for Social Policies
USD	United States Dollar
VND	Vietnam Dong
WB	World Bank
WU	Women's Union

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Introduction

Political economic analysis of state-run rural finance programs in Asia have largely followed two schools of thought. First, rational choice economic approaches have assumed that political interests of politicians will inevitably override the economic efficiency of such programs. Given the rationing of limited resources that takes place in the political arena, the more government involvement there is in credit programs, the less likely it is the poor and other vulnerable groups will access loans and development services. More recent approaches have drawn from studies of the efficacy of the many informal financial institutions (known as ROSCAs, for Rotating Savings and Credit Associations) that have existed for centuries in Asia. Lessons from informal practice have focused analytical attention on social capital, mutual aid and empowerment; once again diminishing the potential role of the state as a financial intermediary.

Vietnam provides an interesting empirical counterpoint to both of these schools of thought. The critical success of government rural finance programs through state-owned development banks and mass organizations has pushed NGOs and private banks out of the rural finance picture. I argue that in the case of Vietnam, where credit for the poor remains almost solely under the control of the state, credit must be seen in the context of changing state-society relations. To attempt such an analysis requires an institutional approach, one that examines the incentives that structure credit systems and the meanings from which those incentives derive.

I argue that credit in Vietnam is used as an agent through which the state enters into the lives of the poor. This occurs through two processes. First, subsidized credit provides a means for the state to attempt a transformation of the household economies of poor peasants through varied restrictions and regulations on loan use. This takes place in a normative environment of discipline whereby the poor are introduced to the mechanisms of the modern market. Second, systems of credit delivery enable increased state penetration into rural areas through the strengthening of state and state-aligned institutions at the commune and village level. Local government and local banking structures are intricately intertwined.

The case of Vietnam offers evidence that the development of local markets and the expansion of the state proceed alongside one another and can indeed feed one another. The key battle-lines that are drawn are between the formal sector, as represented by the state and the market, and the informal political and economic institutions that have dominated village life for centuries.

The analysis is presented in four sections. In the first chapter, I develop my theoretical argument through reference to the various schools of thought that have influenced the political economy of rural credit. The second and third sections review the development of the current rural finance system in Vietnam with reference to the changing institutional structures of credit delivery in rural Vietnam. Chapter four offers ethnographic evidence from one poor commune in north-central Vietnam. Finally, I offer reflections on the role of credit in cementing state-society relations.

Chapter 1

Politics, Poverty and Rural Finance

Neither a borrower nor a lender be;
For loan oft loses both itself and friend;
And borrowing dulls the edge of husbandry.

William Shakespeare (1564 - 1616), 'Hamlet,' Act I, Scene iii

The purpose of this chapter is to develop a theoretical framework that can serve to examine the politics of government provision of credit to poor households in rural Vietnam. The first section defines key concepts and terms, and offers a short review of divergent political economic approaches to poverty credit and rural finance. The argument shall be made that many studies of credit have under-theorized the role of the state in rural society. In the final section of this chapter, I offer an institutional perspective that will guide the examination of rural finance in Vietnam. The final section reviews the methodology of the thesis, and discusses the limitations that the method imposes upon the argument and the generalizability of the findings.

Key Terms

Microfinance

Microfinance has its roots in the convergence of two processes that emerged in the 1970s: the development of the Grameen Bank in Bangladesh and the American critique of traditional development finance led by the Ohio School of financial economists. A distinction must be made between rural finance and microfinance. Rural finance encompasses a series of financial products for rural areas with traditional emphasis on finance for farm activities. The concept has been dominated institutionally by the analysis of state agricultural banks. Donors and scholars alike have used the term agricultural finance to describe this sector.¹ Microfinance has more recent roots, and refers to financial products made available to poor households and entrepreneurs.

¹ See: FAO and GTZ, *Agricultural Finance Revisited: Why?*, vol 1 (Rome: FAO, 1998).

Over the past 10 to 20 years, the term microcredit has tended to conjure up images of poor women meeting on a weekly basis with NGOs. The success of these specific models of credit delivery advanced by Bangladeshi institutions such as the Grameen Bank and BRAC has brought rural finance to the centre of many debates concerning poverty. Microfinance refers to a much broader family of schemes and products, which can include different forms of insurance, savings schemes, remittance services and even mortgages for the poor.² A recent definition of microfinance offered by the Asian Development Bank reads as follows:

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. Microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as non-government organizations; and informal sources such as money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.³

For the purposes of this thesis, microfinance encompasses services that are provided by the formal, semiformal and informal markets. The distinction between these three institutions will be discussed later.

Poverty

Definitions of poverty have adapted and changed over time. How we define poverty, however, has meaningful implications for both analysis of poverty and for development interventions.⁴ This thesis shall define poverty as a lack of capabilities and assets, or a lack of claims on those assets.⁵

² See: Stuart Rutherford, *The Poor and Their Money* (Delhi: Oxford University Press, 2000); Jonathan Murdoch, "Between the State and the Market: Can Informal Insurance Patch the Safety Net?" *The World Bank Research Observer* 14, 2 (August 1999).

³ ADB, *Finance for the Poor: Microfinance Development Strategy* (Manila: Asian Development Bank, 2000).

⁴ Frank Ellis, *Rural Livelihoods and Diversity in Developing Countries* (Oxford and New York: Oxford University Press, 2000); Ravi Kanbur and Lyn Squire, "The Evolution of Thinking About Poverty: Exploring the Interactions," in *Frontiers of Development Economics: The Future in Perspective*, eds., Gerald Meier and Joseph Stiglitz (Washington and New York: Oxford University Press and the World Bank, 2000).

⁵ See Robert Chambers, "Poverty and Livelihoods: Whose Reality Counts?" *Environment and Urbanization* 7, 1 (April 1995): 173-174.

The focus on assets is closely related to Sen's definition of poverty in terms of a lack of capabilities, which are substantive freedoms that people enjoy to lead the kind of life they have reason to value, such as access to healthcare, education and social support. Proponents of the capability argument hold that income is only instrumentally significant, while capabilities are intrinsically important. Sen argues that some of the more horrific forms of poverty come from a lack of entitlements to both capacities and to critical goods, such as food during a time of famine.⁶ Entitlements take many forms, such as the entitlement to exchange one's labour for money, and to exchange that money for food.⁷ The institutions that create and maintain entitlements, such as the market, then, become critically important to both the analysis and eradication of poverty.⁸

Institutions and the State

The modern state can be conceptualized as a set of institutions that hold a monopoly on the exercise of legitimate violence within a society.⁹ Many contemporary political scientists have attempted to 'bring the state back in' to the center of social and political analysis.¹⁰ Influenced by studies of the Asian developmental state, these 'statesters' have attributed state effectiveness to a combination of state capacity and state autonomy.¹¹ Migdal has argued that state capabilities can include the "capacities to

⁶ Sen defines an entitlement as "the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces." See Amartya Sen, *Development as Freedom* (Oxford and New York: Oxford University Press, 1999): 162-63.

⁷ Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford: Clarendon Press, 1982).

⁸ Caroline Moser and Andy Norton, *to Claim Our Rights: Livelihood Security, Human Rights and Sustainable Development* (London: Overseas Development Institute, 2001). Some have argued that the market, and access to the market, has not been given due attention in much recent literature concerning poverty and livelihoods. See Andrew Dorward, Nigel Poole, Jonathan Kydd and others, "Markets, Institutions and Technology: Missing Links in Livelihoods Analysis," *Development Policy Review* 21, 3 (2003).

⁹ This longstanding Weberian definition of the state has come back into prominence within much political science and sociological literature. See P. Evans, D. Rueschemeyer and T. Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985). Charles Tilly defines the state as "an organization which controls the population occupying a definite territory is a state insofar as (1) it is differentiated from other organizations operating in the same territory; (2) it is autonomous; (3) it is centralized; and (4) its divisions are formally coordinated with one another." Charles Tilly, "Reflecting on the History of European State-Making," in *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975): 70.

¹⁰ See Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

¹¹ See Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990). For a more nuanced view of the state autonomy debate, see Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

penetrate society, to regulate social relationships, extract resources, and appropriate or use resources in determined ways. Strong states are those with high capabilities to complete these tasks, while weak states are on the low end of a spectrum of capabilities."¹² States also have different levels of autonomy from social and economic forces, which in many ways shapes their ability to formulate and implement economic policy.

On the whole, Asian states have—for reasons that are not fully understood—shown themselves to have a higher degree of autonomy in policymaking than their Western counterparts.¹³ The autonomous state is not only autonomous from the peasants and the working class, but is also relatively insulated from the demands of powerful interest groups.¹⁴ One of the drawbacks of this approach, however, is that though it holds that the level of a state's 'embeddedness' in society may vary, it tends to see the state as a coherent, monolithic whole. A key assumption made here is that the state is not a coherent whole, and must be "disaggregated" into various constellations of possibly competing interests.¹⁵

This thesis will draw on Douglass North's famous definition of institutions as the "rules of the game."¹⁶ Institutions can be formal, as encoded in laws and regulations in modern governments, or can be informal codes of conduct held by groups of peoples. Crawford and Ostrom has expanded on this definition to define institutions as "enduring regularities of human action in situations structured by rules, norms and shared strategies, as well as by the physical world."¹⁷ Institutions, in this case, can be seen as mechanisms that reduce transaction costs in the same way that firms do in a market economy. This does not necessarily mean that institutions are efficient or optimal, but instead that

¹² Joel Migdal, *Strong Societies and Weak States* (Princeton: Princeton University Press, 1988): 5.

¹³ Peter Evans, "Transferable Lessons? Re-Examining the Institutional Pre-Requisites of East Asian Economic Policies," *The Journal of Development Studies* 34, 6 (August 1998).

¹⁴ Stephen Haggard and Chung-In Moon, "Institutions and Economic Policy: Theory and a Korean Case Study," *World Politics* 42, 2 (1990): 210-37.

¹⁵ Joel S. Migdal, Atul Kohli and Vivienne Shue, "Introduction," in *State Power and Social Forces*, eds., Joel S. Migdal, Atul Kohli and Vivienne Shue (Cambridge and New York: Cambridge University Press, 1994).

¹⁶ Douglass North, *Institutions, Institutional Change, and Economic Performance* (Cambridge and New York: Cambridge University Press, 1990): 2.

¹⁷ Sue Crawford and Elinor Ostrom, "A Grammar of Institutions," *American Political Science Review* 89, 3 (September 1995): 582.

they are shaped by the dual needs to overcome information asymmetries and to enforce principal-agent problems, whereby those in control attempt to secure compliance by subordinates. Proponents of an institutional approach point to the fact that formal and informal institutions shape the articulation of capitalism in ways that most economists (and indeed, most political scientists) do not acknowledge. In the words of one author, the new institutionalism provides “bourgeois answers to Marxist questions.”¹⁸

Institutionalists have discredited many of the arguments of those who hold that state autonomy is a key factor of the developmental state. They have argued that the proponents of the developmental state have overstated the role of state and underestimated the role of private actors and private capital in policymaking. In short, they have attacked both the empirical observation that Asian developmental states have typically been autonomous from social forces and the conceptual point that autonomy is a key component of state capacity or effectiveness.¹⁹

Social Capital

In the mainstream development literature, the new focus on governance and institutions has been accompanied by a focus on social capital. The concomitant growth of the two intellectual trends is not an accident of history, for the two share similar conceptual roots as well as similar political realities. Fine notes that the new institutionalism and social capital have both risen in an ideological environment that is attempting to justify liberal states and reliance on markets while admitting some of their limitations.²⁰ For the purposes of this thesis, social capital is defined as “features of social organization such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions.”²¹ Uphoff distinguishes between the cognitive and structural aspects

¹⁸ Jean-Philippe Platteau, *Institutions, Social Norms and Economic Development* (Amsterdam: Harwood, 2000): 34.

¹⁹ Charles Polidano, “Don’t Discard State Autonomy: Revisiting the East Asian Experience of Development,” *Political Studies* 49, 3 (August 2001): 513-514.

²⁰ Ben Fine, “The Developmental State Is Dead: Long Live Social Capital,” *Development and Change* 30, 1 (January 1999).

²¹ Robert Putnam, *Making Democracy Work* (Princeton: Princeton University Press, 1993): 167.

of social capital – the cognitive resting in norms, values, attitudes and beliefs and the structural manifesting itself in roles, rules, networks and interpersonal relationships.²²

A lack of social capital is, like power, increasingly argued to be part and parcel of being poor: “A defining feature of being poor...is that one is not a member of—or may even be actively excluded from—certain social networks and institutions that could be used to secure good jobs and decent housing.”²³ However, there is also evidence that there exists a ‘dark side’ of social capital, one in which social capital can move political allegiances outside of the state apparatus and into norms of kinship and social networks with resulting corruption.²⁴ Fukuyama emphasizes that “social capital more often than not is produced by hierarchal sources of authority, which set down norms and expect obedience to them for totally irrational reasons.”²⁵

Finance, institutions and rural livelihoods

A financial market is a market in which financial assets are traded. In essence, they are the institutions through which a person who wants to save can directly supply funds to a person who wants to borrow. There is a curious lack of attention to financial markets in much political science literature—a gap that is also notable in much agricultural and development economics prior to the 1980s. Students of development are increasingly interested in financial services as a means to understand how rural people manage their assets and as a broader means to understand social and economic development more generally. Political scientists should be interested in financial markets because of the roles that states play in shaping them. Indeed, in the absence of a truly independent central bank—as is the situation in most developing countries—the state’s ability to manipulate interest rates and the supply of credit is a very political instrument.²⁶

²² Norman Uphoff, “Understanding Social Capital: Learning from the Analysis and Experience of Participation,” in *Social Capital: A Multifaceted Perspective*, eds. Partha Dasgupta and Ismail Scrageldin (Washington, D.C: The World Bank, 1999).

²³ Michael Woolcock and Deepa Narayan, “Social Capital: Implications for Development Theory, Research and Policy,” *The World Bank Research Observer* 15, 2 (August 2000): 226.

²⁴ James Putzel, “Accounting for the ‘Dark Side’ of Social Capital: Reading Robert Putnam on Democracy,” *Journal of International Development* 8, 7 (1997).

²⁵ Francis Fukuyama, “Social Capital, civil society and development,” *Third World Quarterly* 22, 1 (2001): 7.

²⁶ Of particular salience for this thesis is the fact that intervention in financial markets has been one of the cornerstones of the East Asian developmental state. East Asian economies have on the whole tended to be credit based rather than capital based, and Asian governments have played a strong role in facilitating access to credit for key sectors and firms. Chalmers

On an international scale, the development of microfinance as a preferred means of development intervention has occurred in the context of shifts in the politics of aid. Microfinance, as an industry, has arisen through the interactions of a complex political network of NGOs, governments and private companies such as Citibank, who see the development of financial markets and market-based interventions as supporting both short-term poverty reduction and supporting the long-term growth of markets in the developing world.²⁷ As such, the movement also represents a trend to realize the neoliberal objectives of privatizing social welfare efforts.²⁸

The political economy of rural credit

The idea of reducing poverty through credit is not new, and has a checkered past. Cheap credit provision was a mainstay of many development plans from the 1950s through to the 1980s.²⁹ Most of these programs were complete disasters. Repayment rates were often below 50%, and credit was frequently directed away from the intended recipients.³⁰ For largely political reasons, well-intentioned attempts to overcome market failure and offer credit services to the poor became riddled with corruption and inefficiency. Meyer notes that the major policy thrusts of rural finance rested on a number of critical assumptions about the nature of rural financial markets and the nature of peasant economies:

Policymakers in the 1950s and 1960s assumed that farmers lacked access to formal credit, that informal lenders charged usurious interest rates, and that short-term high-cost informal loans were unsuitable for financing the productive investments considered essential for rapid technological change and sustainable rural development. Therefore, supply-leading directed agricultural credit policies were implemented to overcome perceived financial

Johnson notes that "[in] no area have the East Asian high-growth economies shown more creativity than on the front of ingenious, utterly non-ideological, easily manipulated public incentives for private savings and investment." Chalmers Johnson, "Political Institutions and Economic Performance," in *The Political Economy of the New Asian Industrialism*, ed., Frederic Deyo (Ithaca: Cornell University Press, 1987): 147. See also Stephen Haggard, Chung H. Lee and Sylvia Maxfield, eds., *The Politics of Finance in Developing Countries* (Ithaca, NY: Cornell University Press, 1995); Jean Oi, *Rural China Takes Off* (Berkeley and Los Angeles: University of California Press, 1999).

²⁷ Anna Ohanyan, *The Politics of Microcredit* (New York: United Nations, No Date).

²⁸ Katherine Rankin, "Governing Development: Neoliberalism, Microcredit, and Rational Economic Woman," *Economy and Society* 30, 1 (2001).

²⁹ In recent years, the policy environment has shifted towards the removal of credit subsidies and market based interest rates in for-profit banks and NGO programs. That said, there remain many examples of subsidized credit programs with below-market interest rates, many of which operate in Vietnam!

³⁰ David Hulme and Paul Mosely, *Finance Against Poverty*, vol 1 (London and New York: Routledge, 1996).

market imperfections.³¹

A key component of the ideological environment of the time was an assumption that the high interest rates charged by moneylenders provided evidence of exploitation. Indeed, interest rates that at times averaged over 1,000 per cent per year could be nothing but usurious.³² The assumption of market failure led governments to create agricultural development banks with the goal of lending subsidized credit to poor farmers.³³ The goal was to increase demand for investment in new agricultural technologies; supply side theorists believed that subsidized credit programs were needed to stimulate demand for inputs and agricultural production. One prominent analyst has argued that "their assumptions were largely uninformed about the ways that real rural credit markets work."³⁴

There are a number of explanations for why state agricultural banks failed. The ones most often cited include a basic financial argument and a more problematic political argument. The financial argument refers to the excessive expenses incurred by recurrent subsidies to the rural financial sector. Most rural credit programs relied on government financing rather than the mobilization of savings through financial intermediation.³⁵ Heavily subsidized credit programs

require frequent injections of fresh funds. If these injections are not forthcoming, the program will quickly consume its capital in financing routine operational costs...Studies indicate this has happened hundreds, perhaps thousands, of times.³⁶

This seemingly uncontroversial argument rests on two assumptions. The first is that cheap credit requires state subsidies that draw on the state budget. Poor developing countries can seldom afford to

³¹ Richard Meyer and Geetha Nagarajan, *Study of Rural Asia Vol. 3: Rural Financial Markets in Asia: Policies, Paradigms and Performance* (Oxford and New York: Oxford University Press, 1999): 36.

³² *Ibid*, 45.

³³ See: Hans Dieter Seibel, "Agricultural Development Banks: Close Them or Reform Them?" *Finance & Development* (June 2000).

³⁴ Marguerite Robinson, *The Microfinance Revolution* (Washington, DC: The World Bank, 2001), 72, 148.

³⁵ Richard and Geetha Nagarajan Meyer, *Rural Financial Markets in Asia*, 22-26.

³⁶ Robert Peck, Elizabeth Rhyne and Robert Vogel, *The Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs: USAID Program and Operations Assessment Report 10* (Washington D.C.: US Agency for International Development, 1995): 10.

subsidize these activities over the long term, which leads to the eventual collapse of state-sponsored agricultural development banks.

However, embedded in this description is an implicit political argument. Agricultural bank collapses are said to not only follow the simple subsidization of low-interest loans, but are also spurred by a large number of non-performing loans. It is certainly true that poor farmers can prove to be a credit risk and that some difficulties in loan recovery can be expected. But it is also the case that "...borrowers often do not repay loans and lenders can not energetically recover loans because of government interventions designed to increase the possibility of winning elections."³⁷ The use of government resources to secure 'vote banks' in the developing world has been well documented in many other sectors.³⁸ In one of the few large-scale Chinese surveys that has examined access to formal financial services among street vendors, Tsai notes that the strongest correlation to credit access was found to exist with strong political relationships.³⁹ Robinson states the issue most clearly when she argues that "...these loans were closer to political payoffs than to financial instruments. While much publicity was given to disbursing the loans, little effort went into collecting them."⁴⁰ General loan amnesties have been a mainstay of populist and authoritarian governments in Latin America, South Asia and Southeast Asia.

Another empirical argument made by analysts of state-sponsored rural finance programs is that they not only failed to recover loans, but they also failed to meet their social policy objectives of channeling subsidies to the poor. Government subsidization of loans and restriction of interest rates make it almost impossible to channel loans to the poor through formal channels. The "iron law of interest rate restriction"⁴¹ formulated by Gonzales-Vega and his Ohio School collaborators holds that when interest rates are subsidized, rent-seeking behavior by borrowers, combined with the relatively high

³⁷ Baqui Khalily and Richard Meyer, "The Political Economy of Rural Loan Recovery: Evidence from Bangladesh," Economics and Sociology Occasional Paper No. 1974, Ohio State University (Athens: Ohio State University, 1992): 18.

³⁸ Ammar Siamwalla, *Study of Rural Asia Vol. 5: The Evolving Roles of State, Private, and Local Actors in Rural Asia* (Oxford and New York: Oxford University Press and Asian Development Bank, 2001).

³⁹ Kellec S. Tsai, *Back-Alley Banking: Private Entrepreneurs in China* (Ithaca and London: Cornell University Press, 2002): 53

⁴⁰ Marguerite Robinson, *The Microfinance Revolution*, 145.

⁴¹ Claudio Gonzalez-Vega, "Credit-Rationing Behavior of Agricultural Lenders: The Iron Law of Interest-Rate Restrictions," in Dale W. Adams, Douglas H. Graham and J.D. Von Pischke, eds., *Undermining Rural Development with Cheap Credit* (Boulder: Westview, 1984): 79.

costs to lenders of making small loans, ensures that institutional loans are routinely channeled to larger borrowers.⁴² He further explains that subsidized credit programs do indeed redistribute resources, but any redistribution that happens is regressive, as there is a clear correlation between the size of the subsidy (as expressed by low interest rates) and the likelihood that the loan will be captured by local elites. Credit subsidies, which come to be expected by the recipients, tend to be difficult to eradicate once begun. "Subsidized credit programs ... maintain and even enhance the position of rural elites ... Low interest rates represent a subsidy that (whether originally intended to do so or not) buys the support of constituencies."⁴³

In general, proponents of the Ohio School challenged the wisdom of state-sponsored rural credit by challenging assumptions regarding the nature of informal credit markets and state intervention. The group's most famous work, aptly titled *Undermining Rural Development with Cheap Credit*, contains chapters from two political scientists that make the political-economic argument explicit. Kane's model of subsidized credit identifies a dialectic between political and economic power. Power shifts between these two groups as the political class imposes self-interested regulations, which are then avoided by borrowers through misuse of funds and perhaps refusal to repay. This is followed by new cycles of regulation and avoidance: "in some agricultural credit programs circumvention becomes a cooperative game played by lenders and borrowers at the expense of external sponsors and the intended beneficiaries."⁴⁴ Because of losses from non-performing loans, governments are then forced to impose new rounds of regulations with the goal of liberalizing the market. These regulations, however, are just as quickly superimposed by a new series of subsidized loans.

⁴² The political argument stated in this section is best presented by the group of agricultural economists and political scientists referred to as the Ohio School, because of their association with Ohio State university in the 1970s and 1980s. They were influential in their close connections to the major USAID review of rural finance in the 1980s. While there have been exceptions to these rules, most of the researchers associated with the Ohio School argue that similar processes can be seen in many different environments. They argue that "despite institutional and cultural diversity, similar problems fester in a large number of countries... A few of these problems can be attributed to unique factors, but the most common systems imply universal explanations and raise serious questions about the effectiveness of treatments traditionally prescribed to overcome the problems." See: Dale W. Adams, Douglas H. Graham and J.D. Von Pischke, eds., *Undermining Rural Development with Cheap Credit* (Boulder: Westview, 1984): 2.

⁴³ H. Blair, "Agricultural Credit, Political Economy and Patronage," in *Undermining Rural Development with Cheap Credit*, eds., D.W. Adams, D.H. Graham and J.D. von Pischke (Boulder: Westview, 1984): 187.

⁴⁴ E.J. Kane, "Political Economy of Subsidizing Agricultural Credit in Developing Countries," in *Undermining Rural Development with Cheap Credit*, eds., D.W. Adams, D.H. Graham and J.D. von Pischke (Boulder: Westview, 1984): 178.

This model, though powerful in its parsimony and sweeping nature, suffers from a number of deficiencies in both theoretical scope and empirical support. Hulme and Mosely rightly point out that Kane assumes that economic and political power are separate, and that bargaining occurs between two autonomous camps.⁴⁵ Ignoring combined economic and political role of public expenditure masks the complex interactions between political and economic elites, and further misses the point that economic and political power in many developing countries is invested in the same individuals.

In the same volume, Blair offers a sounder analysis of the political economy of rural credit. In his analysis of credit markets and subsidized credit in Bangladesh, he argues that credit subsidies stem from the political and economic interests of the national ruling class, who feel a need to cultivate support among the rural elite through directed subsidized credit. A key incentive for leaders is to retain power. For rural elites, cheap finance (which seldom has to be repaid) is a means to maintain their own power base, through which they exercise control over the rural population via sharecropping arrangements.⁴⁶ State intervention in rural financial markets, then, is dictated by the conflated interests of the ruling coalition and the landed rural elite.

The arguments made by Blair and Kane, buttressed by the dominant Ohio school of thought on rural finance, have created a good deal of ambivalence towards state subsidized credit schemes for poor farmers. One of the key arguments made is that the decision to subsidize credit for poor farmers, however well intentioned, will be compromised by the difficulties of implementing policy.⁴⁷ The concerns follow Lipsky's argument that there is often a tension between a government's desire to fulfill the needs of the population and the bureaucracies ability to meet those needs. Implementation of social and economic policies falls to the 'street level bureaucrats' who may have very different incentives and resources than those by the policymaker.⁴⁸

⁴⁵ Hulme and Mosely, *Finance Against Poverty*, 140-41.

⁴⁶ H. Blair, "Agricultural Credit, Political Economy and Patronage", 185-86.

⁴⁷ Benjamin Crosby, "Policy Implementation: The Organizational Challenge," *World Development* 24,9 (1996): 1403-15.

⁴⁸ Lipsky, Michael, *Street-Level Bureaucracy – Dilemmas of the Individual in Public Service* (New York: Russell Sage Foundation, 1980)

In this case, the bureaucracy is compromised by patron-client relationships at many levels.⁴⁹ In political economic analysis of state credit, patron-client networks exist on two levels: first the relationships between national politicians, local politicians and local elites, through whom cheap credit is exchanged for political allegiance, and second, between rural elites and the peasants who work their land. The former is the more important of the two, for it is these relationships that direct credit away from the poor groups who are the target of the programs.⁵⁰

The implicit theory of the state offered by these analysts is the 'embedded' state that is captured by the interests of powerful groups. National leaders follow their own interests, which cohere with the interests of the rural economic elite. The upshot of this vision of the state is the argument that governments cannot and should not play a major role in rural financial markets:

the contemporary orthodoxy is that 'politics' is bad for financial intermediation for the poor. Political 'interference' in such activities leads to weak targeting, low repayment rates and institutional collapse that becomes a serious drain on the public purse.⁵¹

Informal finance and the state

In conjunction with their obvious ambivalence to the state, another notable trend in the work of the Ohio school is a strong belief in the efficiency of the informal sector in providing financial services to the poor. The informal credit sector is a component of the broader informal economy, or informal sector that has received increased attention in recent years.⁵² A compelling definition of the informal

⁴⁹ Scott defines a patron-client relationship as "a special case of dyadic (two-person) ties involving a large instrumental friendship in which an individual of higher socio-economic status (patron) uses his own influences and resources to provide protection and/or benefits for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services to the patron." See: James C. Scott, "Patron-Client Politics and Political Change", in, eds., Norman T. Uphoff and Warren F. Ilchman, *The Political Economy of Development: Theoretical and Empirical Contributions* (Berkeley: University of California Press, 1972): 178-9.

⁵⁰ In his study of peasants in Southeast Asia, James C. Scott constructs a model of patron-client exchanges that is morally acceptable to villagers because it is based on the assumption that their patron will guarantee their collective security in times of trouble. Scott claims that the agrarian moral order accepted social inequality because patrons provided crucial social and material guarantees to peasants in return for their labor, services, and loyalty. In a moral economy system, the subordinated groups perceive the unequal exchanges as collaborative and morally legitimate because they ensure security for all. See James Scott, *The Moral Economy of the Peasant* (New Haven: Yale University Press, 1977).

⁵¹ Hulme and Mosley, *Finance Against Poverty*, 138.

⁵² For a full review, see M. Estelle Smith, "The Informal Economy," in *Economic Anthropology*, ed., Stuart Plattner (Stanford: Stanford University Press, 1999); Caroline Moser, "The Informal Sector Reworked: Viability and Vulnerability in Urban Development," *Regional Development Dialogue* 5, 3 (1984).

economy is that it is composed of "transactions that...do not conform with the rules set down by the state in its role as overseer of the economy."⁵³ As such, it points to the degree to which the state actively creates the informal sector through its regulatory function in the formal sector. Without the formal, there could be no informal. That said, economic planners have traditionally assumed that informal financial markets impede development through the charging of exorbitant interest rates and the financing of consumer credit that do not offer long term investment opportunities.⁵⁴

The most prevalent form of informal financial intermediary in rural Asia, the Rotating Savings and Credit Association, or ROSCA, has been seen as both an economic and a social institution. The typical ROSCA (there are many forms existing throughout Asia, Africa and Latin America) meets on a regular basis to pool resources of a given group of individuals or households and redistribute these resources on a rotating basis.⁵⁵ Agricultural and development economists are increasingly looking to the economic value of ROSCAs and other informal financial providers. The close personal relationships (creating high levels of social capital) provide an institutional means to overcome the problems of gathering information about potential borrowers and enforcing sanctions for missed payments. Understanding the comparative strengths of the informal sector in delivering credit has therefore become central:

...formal financial markets excel in modernity, in access to national and international refinancing intuitions and in access to other supporting institutions, none of which applies to informal financial markets. Informal financial markets excel in accessibility, popular participation, basic needs orientation, organizational flexibility, local adaptability, situational appropriateness and sociocultural integration at the local or regional level, none of which applies to formal financial markets.⁵⁶

A typical anthropological view of the ROSCA is that they operate by a different logic than the modern market, one that is based on social norms rather than economic self-interest. The meeting of a

⁵³ Philip Mattera, *Off the Books: The Rise of the Underground Economy* (New York: St. Martin's Press, 1985): 24.

⁵⁴ Heiko Schrader, *Informal Finance and Intermediation* Working Paper No. 252 University of Bielefeld Faculty of Sociology (Bielefeld: No Date).

⁵⁵ For a review of the many forms of ROSCAs currently existing in Asia, see: Stuart Rutherford, *A Critical Typology of Financial Services for the Poor*, ActionAid Working Paper Number 1 (London: ActionAid, 1996).

⁵⁶ E. Kropp et. al., *Linking Self-Help Groups and Banks in Developing Countries* (Eschborn: GIZ, 1989): 30.

ROSCA is "also a feast, a small gathering of friends, neighbors, and kin, and particularly in the villages, is commonly viewed by its members less as an economic institution than a broadly social one whose main purpose is the strengthening of community solidarity."⁵⁷ A more recent expression of this argument is that informal sector activities are in many ways a reaction to the modern market, and a form of resistance to the dominating trends of economic modernization.⁵⁸

Recent research has shown that informal finance may not be as efficient as one may think. Marguerite Robinson argues that many of those who claim that informal finance is efficient would do well to spend more time in villages. Drawing on fieldwork in Indonesia she argues that information does not circulate as well in villages as one would think: She argues that, contrary to popular belief, information does not necessarily flow easily in rural communities. Much valuable information can be stored and hoarded for specific individuals and circles of individuals. And information flows can be limited by gender, occupation, ethnicity and political affiliation.⁵⁹ She notes that "informal commercial lenders typically do not want to increase market share or lower interest rates."⁶⁰ Robinson further argues that formal financial institutions can and should play a role in rural finance, for they are "not constrained by the local political economy to the same degree as are individuals and local groups."⁶¹ As such, they are well positioned to offer lower interest rates and better services to rural borrowers than the informal services.

A key question for those who are interested in the political aspects of microfinance is the relationship between the formal and the informal. In other contexts, Caroline Moser has pointed out the complex interplay between the formal and informal sectors of the economy, noting that the two are in many ways mutually constitutive.⁶² The same can be said for informal finance. The omnipresence of informal on-lending, that is, the use loans from formal banks and state agencies by private

⁵⁷ Clifford Geertz, "The Rotating Credit Association: A 'Middle-Rung' in Development," *Economic Development and Cultural Change* 10, 3 (1962).

⁵⁸ Serge Latouche, *In the Wake of the Affluent Society* (Atlantic Highlands, N.J.: Zed Books, 1993).

⁵⁹ Robinson, *The Microfinance Revolution*, 157

⁶⁰ *Ibid*, 160, 161

⁶¹ *Ibid*, 162

⁶² Moser, "The Informal Sector Reworked".

moneylenders, is but one example of the strong connections between the two.⁶³ Aside from links between informal and formal finance, there are also unambiguous relationships between informal finance and broader political forces. Tsai argues that, because informal financial providers operate in an illegal sphere that must evade attention from the state, “they operate beyond the conventional notions of state and society.”⁶⁴

Semi-formal institutions

Lessons learned from the analysis of the formal, often state-sponsored banking system and the informal market have shown that they each suffer from their own sets of constraints. Formal market actors are unable to gather information about potential clients. Subsidies meant to ease the market failure that this lack of information drive inevitably lead to misallocation of resources and lack of repayment. The informal sector, on the other hand, suffers from capital constraints, and has difficulty rising above the constraints of the local political economy, which can also lead to the exclusion of the poor and the vulnerable.

Recent years have seen attempts to draw on the strengths of both the informal and formal markets to reach the poor.⁶⁵ The marriage of self-help groups based on informal models with the financial backbone of the broader financial market has led to the newest generation of rural finance. Lessons learned from informal finance have created a new form of lending popularized by The Grameen Bank in Bangladesh and spread throughout the developing and rich world by NGOs. These are most often called ‘semi-formal’ to acknowledge their structure that at once lies outside of the formal banking structure yet maintains a foot in the world of formal, state regulated institutions. Many of these programs have learned from the institutional structure of rural informal finance—particularly on their use of social relations, social capital and trust to enhance credit programs. The credit circle or credit group serves to overcome many of the more pernicious obstacles faced by formal agricultural banks through drawing upon social capital and trust to reduce transaction costs. Social capital is argued to help group members to internalize the transactions costs often associated with both formal and informal lending. For example, group members who are well known to each other can more easily

⁶³ Asian Development Bank, *Microenterprise Development: not by credit alone* (Manilla: Asian Development Bank, 1997): 5

⁶⁴ Tsai, *Back-Alley Banking*, 13

⁶⁵ Mark Schriener, “Informal Finance and the Design of Microfinance,” *Development in Practice* 11, 5 (2001): 56.

internalize the risks associated with various loan projects. They can also better control deviant behavior than can formal mechanisms.⁶⁶ In the words of two influential proponents:

The group plays a role in reducing the cost of gathering information about the borrower, but its more important role is in motivating repayments through shared liability for default. Lenders can shift some of the loan processing and loan approval tasks onto groups because the groups have better access to information on the character and creditworthiness of potential borrowers.⁶⁷

The key benefit of the group model is that they lower transaction costs by downloading much of the cost of information gathering and payment enforcement to groups of individuals who already know each other well.

The added benefits of social capital in microfinance are often said to include a gradual process of empowerment, including the social and political empowerment of beneficiaries who actively build upon their social networks and social capital while participating in microfinance activities:

...the social implications of microcredit lending can be as powerful as - or even more powerful than - the economic implications. Indeed, microcredit alone does not necessarily enable rural women to prosper. Sustainable prosperity - both economic and social - seems to be cultivated by regular and frequent interaction at a sanctioned gathering place. GB's approach to loan repayment at the centre has enabled women, as individuals and an integral part of the larger community, to continue to prosper through trust and community cooperation networks long after the initial acquisition of financial capital.⁶⁸

Such arguments draw on one of the critical aspects of social capital that distinguishes it from most other forms of capital: that, it "...differs from physical capital in that it does not wear out with use but rather with disuse."⁶⁹ Indeed, the use of credit circles and credit programs to gradually build the social resources of the poor is the central aim of many NGO funded programs, which see the increased access to financial services as secondary to the aims of community development or people's

⁶⁶ Nitin Bhatt and Tang Shui-Yan, "The Problem of Transaction Costs in Group-Based Microlending: An Institutional Perspective," *World Development* 26, 4 (1998): 630

⁶⁷ E. Rhyne and M. Otero, "Financial Services and Microenterprises: Principals and Institutions," *World Development* 20, 11 (1992): 1562.

⁶⁸ Lisa Young Larance, "Fostering social capital through NGO design: Grameen Bank membership in Bangladesh," *International Social Work* 44, 1 (January 2001): 16.

⁶⁹ Elinor Ostrom, "Social Capital: a fad or a fundamental concept?" in *Social Capital: A Multifaceted Perspective*, eds., Partha Dasgupta and Ismail Serageldin (Washington, D.C.: The World Bank, 2000): 179.

participation. On the other hand, there have been few studies that empirically attempt to test the effect of this participation on social capital and increased overall social and political participation of beneficiaries.⁷⁰

Getting to the Point: Towards an Analytical Framework

To this point, I have presented the argument that most previous analysis of the politics of microfinance have suffered from an uncritical separation of the 'state' and the 'market' into separate and autonomous spheres. Many of these assumptions were premised on postulations made by the New Political Economy that have been shown to be theoretically lacking. A lack of attention to local context has led analysts of state intervention in microfinance to take on a rather dogmatic and uncritical tone. One of the major arguments made by this study is that most previous studies of the political economy of rural credit suffered from two primary weaknesses. The first was a rather simplistic theory of the state, which assumed the state to be a fully embedded or 'captured' state. The second assumption was a problematic division between state and market, and formal and informal.

Recent analysis of local development and state interactions have focused on what Peter Evans calls 'co-production' or the means through which social and economic outcomes are produced through formal and informal interactions between state and society.⁷¹ Such an approach sees the state as a highly embedded creature, and one that is difficult at times, and perhaps even impossible, to disentangle from social structures and social groups. To examine the complex relationships between state and society, one "must analyze with an interactive framework that can capture the mutual influence between state and society."⁷²

The examination of state-society relationships in Vietnam using most contemporary tools in political science has proven to be problematic. The lack of a coherent social organization above the village

⁷⁰ Indeed, the few studies that have attempted such a measurement have generally found little or no impact of microfinance activities on social capital formation. See: Daniela Olejarova, Paul Mosley, and Elena Alexeeva, "Microfinance, Social Capital Formation and Political Development in Russia and Eastern Europe," *IDS Bulletin* 34, 4 (2003).

⁷¹ Peter Evans, "Government Action, Social Capital and Development: Reviewing the Evidence on Synergy," *World Development* 24, 6 (1996).

⁷² Jonathan Fox, "How Does Civil Society Thicken? The Political Construction of Social Capital in Mexico," *World Development* 24,6 (1996): 1090.

level that is not officially supported by the state provides numerous blocks for those who would seek a 'civil society' at all. A more fruitful place to look in Vietnam – particularly in the credit sector – will be in the relationships between the formal and the informal. This also provides an analytical challenge in Vietnam, where it is very difficult to draw the line between formal and informal economic institutions. We should remember that a mere decade ago, all private economic activity was considered to be off the books and therefore informal.

The key question asked by this thesis regards the role that political institutions play in structuring financial services for the rural poor in Vietnam. I argue that most analysis of rural finance have made too strong a distinction between the market and the state. In rapidly transforming societies such as Vietnam, limited distinction can be made at the village level between politics and economics. The expansion of state services such as credit require a displacing of informal markets and traditional forms of governance with those that adhere to the logic of the modern market and the modern state. Therefore, the expansion of the market through the provision of subsidized credit for the poor can proceed alongside, and indeed be reinforced by, the expansion of the state.

Methodology

The bulk of the empirical material presented below rests on a single case study of one village in the uplands of North Central Vietnam. The case study area was chosen on the basis of prior relationships established through my employment with the Localized Poverty Reduction in Vietnam Program (LPRV) from 1999 to 2003. The close institutional relationships developed during the Program allowed for access to authorities and acceptance by villagers that would not normally be possible in most areas of uplands Vietnam. It should be noted as well that Chau Khe was not one of the communes in which I worked in the 1999 to 2003 period. The decision not to pursue research in communes with which I was more familiar was taken so as not to confuse academic and professional responsibility.

The case study research draws on many tools of ethnography, though without the rigor that a longer-term stay in the village would allow. Katherine Vedery explains that an ethnography of a transforming socialist state should proceed at three levels. First, it should specify the international and internal forces that are mapping the reconstitution of the state. Second, the ethnography should refer to the

mechanisms and social processes through which the change is occurring. Third, the ethnography should show what is common in the many cases of post-socialist transitions and where they diverge to follow distinct paths.⁷³ An ethnography of the state recognizes that the state is trans-local and hence adds to localized ethnography through drawing upon historical accounts, newspapers and other documentation.⁷⁴

This case study data employed is based on four weeks spent in the village of Chau Dinh in Chau Khe Commune in June and July of 2002. I have visited Chau Dinh a total of four other times. Semi-structured interviews were held with a total of 20 households that were selected purposefully rather than randomly. Interviews with village elders provided a perspective on economic change in the village over time, as well as the important issue of household financial management under collectivization. Further interviews with 6 government officials and bankers allowed me to explore the perceptions of state employees of the current role of the state in rural financial intermediation. In the end, the key method was a period of "soaking and poking" or "walking and talking" through the village. The data is buttressed by four years of work in the field of rural poverty reduction in Vietnam in a large variety of geographic and cultural settings. Interviews were conducted in Vietnamese, and at times through a Thai translator.

The lack of reliable quantitative data in this thesis will be raised in later chapters. While some data was gathered from district and commune sources, it was decided not to use it for description or explanation because the reliability was highly questionable. The small number of interviews and the lack of quantitative data will remove much power from the argument. Further, the lack of statistical significance of the case study choice greatly compromises the ability to generalize the findings of this thesis.⁷⁵ It is expected that the findings may also apply within the context of ethnic Thai villages in Vietnam, and that some of the arguments made may have implications for broader state relationships with poor rural villages.

⁷³ Katherine Verdery, "Ethnography of a Transforming State: Romania in 1991," in *Articulating Human Histories: Exploring the Influence of Eric R. Wolf*, eds., Jane Schneider and Rayna Rapp (Berkeley: University of California Press, 1995).

⁷⁴ Akhil Gupta, "Blurred Boundaries: the Discourse of Corruption, the Culture of Politics and the Imagined State," *American Ethnologist* 22, 2 (1995).

⁷⁵ See: Gary Keohane, Robert King and Sidney O. Verba. *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, N.J.: Princeton University Press, 1994).

Chapter II

Institutional Development and Poverty in Vietnam

At every step along the way there are choices – political and economic – that provide...real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability in which the past neatly predicts the future.

- Douglas North⁷⁶

Does history matter? History not only provides a window onto the antecedents of current social phenomena but also provides structure for social and economic change. Concepts of path dependence popularized by Robert North and other institutional economists hold that political choices can structure the ranges of options available to institutional change. The goal of this chapter is not to provide a causal explanation for the development of financial markets in the Vietnamese countryside. Instead, the chapter attempts to explore the historical development of rural financial markets to underscore the means that they have been used by governments and colonial powers to transform the rural economy and modernize Vietnam's peasant society.

The reconfiguring of Vietnam's rural institutions officially began with the inception of *doi moi*, or renovation, in the early 1990s. The Sixth Party Congress in 1986 officially recognized the economic stagnation that followed the reunification of the country in 1975 and the difficulties that the national leadership had in implementing important collectivization and industrialization goals – particularly in the South of the country. To respond to these concerns, the *doi moi* policies introduced at the congress focused on moving away from a subsidy-based central planning model towards a mixed economy through wide ranging price reforms and other macroeconomic initiatives. Government investment was reoriented along the priority areas of agriculture, consumer goods production and the expansion of trade and foreign relations.⁷⁷

⁷⁶ Douglas North, *Institutions, institutional change, and economic performance* (New York: Cambridge University Press, 1990): 98-99.

⁷⁷ Vo Nhan Tri, *Vietnam's Economic Policy Since 1975* (Singapore: Institute of Southeast Asian Studies, 1990): 125-171.

The impetus of *doi moi* has been a matter of great discussion. Fforde and de Vylder have argued that the process of reform in Vietnam, though sporadic and at times halting, was largely bottom-up in nature, as higher level politicians and bureaucrats reacted to shifts on the ground.⁷⁸ The primary achievement of *doi moi* was to reconfigure economic life to ensure that incentives were available for individual households and businesses to enter into private enterprise. In the words of two scholars: "households, not leaders of collectives, are now the principal units for deciding what and how to farm; and markets, not states or their local agencies, are the main means by which produce and other resources are distributed."⁷⁹ One of the key changes was in the field of agricultural production. Resolution 10 issued in 1998 shifted responsibility for agricultural production—and rice in particular—from the cooperative to the household, and in doing so, brought about dramatic increases in aggregate output of grains and great reductions in poverty. Economic growth averaged 8 percent annually during the 1990-1997 period, and in doing so helped to raise GDP per capita from US \$114 in 1990 to US \$414 in 2001. That said, Vietnam remains a highly rural country, with 70 percent of the population and 90 percent of those officially counted as poor residing in the countryside. While some small-scale industrialization is taking place in the Red River and Mekong River Deltas, the overwhelming structure of the countryside remains agricultural. Non-agricultural industry makes up a mere 30% of GDP in rural areas. Rice provides the bulk of agricultural production at 55%.⁸⁰

The 1993 Land Law began a process of land reform that broke up collective farms and distributed land in a relatively egalitarian manner throughout the country. This built upon successive stages of land reform throughout the second half of the 20th century, that, building on a history of relatively egalitarian village life, created a highly equal class structure in Vietnam.⁸¹ This relative equality has

⁷⁸ Adam Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder: Westview, 1996).

⁷⁹ B. Kerkvliet and D. Porter, "Introduction," *Vietnam's Rural Transformation* (Boulder: Westview, 1993): 7.

⁸⁰ Vietnam Ministry of Agriculture and Rural Development, *Some Matters for Discussion on Agriculture and Rural Development Strategy in Vietnam for the Period 2001-2010* (Hanoi: VBAR, ND).

⁸¹ Benedict J. Kerkvliet, *State - Village Relations in Vietnam* (Clayton: Centre of Southeast Asian Studies, Monash University, 1993). The relatively equal class structure in Northern Vietnam was certainly not new. In the 1940s, Pierre Gouroux estimated that two thirds of households in Cochinchina (Central and Western Nam Bo) did not hold any land, while 1 percent of households owned 45 percent of the land. On the other hand, in Northern Bac Bo 12 percent of rural households were landless and 8.5 percent of landowners owned 54 percent of the private land. Years of socialist revolution in the North following 1945 and in the South following 1975 further institutionalized the relatively equal landholdings and incomes of rural peoples. See: Pierre Gourou, *Les Paysans du Delta Tonkinois: Etude de Géographie Humaine* [The peasants of the Tonkin Delta: a study in human geography] (Paris: Les Editions d'Art et d'Histoire, 1936).

been used as an explanation for Vietnam's current high levels of growth and for political stability.⁸² With the notable exception of much of Southern Vietnam, the rural elite are a political, rather than solely economic group.

While *doi moi* has had unquestionable positive impacts both on agricultural production and on living standards for the vast majority of Vietnam's population, it has also brought social, economic and political challenges. Decollectivization has dramatically changed how social and economic services are delivered to rural households. Cooperatives that once financed health and social services for their members were disbanded in the early 1990s, leaving many poor rural households more vulnerable to change. Later in the 1990s, the privatization (confusingly referred to as *xa hoi hoa*, or socialization, by the Vietnamese) of many social and economic services has provided a serious challenge to the safety net. In the field of agriculture, decollectivization also brought with it considerable state retrenchment, as the number of government management offices for agricultural production reduced by 50% in the period of three years.⁸³

Poverty and Poverty Reduction

In the absence of a major debate within the government or donor communities about relative equality within the state, the issue of poverty reduction has taken centre-place. Given that Vietnam was uniformly poor and hungry through most of the 20th century; relative poverty and poverty reduction was not an issue of concern prior to the *doi moi* years.⁸⁴

⁸² The 1993 and 1998 VLISS surveys calculated a Gini coefficient of 0.330 to 0.357 (where 0 represents perfect equality and 1 represents perfect inequality). This dramatically rose to 0.410 in 2003. While indeed rising, this can be compared with a Gini coefficient of 0.57 in Mexico in 1999, 0.501 for Thailand in 2001 and 0.404 in China in 2003. It should, however, be noted that much of the South of Vietnam has seen a rapid and disturbing growth in inequality over the past decade. Much of the trend can be traced to land sales and the growth of a landless class of peasants. These changes, however, have not yet been observed to a great degree in the North, and can be in some ways attributed to the divergent land tenure regimes in pre-communist Vietnam. Anon, *Poverty: Vietnam Development Report 2004* (Hanoi, World Bank, 2003), A Joint Donor Report to the Vietnam Consultative Group Meeting, Hanoi, December 2-3, 2003.

⁸³ Nguyen Sinh Cuc, *Nong Nghiep, Nonh Thon Viet Nam Thoi Ky Doi Moi: 1986-2002* [Vietnamese Agriculture and Rural Areas in the Renovation Period: 1986-2002] (Hanoi: NXB Thong Ke, 2003): 64.

⁸⁴ See Pham Xuan Nam, "Localized Poverty Reduction in Vietnam: A Contribution to Exploring Policy Assessment Methodologies," in *Policy Assessment and Policy Making for Poverty Reduction*, eds., Peter Boothroyd and Pham Xuan Nam (Hanoi: The Gioi, 2003): 48-49.

Vietnam measures poverty in a number of ways. These measures are useful in the examination of targeted transfers to the poor, such as microcredit. What the Vietnamese refer to as the 'international poverty line' was jointly developed by the General Statistics Office and the World Bank in the conduct of Vietnam's two Living Standards Surveys (VLSS) in 1992/93 and 1998/98. The total expenditure-based poverty line was VND 1.16 million per annum in 1993 and 1.79 million VND per annum in 1998. The Ministry of Labour, Invalids and Social Affairs (MOLISA) uses a National Poverty Line to aid planning and targeting in the national Hunger Eradication and Poverty Reduction (HEPR) program. MOLISA developed a new poverty line in 2001, to reflect socio-economic advances in the country and bring the line closer to that of the international standard. This line sets the minimum expenditures for an urban resident at 1,800,000 VND per annum; for a rural resident at 1,200,000 per annum; and for a resident of mountainous or island areas at 960,000 VND per annum.

Table 1: Poverty Incidence in Vietnam⁸⁵

In percent	1993	1998	2002
Poverty rate	58.1	37.4	28.9
Urban	25.1	9.2	6.6
Rural	66.4	45.5	35.6
Kinh and Chinese	53.9	31.1	23.1
Ethnic Minorities	86.4	75.2	69.3
Food poverty	24.9	15.0	10.9
Urban	7.0	2.5	1.9
Rural	29.1	18.6	13.6
Kinh and Chinese	20.8	10.6	6.5
Ethnic Minorities	52.0	41.8	41.5

By any standards, poverty in Vietnam has declined drastically over the past decades. While in the early 1980s Vietnam was a net importer of food and unable to meet its own basic needs, 20 years later, Vietnam is increasingly used as an example of a 'best practice' in poverty reduction, and touted by the World Bank and UN Development Agencies as a model for the rest of the developing world.⁸⁶ Initiatives such as Vietnam's 1998-2000 Hunger Eradication and Poverty Reduction (HEPR) program (Program 133) and the recently completed 2002 Comprehensive Poverty Reduction and Growth

⁸⁵ Anon, *Poverty: Vietnam Development Report 2004* (Hanoi, World Bank, 2003): 9.

⁸⁶ *International Herald Tribune*, 21 March 2002, pg. 1.

Strategy (CPRGS) confirm the commitment of the Communist Party of Vietnam and the State to encourage poverty reduction and equitable growth. In 1998, the many different programs to support poor households in Vietnam were combined under the HEPR program. This program not only targeted those who fell under the poverty line, but also other important 'policy households' (gia dinh chinh sac), such as heroic mothers, war veterans, and invalids.⁸⁷

During the 1990s, a "strong and pervasive view" began to build in government that poverty could only be overcome through the combined efforts of the state, the people and the community.⁸⁸ The maxim of "the state and the people work together" became increasingly popular in the 1990s as government officials attempted to find means to wean dependant populations off state dependency and to download financial responsibility for projects ranging from health care to infrastructure to the user populations. Further, the increased reliance on local resources fit well into donor discourses of participation and empowerment, as local people were encouraged to contribute to and take ownership of the development process. Official government policies in infrastructure, for example, encourage local populations to contribute (*dong gop*) up to 40% of the cost of a service, often through labour in-kind, whereas the state takes up the remaining 60%. By the mid-1990s, many in government and academe began to argue that local people should be assisted to overcome passive acceptance of government handouts. New programs began to focus on increasing agricultural production at the household level, and the key means for financing new on-farm activities was through credit inputs rather than loans and grants.

The shift in the 1990s to a more liberal approach to poverty reduction proceeded alongside a gradual change in the nature and distribution of poverty throughout the country. As poverty was reduced throughout the country on a great scale, the poor have become increasingly grouped among a number of particularly vulnerable populations. One of the most notable distinctions that must be considered is that ethnic minorities have not benefited from the achievements of *doi moi* to the degree of their Kinh

⁸⁷ Heroic war mothers were defined in a 1994 decree as mothers who lost either an only child or 3 family members in the American war.

⁸⁸ Dominique van de Walle, *Protecting the Poor in Vietnam's Emerging Market Economy* (Washington D.C.: The World Bank, 1998): 11.

(ethnic Vietnamese) and Hoa (ethnic Chinese) counterparts. It is currently estimated that by 2010, 35 percent of the poor in Vietnam will be composed of ethnic minorities.⁸⁹

The causes of ethnic inequality in Vietnam is highly contested terrain, and need not be reviewed here in detail. In many Vietnamese academic and institutional settings, ethnic inequality is said to stem from the physical environments inhabited by minorities—who often live in remote mountainous areas—and to the social isolation of many minority groups.⁹⁰ The Vietnamese term *dan trí*⁹¹ is often used to explain the relatively lower level of intellectual development that ethnic minorities have when compared with their Kinh counterparts.

A lack of social networks between uplands minorities and Vietnamese in the lowlands, deficiencies in information and cultural activities and a lack of remittances from children and relatives in the now booming urban areas are all contributors to an increasing gap between the largely Kinh inhabited lowlands and the minority inhabited uplands.⁹² Rambo and Jamieson have argued that many ethnic minority areas are, contrary to popular belief, characterized by very low levels of trust and social capital. Rapid environmental, institutional and economic change have created a ‘downward spiral’ that has endangered the livelihoods of many minority groups and in doing so compromise the development prospects for the country itself. “In such villages” they argue, “social capital is in shorter supply than financial capital.”⁹³ It is important to note, however, that the Thai case study of this thesis may not fit the general argument presented above. Many researchers have found Thai communities in Vietnam to hold strong resources of social capital and internal organization.⁹⁴

⁸⁹ Anon, *Poverty: Vietnam Development Report 2004* (Hanoi, World Bank, 2003): 9

⁹⁰ Bui Minh Dao, ed., *Some issues concerning poverty reduction for ethnic minorities* (Hanoi: NXBKHXH, 2003): 32.

⁹¹ The proper English translation of the term *dan trí* is subject to much debate. It is most often translated as ‘intellectual level’ in a general sense, and is often associated with the intellectual level of a people, rather than of an individual. The use of the term ‘dan’ signifies a connection with a people or collectivity. This contrasts with *trình độ văn hóa*, which would describe an individual’s formal education.

⁹² Dominique van de Walle and Dileni Gunewardena, *Sources of Ethnic Inequality in Vietnam* (Washington, D.C., The World Bank, 2000).

⁹³ A. Terry Rambo and Neil L. Jamieson, “Upland Areas, Ethnic Minorities, and Development,” in *Postwar Vietnam: Dynamics of a Transforming Society*, ed., Hy Van Luong (Singapore and New York: ISEAS and Rowman & Littlefield, 1993): 162

⁹⁴ Thomas Sikor and Dao Minh Truong, *Sticky Rice, Collective Fields: Community-Based Development among the Black Thai* (Hanoi: Agricultural Publishing House, 2000). Accessed on the internet at www.mekonginfo.org. 12 September 2003.

Governance and State Society Relations

The study of state-society relations in Vietnam have become a growth industry of late, and the many arguments need not be repeated here. A key assumption of this thesis is that Vietnam has a *relatively* effective state apparatus in its ability to penetrate and control society. Fforde has described the Vietnamese state as a "Tiger on a Bicycle," as a nod to its relatively strong governing apparatus with its weak implementation infrastructure.⁹⁵

The impacts of *doi moi*, though pronounced in the economic sphere, have been more limited in transforming the structure of governance in Vietnam. Indeed, one of the key aspects, and perhaps prerequisites, of the *doi moi* reforms has been political continuity and stability.⁹⁶

Vietnam remains a one party state committed to socialist principals and governance, or, a self-described "market economy with socialist orientations." The Vietnam Community Party, which only has a membership of approximately 2.1 million, or about 3 percent of the population, makes up a disproportionate percentage of government officials from the lowest to the highest levels.⁹⁷ While membership of the Party is not open, it has attempted to broaden its membership over the past decade by reaching out to different groups and sectors of society – in particular to ethnic minorities.⁹⁸ Official documents remain committed to the continued paramounce of the Party; the 1992 constitution states that: "the socialist republic of Viet Nam is a state of the people, from the people, for the people. All state power belongs to the people, and is based on an alliance between the working

⁹⁵ See Adam Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder: Westview, 1996). The study of state-society relations and political reform in Vietnam have been very popular of late. For a review, see: Anita Chan, Benedict J. Tria Kerkvliet and Jonathan Unger, eds., *Transforming Asian Socialism: China and Vietnam Compared* (St. Leonards: Allen & Unwin, 1999); Benedict J. Tria Kerkvliet, "An Approach for Analysing State-Society Relations in Vietnam," *SOJOURN: A Journal Of Social Issues in Southeast Asia* 16, 2 (October 2001); Benedict J. Tria Kerkvliet, "Authorities and the People: An Analysis of State-Society Relations in Vietnam," in *Postwar Vietnam: Dynamics of a Transforming Society*, ed., Hy Van Luong (Singapore and New York: ISEAS and Rowman & Littlefield, 2003); Carlyle A. Thayer, "Mono-Organizational Socialism and the State," in *Vietnam's Rural Transformation*, eds, B. Kerkvliet and D. Porter (Boulder: Westview, 1995).

⁹⁶ Brian Van Arkadie and Raymond Mallon, *Viet Nam: a Transition Tiger?* (Canberra: Asia Pacific Press and the Australia National University, 2003): 253-256.

⁹⁷ Benedict J. Tria Kerkvliet, "An Approach for Analysing State-Society Relations in Vietnam," *SOJOURN: A Journal Of Social Issues in Southeast Asia* 16, 2 (October 2001).

⁹⁸ Membership in 2002, for example, increased by over 5 percent. *Nhan Dan* (The People), 05 March 2003, 1.

class, the peasantry, and the intelligentsia."⁹⁹ However, the increasingly powerful National Assembly, which is elected though vetted by the Party, and the separation of powers between the Prime Minister, President and the Secretary-General of the Party have created a system in which no one individual or group of individuals can dominate. Rather, governance at all levels in Vietnam reflects a strong desire for consensus decision making and shared responsibility. Two well-informed commentators have likened the system to being akin to a British parliamentary system with strong party discipline.¹⁰⁰

The 1992 constitution charges the government with supervision of the public service at all levels. Each local level of administration, from the province down to the commune, has both an executive arm (The People's Committee – *Uy Ban Nhan Dan*) and a legislative arm (The People's Council – *Hoi Dong Nhan Dan*). These two bodies are chosen by vote in elections organized and vetted by the Fatherland Front (*Mat Tran To Quoc*), a political organization dominated by the Party.¹⁰¹

The smallest unit of official administration in Vietnam is the *xã*, or the commune in rural areas and the *phuong*, or *ward* in urban areas. The village or hamlet, known as the *lang* or *thon* in much of Northern Vietnam, the *ap* in much of the South, and the *ban* in the uplands also plays a strong informal role in governance – particularly in the administration of state programs. Prior to the *doi moi* process, each administrative unit played a dual role of administrative agency and economic manager, allowing various local governments flexibility in raising financial resources.¹⁰² Local governments, in practice, have relatively high degrees of autonomy in cases where they are able to raise their own financial resources from local state owned land or industries, or through informal fee levies. Due to a lack of transparency within the state financial system, local levels often have access to pools of funds that higher levels are not aware of.¹⁰³

⁹⁹Socialist Republic of Vietnam, *Constitution 1992* (Hanoi: Foreign Language Publishing House, 1992).

¹⁰⁰Van Arkadic and Mallon, *Viet Nam: A Transition Tiger?* 60.

¹⁰¹Benedict J. Tria Kerkvliet, "An Approach for Analysing State-Society Relations in Vietnam," *SOJOURN: A Journal Of Social Issues in Southeast Asia* 16, 2 (October 2001).

¹⁰² Thaveeporn Vasavakul, *Rebuilding Authority Relations: Public Administration Reform in the Era of Doi Moi* (Hanoi, Asian Development Bank, 2002)

¹⁰³ Van Arkadic and Mallon, *Viet Nam: a Transition Tiger?* 60-61.

Corruption, Inequality and Change

Painful adjustments in the early years of *doi moi* and widespread corruption in various levels of the civil service came to a head in the mid 1990s. Growing corruption became widely acknowledged by donors and analysts, if not within the Party itself. In 2000, a survey conducted by Transparency International on perceptions of corruption placed Vietnam 26th out of 90 countries included, and 11th out of 12 countries surveyed in East Asia, second only to Indonesia.¹⁰⁴ Protests in Thai Binh province stemming from corruption and land conflicts were particularly worrying for the Party, which saw the potential of a more widespread crisis of confidence potentially growing from the more localized revolts. Party leaders were said to be very worried about revolts in a province that was the traditional heartland for communism, and described the event as a “catastrophe” after which “regaining people's confidence [would not] be easy.”¹⁰⁵ Lessons learned from the event included the need to encourage discipline within the Party, renewed focus on reducing poverty, and a promotion of more local ownership of government programs and enhanced local decision making.¹⁰⁶

Decree no. 29/1998/ND-CP Promulgating the Regulation on the Exercise of Democracy in the Communes issued in 1997 brought ‘grassroots democracy’ to centre stage. This decree laid out a framework for the participation of local people in local decisions to ensure good governance at local levels. A new decree, titled Decree no. 79 was issued on July 7, 2003 and offers more detail into the implementation of the decree at the local level, offering guidance on implementation of government programs, such as credit, at the village level. The decree also continued to build on the normative direction of grassroots democracy, introducing the concept of the ‘community’ (*cong dong*) into the discourse of politics.¹⁰⁷

¹⁰⁴Martin Painter, “State Capacity, Institutional Reform and Changing Asian Governance,” Presentation to the Asia Development Forum, Governance and Decentralization Workshops, Bangkok, Thailand – June 12-14 (2001): 10.

¹⁰⁵Huw Watkin, “Leaders fear fresh wave of unrest in Thai Binh province,” *South China Morning Post*, Friday, September 24, 1999.

¹⁰⁶As reviewed in President Tran Duc Luong's famous assessment of the situation. Tran Duc Luong, “Tu nhung su vicc xay ra o Thai Binh, Dang, Nha nuoc va nhan dan ta rut duoc bai hoc quy gia” (Lessons that the Party, the State and the People must learn from the Thai Binh incident) *Nhan Dan (The People)*, March 2nd 1999.

¹⁰⁷ Other government decrees and directives that have supported grassroots democracy include:

- Prime Minister's Directive no. 24/1998/CT-TTg of 19 June 1998 on the building and implementation of customary laws of villages.

Mass Organizations

Any examination of poverty reduction, service delivery or state-society relations in Vietnam cannot overlook the important role by the mass organizations (*doan the*) and other socio-political organizations that dot Vietnam's landscape.¹⁰⁸ Mass organizations are state-sponsored membership organizations which engage in a range of social and cultural activities, including social welfare programs of the state. They are generally categorized as having very strong connections to the Party and the state, if not being of the state themselves. The strong roles played by mass organizations in political representation and service delivery suggest a corporatist model that is perhaps exceptional in the developing world.¹⁰⁹ By the mid-1990s, the government had authorized the creation of 124 national mass organizations including 41 friendship organizations, and over 300 provincial or municipal organizations that operated under the supervision of the Fatherland Front.¹¹⁰ The largest of these are the Women's Union, the Youth Union, the Farmer's Union, and the General Confederation of Labour. They are "intended to provide a forum for their members to articulate views and opinions about the ongoing political, social and economic processes in the country."¹¹¹ Their representatives sit in national committees where policies relating to their constituents are discussed, and each organization has members within the National Assembly and Peoples' Committees at all levels of government from the Province to the Commune. A recent World Bank report clarified that "they do not constitute part of

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- Circular no. 03/1998/TT-TCCP of 6 July 1998 of the Government Committee on Organization and Personnel guiding the implementation of grassroots democracy in communes, wards, and district towns.
 - Plan no. 145-TT/TCCP of 6 July 1998 of the Government Committee on Organization and Personnel on the implementation of grassroots democracy in communes, wards, and district towns.
 - Government Decree no. 71/1998ND-CP of 8 September 1998 on the promulgation of the regulations to realize grassroots democracy in government agencies.

¹⁰⁸ Mass organizations are common features of Leninist political systems. They are also common in China and remain popular in some Eastern European nations.

¹⁰⁹ Schmitter defines corporatism as: "A system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized and licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selections of leaders and articulation of demands and supports." Philippe C. Schmitter, "Still the Century of Corporatism?" In Frederick B. Pike and Thomas Strich, eds., *The New Corporatism: Socio-Political Structures in the Iberian World* (Notre Dame: University of Notre Dame Press, 1974): 86.

¹¹⁰ Carlyle A. Thayer, "Mono-Organizational Socialism and the State," in *Vietnam's Rural Transformation*, eds., Benedict J. Tria Kerkvliet and Doug Porter (Boulder: Westview, 1995).

¹¹¹ United Nations Development Program in Vietnam, *Development Cooperation Report 1999* (Hanoi: United Nations, 2000). Accessed online at www.undp.org.vn/undp.docs/2000/DCCRReport/html/political_st.html. 13 April 2002.

'civil society', as such, but some are said to have 'NGO-ized' in recent years, becoming more interested in developing local leadership and the direct participation of their members in designing activities.¹¹²

The political changes of *doi moi* described above offer some salient points that should be reviewed. First, Vietnam's one party state enjoys almost uncontested rule. Rapid poverty reduction and relative equality have also conferred the party with considerable legitimacy, which it has used to secure its control over economic, social and political life. Official social organization outside of the purview of the state is for the most part limited to recognized bodies such as the mass organizations scientific associations. However, while largely dominant, the legitimacy of the Party and the state has shown to be at times fragile. The Thai Binh incident in particular has forced a rethinking of the role of the Party, and a renewed effort to fight corruption and maintain legitimacy through "delivering the goods" on poverty reduction and economic growth.

As poverty has been reduced throughout the country, there has been a renewed 'attack' on persistent poverty of some social and economic groups. The major structural land management and price reforms of the 1980s have therefore been complemented by a series of transfers and subsidies for those who have not benefited from the benefits of *doi moi*. Rather than target the economic structure, these new interventions target the individual household with incentives and subsidies. This signifies both a downloading of responsibility for poverty reduction and economic growth to the household and a new means of offering state development services.

¹¹² World Bank, "Vietnam Process Case Study," Accessed online at www.worldbank.org/participation/web/webfiles.vietnam.htm

Chapter III

Vietnam's Formal Banking System

Banking establishments are more dangerous than standing armies.
Thomas Jefferson (1743 - 1826)

Among the resolutions passed by the Vietnamese Communist Party and the Communist-led government under Ho Chi Minh were the abolishment of pre-1945 loans and loans whose interest payments had doubled the principal, lowering land rents on loan interest and the canceling of all secondary rents.¹¹³ Rural credit has long been a highly political issue in Vietnam, and often at the forefront of state action in the rural sphere.

At the outset of the 20th century, Vietnam had a large network of private banks centred in Saigon, which was at the time (and still is) the commercial centre of Indochina. These banks operated, for the most part, to serve the needs of French individuals and commercial interests.¹¹⁴ To respond to the need for agricultural credit, the French created a number of systems to channel credit to peasant farmers. Systems of 'popular credit' were established by decrees in 1926 and 1927 following models of credit institutions previously established in the Dutch West Indies and in the Philippines. These 'Communal Banks' were empowered to disburse short-term loans used to increase agricultural production and revitalize the rural economy. Security was provided in the form of land assets or a guarantee of future harvests on the part of the lender. French rural credit programs, it should be clarified, were as social as they were economic in nature. One of their key rationales was to, insofar as possible, maintain rural equality to as large a degree as possible and avoid rural differentiation.

Vietnamese historians have, naturally, not been as charitable when examining the intentions of French rural bankers. The eminent Vietnamese social scientist Pham Xuan Nam argues that the primary function of indebted borrowers was to capture land, and attributes the large expansion of church

¹¹³ Hy Van Luong, "An Overview of Transformational Dynamics," in *Postwar Vietnam: Dynamics of a Transforming Society*, ed., Hy Van Luong (New York: Rowman & Littlefield, 2003): 3

¹¹⁴ Hans Dieter Scibel, *The Making of a Market Economy: Monetary Reform, Economic Transformation and Rural Finance in Vietnam* (Saarbrücken and Fort Lauderdale: Verlag breitenbach Publishers, 1992): 59.

owned land early in the century to the repossession of collateral from unsuspecting borrowers.¹¹⁵ Indeed, quite aside from maintaining equality, the programs exacerbated inequality in the countryside. Samuel Popkin has maintains that:

the French credit programs, some of which were designed to maintain land ownership by small peasants, merely exacerbated the growing inequality. The only men who were ever able to borrow from Credit Agricole and other programs were large landholders. They, in turn, lent the money to poor peasants who needed it for consumption, not investment. The rich ultimately used all the credit schemes designed to help the poor to turn them into tenants. The collateral loan programs were crucial to helping the French collect a steady flow of taxes; in doing so, they also helped increase the rate at which inequality grew in the countryside.¹¹⁶

Socialization and Credit Cooperatives

At the time of the 1975 fall of Saigon (or reunification, depending on where you sit), there were 4 state banks operating in South Vietnam.¹¹⁷ Their outreach to the poor and to rural peasants was minimal. In 1974, the commercial banks provided only one per cent of total lending to the agricultural sector. Government banks did play a role in the financial system, but only a marginal one. Beresford notes that the government's agricultural development bank provided less than 15 percent of all loans to farmers.¹¹⁸ While these estimates are generalizations at best, they point to the fact that formal financial sector outreach in South Vietnam was quite poor prior to reunification. The remaining need was met by the burgeoning informal sector of moneylenders, pawn shops and ROSCAs.

Reunification of the country following the end of the American War in 1975 saw the consolidation of the mono-tiered banking system and the State Bank of Vietnam. The State Bank of Vietnam (SBV) was given the task of providing both central bank functions and retail banking services to State Owned Enterprises, cooperatives and households. The Bank expanded greatly in the late 1970s and 1980s

¹¹⁵ Pham Xuan Nam, *Rural Development in Vietnam* (Hanoi: Social Science Publishing House, 2001).

¹¹⁶ Samuel Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley: University of California Press, 1979): 153

¹¹⁷ These included the National Bank of Vietnam, the Vietnam Commercial Credit, The Bank for Agricultural Development, and the Bank for Industrial Development. In addition, there were 69 private rural banks with a primarily agricultural mandate. In total, there were 105 banks of different sorts operating in the South: Vo Van Sen, *Su Phat Trien Cua Chu Nghia Tu Ban O Mien Nam* [Development of the market ideology in Southern Vietnam] (HCMC: NXB HCMC, 1997): 147-50.

¹¹⁸ Melanic Beresford, *National Unification and Economic Development in Vietnam* (London: Macmillan, 1989): 253-254

through the 1980s, and developed a branch network throughout rural areas 500 branches with 200 transaction offices and a staff of over 30,000.¹¹⁹

The lending of the agricultural lending division of the state bank was overwhelmingly to state owned enterprises and collective farms. As can be expected in a centrally-planned socialist economy, lending to individual households and private business was not a high priority. Through the 1980s, an average of 96.9 percent of long term credit went to cooperatives and collective economic units, of which agricultural cooperatives made up 76.44 percent. Individuals and private households composed a mere 2.3 percent of total capital. Short-term credit saw a similar pattern, as 91.55 percent went to State Enterprises. The cooperative sector took less than 8 percent, while individual households made up only 0.45 percent of all loans.¹²⁰ In fact, lending to individual households declined as a percentage of overall agricultural credit throughout the 1980s, even as the nature of collectivism was being questioned. The consolidation of the role of the collective and state owned sectors is evident in the role of financial policy, even if at the same time steps were being taken to increase the role of the household economy through allowing private gardens and private contracts.

While the SBV did indeed develop a retail network throughout the country, the key institutions for reaching remote rural areas were the rural credit cooperatives. Rural credit cooperatives had the primary task of mobilizing savings for and lending to collective farms, enterprises and households. By the 1960s, about 5,500 rural credit cooperatives had become operational. The 1980s saw the establishment of another 2,000, with a total number of close to 8,000 by the late 1980s.¹²¹ While these cooperatives were created under the control of the State Bank of Vietnam, they were in practice quite autonomous. Most were operated by local People's Committees and almost completely lacked supervision from higher authorities. Pham Xuan Nam has argued that the cooperatives "violated the

¹¹⁹ Cau Cu Boi, "Adjustments in VBA Towards a Market-Oriented Agricultural and Rural Banking System" in *The Making of a Market Economy: Monetary Reform, Economic Transformation and Rural Finance in Vietnam*, ed., Hans Dieter Seibel (Saarbrücken: Verlag Breitenbach Publishers, 1992): 107-108.

¹²⁰ Tran Thi Quc, *Vietnam's Agriculture: The Challenges and Achievements* (Singapore, ISEAS, 1998): 63.

¹²¹ Alex Woltz, *The Transformation of Rural Finance Systems in Vietnam* (Heidelberg: Research Centre for International Agrarian & Economic Development, 1997): 5.

principal of free will, democratic management and mutual benefit which characterize the civilized system of cooperatives.¹²²

Credit cooperatives were early victims in the *doi moi* reforms. As rural collectives went out of business following Decision 10, their loans from credit cooperatives became nonperforming. The large majority of cooperatives could not cover their arrears and quickly collapsed. By the end of 1990, only 160 rural credit cooperatives were left performing, and of these, most had liabilities far outweighing their equity and deposits.¹²³ Even as many of the traditional rural cooperatives were collapsing, the government informally allowed for the creation of a number of semi-private credit cooperatives in the late 1980s, most of which operated in the South of the country. In 1990, there were approximately 300 of these cooperatives in operation with an operating capital of over 100 million USD. These credit cooperatives were close to jointly owned private credit schemes, as one individual could hold up to 49 percent of a cooperatives stock.¹²⁴ Wide ranging scandals and crashes in the late 1980s forced a new round of regulations on the sector.¹²⁵ The repercussion of this crash was a new round of regulation for credit cooperatives with much closer scrutiny. When a new banking law was issued in 1990, only 80 cooperatives throughout the country were issued licenses by the State Bank of Vietnam to continue operating.¹²⁶

The quick crash of the cooperative system, first in rural areas due to the general transformation of the economy, and second in urban areas due to fraud and mismanagement, has had a lasting impact on Vietnamese financial markets. Perhaps the strongest legacy could be seen in the lack of willingness on the part of citizens to trust their money to the banking system. In the North, with its long history of poorly performing credit cooperatives, peasants are quite wary to save money in formal institutions. Likewise, in the South, with a recent history of collapses and expropriation of goods by government officials, people have been even more wary about saving money in currencies other than gold. Families have shown a strong tendency to reinvest money in productive activities or other assets such

¹²² Pham Xuan Nam, *Rural Development in Vietnam*, 94.

¹²³ Hans Dieter Scibel, *The Making of a Market Economy*, 52-53.

¹²⁴ *Ibid*, 65.

¹²⁵ Adam F'orde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder: Westview, 1996): 266.

¹²⁶ Hans Dieter Scibel, *The Making of a Market Economy*, 64.

as housing, which can be seen in this context as savings in kind. In the South, gold is still the favored means for savings, and is often used as a means of exchange for large purchases and transactions. The institutional basis of the financial sector also provides interesting similarities to today's sector, which will be described below. The large state-owned banking sector served the development of large businesses, while those few households and local agents who could borrow were served by credit cooperatives with strong links to the formal sector.

The Crafting of the Contemporary Banking Sector

With the initiation of the *doi moi* reforms in 1986, Vietnam launched on a major mission to overhaul and redevelop its banking sector. One of the results of Resolution 10 and the corollary reduction in subsidies to agriculture for fertilizer and other inputs was a massive need for credit in rural areas of Vietnam. A 1991 survey conducted by the Swedish International Development Agency showed that there was an immediate demand for 120 million USD in credit for fertilizer and another 53 million for seeds and land preparation.¹²⁷ In 1998, Decree 27 officially created a dual banking system and separated the central banking and retail banking functions of the State Bank of Vietnam. The Central Bank then began to remove its commercial banking functions and to spin these off to a new system of state owned commercial banks.¹²⁸ As of 2002, also operating in Vietnam were 60 Foreign Banks, of which 29 have opened branches, 50 Joint Stock Banks, many of which have their histories in the private banks of pre-1975 Southern Vietnam, 917 People's Credit Funds and 69 Credit cooperatives.¹²⁹

The Civic Code passed by the National Assembly in Vietnam in 1997 provides a framework for the governance of private credit markets. In total, there are 9 Articles that govern the relationships between lenders and borrowers. These state that the court has the power and authority to judge borrowing contracts, and that the rights of both borrower and lender are to be protected. The Code also stipulates that interest rates are not to exceed the officially announced rate by more than 50%,

¹²⁷ Tran Thi Que et. al., "Final Draft Report for SIDA on Survey on Rural Credit" (Hanoi, Swedish International Development Association, 1992): 8.

¹²⁸ These banks, which were to operate on a commercial mandate without subsidies from the state budget today include five state owned commercial banks: The Bank for Foreign Trade of Vietnam (VIETCOMBANK), The Bank for Investment and Development of Vietnam (BIVD) the Vietnam Bank for Agriculture and Rural Development (VBARD) and the Vietnam Bank for the Poor (VBP).

¹²⁹ Dao Van Hung et al., *Outreach: Vietnam-Canada Rural Finance Outreach Project Diagnostic Report* (Hanoi, Desjardins and Hickling Corporation, 2002), 28.

providing a straightjacket for formal and semiformal lenders, but having little impact on moneylenders and other informal financial intermediaries.

Further government restrictions on lending in the 2001 Law on Credit Institutions have made it difficult, if not impossible, for NGOs and other semi-formal institutions expand their credit outreach. Vietnamese policy makers remain skeptical of NGO banking activities that mobilize savings, citing the major risks involved in non-banking institutions holding savings.¹³⁰ Without the ability to draw on savings, NGO programs have been forced to remain small and largely rely on subsidies. This, combined with major restrictions on the operations of NGOs and the lack of a legal framework for establishing non-government development associations, has placed the NGO community in a very minor role in Vietnam's rural finance sector.¹³¹

State Banks in Transition

The rural lending sector in Vietnam is generally described as highly fragmented (See Table 2). The current financial sector in rural Vietnam is dominated by state banks, with NGOs and private banks playing but a meager role. The transition of state banks, and VBARD in particular from offering services to state enterprises to households has been dramatic. In 1991, households made up only 9 percent the VBARD's loan portfolio. This quickly grew to 30% in 1993 and 68% in 2002.¹³² Further restrictions on NGOs both in setting interest rates and establishing a presence have led to minimal outreach on their part. The Vietnamese rural financial sector is therefore largely a competition between the formal, as represented by state banks, and the informal sector, represented by ROSCAs and moneylenders. To put the size of the Vietnamese rural financial sector in context, it is notable that the current best practice model in microfinance in Asia, Indonesia's BRI, reaches a mere 6% of rural households, compared with 42% on the part of the Vietnam Bank for Agriculture and Rural Development.

¹³⁰ "To Chuc Tin Dung Khong Phai la Ngan Hang" (Non-bank credit institutions) *Tạp Chí Ngân Hàng* (Banking Review) June 1998.

¹³¹ There is very little data available on the market share of NGO programs in Vietnam, but that which exists suggests that it is very small (less than 1 percent). A recent 2001 study of Microfinance in Vietnam reviewed a sample of NGO programs that had been previously studied in 1996. The study noted that none of the 9 large schemes had grown substantially in the five years of operation between the two studies, even though they were generally seen to be well run. See: Adam McCarty et. al, *Microfinance in Vietnam: A Survey of Schemes and Issues* (Hanoi: DFID, 2001): 18-19.

¹³² Dao Van Hung et al., *Outreach*

Table 2: Formal financial sector outreach¹³³

	Rural households		Rural low-income households	
	Thousand	Percent	Thousand	Percent
VBARD	4 000	33	1 800	27
VBP	1 300	11	600	9
PCF	600	0.5	300	4
SHB	10	0.08		
Total	5 910	49	2 700	40

Table 3: Market Share of Financial Institutions by Sector¹³⁴

	Loans		Average loan size
	(percent)	(percent)	(1,000 dong)
Total	100		
Informal financial sector	51	100.0	1,752.1
1. Money lenders	9.8	19	2,141.3
2. Relatives	24.2	48	1,860.9
3. ROSCA and other individuals	16.8	33	1,365.7
Formal & semi-formal financial sector	49	100.0	3,208.5
4. Private banks and cooperatives	2.2	4.4	2,230.1
5. Government banks	40	82.2	3,512.3
6. Government programs and others	.7	13.4	1,547.4

VBARD was the founder of the first preferential credit program for the poor in the *doi moi* period, for which it contributed 100 billion VND out of its total budget of 400 billion VND.¹³⁵ However, aside from this and other small projects, VBARD has very limited outreach to the poor. In April 1999, the amount which a farmer could borrow without collateral was increased to VND 10 billion, up from VND 5 billion previously.¹³⁶ While in theory this offered possibilities to large numbers of poor households without official land title, there is evidence that this along with many other banking guidelines have not been implemented at the local level. VBARD officials at the central level admit

¹³³ Dao Van Hung et al. *Outreach*.

¹³⁴ Source: Vietnam General Statistics Office. *Vietnam Living Standards Survey, 1997-1998*. Accessed on CD Rom.

¹³⁵ Dao Van Hung et al., *Outreach*.

¹³⁶ Martin Gainsborough, *A Study of the Credit Situation in Southern Viet Nam with a focus on the situation in Tra Vinh Province* (Hanoi: Oxfam GB, 1999): 12.

openly that most guidelines issued at the central level take years to be implemented in many rural branches, if they are implemented at all.¹³⁷ The difficulties for poor households to borrow from VBARD has led one informed commentator to argue that:

The gap between the lender and potential borrowers appears insurmountable. No amount of training of rural inhabitants or even of credit officers will change the distances, the rules, or the procedures under which they must live and operate. Significant changes to their circumstances will come mainly through the intervention of the bank, whose main constraints stem from the tight regulation of interest rates and margins and the absence of an institutional commitment to expand service to LIHs [Low Income Households].¹³⁸

The abovementioned difficulties have placed lending to the poor squarely in the hands of the Bank for the Poor which, while working closely with VBARD, maintains its own economic and political mandate.

The Bank for the Poor

The Bank for the Poor (VBP) was created by decree in 1995 in order to develop a mechanism to channel low interest loans to poor and disadvantaged groups throughout Vietnam. The decision by then Prime Minister Vo Van Kiet caused a good deal of concern to arise on the part of many foreign donors working in microcredit. The establishment of a Bank for the Poor was to consolidate all donor-funded programs working in microcredit, and would end current microfinance programs directed by the Women's Union, the farmers union and foreign NGOs. Moreover, all multilateral and bilateral funding for microfinance were to be channeled exclusively through the Bank for the Poor. Further, in removing the policy-lending mandate from the Bank for Agriculture and Rural Development, the creation of the VBP could allow the state-owned commercial banks to work on a more market oriented model and contribute to the ongoing reform of the Vietnamese financial system.

VBP was founded as, and remains, a social development tool. At the time of its founding, founding manager Ha Thi Hanh stated that "we are not too interested in making a profit, but we have to survive."¹³⁹ In all of the Bank's operations, banking and efficiency play a minor role compared to the

¹³⁷ *Vietnam News*, April 24, 2002.

¹³⁸ Dao Van Hung et al., *Outreach*, 10

¹³⁹ Jai Yen, "New Bank Supports Vietnam's Rural Poor," *Daily Yomiuri*, August 20, 1996.

social objectives of channeling resources to the poor and other disadvantaged communities. Of the 0.5% monthly interest rate (reduced from 0.8% in 1998), 0.1% is paid to mass organizations for their services, 0.2% is transferred to VBARD for costs related to the use of facilities (offices, buildings, equipment, credit discount rate to VBP). The remaining is used to cover VBP's costs.¹⁴⁰ This is generally evaluated by most observers as being far too small to cover its costs.¹⁴¹

Permanent Deputy Prime Minister Nguyen Tan Dung stated in 2001 that “poor people must be at the head of the queue for Government incentive loans and funding.”¹⁴² Targets for the Bank for the Poor were then set to ensure that eventually 90 percent of the poor would have unconditional access to loans.¹⁴³ In 2003 the Bank for the Poor was dissolved and investment capital slated for the Bank was directed towards the newly created Bank for Social Policies (*Ngan Hang Chinh Sac*). The Bank for Social Policies is different from the Bank for the Poor in many important respects, most of which can only be examined in a peripheral manner in this thesis.

The official separation of the Bank for the Poor from the State Owned Commercial Banks has allowed the profit-oriented banks to remove their public-policy functions in regards to lending to households.¹⁴⁴ In theory, this should lead to an overall strengthened banking system and the protection of the financial system from potential decapitalization of the policy banks.¹⁴⁵ The Bank for Social Policies has also expanded its mandate to reach not only the poor but also other groups that have been deemed important by policymakers, such as veterans and war heroes, students and the disabled and labourers working overseas.¹⁴⁶

¹⁴⁰ Dao Van Hung et al., *Outreach*, 58

¹⁴¹ World Bank, *Vietnam Rural Finance II* Project Information Document (Hanoi: World Bank, 2001).

¹⁴² Vietnam News, November 17, 2001.

¹⁴³ van de Walle, *Protecting the Poor in Vietnam's Emerging Market Economy*, 19.

¹⁴⁴ Xuan Son, “Policy Bank to Open Doors for Business” *Vietnam Investment Review*, January 1, 2002. There are further plans for the Bank for Social Policies to also take over nonperforming loans that State Owned Commercial Banks have offered to State Owned Enterprises.

¹⁴⁵ Socialist Republic of Vietnam, *Strategy for Socio-Economic Development 2001-2010* (Hanoi: SRV, ND): 20.

¹⁴⁶ *Ngươi Lao Dong* (Labourer) September 4th 2002; *Nhan Dan* (The People) August 6th, 2002.

Links with the Woman's Union

In order to achieve its social mission VBP relies heavily on links with local government and mass organizations to deliver services. The preferred partner has been the Woman's Union, which has also developed its own credit programs through the use of donor funds and links with NGOs in particular. The Women's Union's Flagship credit program is the 'Tau Yeu Mai' or 'I love you' program, which began in 1993 with the technical assistance of a network microfinance organizations in Asia. Bangladesh's widely renowned Grameen Bank was used as a model (TYM is called a 'replicant' by those in the microfinance industry). The implications of transferring Grameen-style credit and savings programs to Vietnam was not lost on those involved in the project. One important proponent of financial systems approaches in Asia stated at the outset that: '[Tau Yeu Mai]'s significance in terms of the relevance and applicability of the GB approach in a socialist country undertaking market-oriented reforms, can hardly be overestimated."¹⁴⁷

Aside from initiating their own donor funded lending programs, the lion's share of lending from mass-organizations has come from linkages with the VBARD and VBP. They do not on-lend funds, but act as brokers rather than as financial intermediaries bearing credit risks. The number of these groups has increased substantially over the past decade. As of December 1993, there were approximately 35,000.¹⁴⁸ At the end of 1995 the WU had established 50,000 women's savings and credit groups.¹⁴⁹ As of 2001, 220,000 'self-help' loan groups had been established by mass organizations working with the Bank for the Poor, which has been offered as a reason why the overdue debts rate was very low—only 0.71 per cent to 1.6 per cent of the total loans.¹⁵⁰

¹⁴⁷ David Gibbons and Helen Todd, "Tau Yeu Mai, Vietnam" in *Cloning Grameen Bank: Replicating a Poverty Reduction Model in India, Nepal and Vietnam*, ed., Helen Todd (London: Intermediate Technology Press, 1996)

¹⁴⁸ Woltz, *The Transformation of Rural Finance Systems*. 10.

¹⁴⁹ Alan Johnson, *Microfinance in Vietnam: A Collaborative Study Based on the Experiences of NGOs, UN Agencies and Bilateral Donors* (Hanoi: United Nations Development Programme and Consultative Group to Assist the Poorest, 1996): 3.

¹⁵⁰ *Vietnam Investment Review*, November 26, 2001.

Table 4: Vietnam Women's Union Outreach through linkages with VBARD and VBP (2002)¹⁵¹

Sources	Loan Amount (in million VND)	No. of Borrowers	Total Number of Borrowers
VBARD	394108	548567	825918
VBP	43089	136007	168199
Total	437197	684574	994117

Government documents refer to three major roles for the mass organization in credit delivery. The first is targeting and selection. As mass organizations have close links to their membership, they are much more able than are state banks to evaluate credit potentials of borrowers. The second, and most important, is to offer technical assistance in training and planning to poor households. One bank official has noted "the coordination and cooperation between banks and local unions and/or associations have not only helped farmers access easily to banks but also improved their use of credits and education level."¹⁵² The strong integration that these programs share between offering credit and technical services is often noted by government officials. The use of credit is often argued as a means to encourage self-reliance and, more importantly, behavior change among the poor.

Mass organization credit programs are also generally described as institutions that build community and cooperation between various group members. Within the Vietnamese HEPR program, these activities are often referred to as 'community development' (*phat trien cong dong*).¹⁵³ The transformative nature of credit in also facilitating change within the household plays a major role in discussions regarding projects.

...farmer households have been given chances to improve their knowledge, to apply scientific and technical achievements into production, access to State policies on economic development. Through such activities, farmers can enhance their strength, friendship, cooperation and assistance to one another.¹⁵⁴

¹⁵¹ VWU Annual Reports 2002. See also Dao Van Hung et. al., *Outreach*.

¹⁵² Do Xuan Truong, "Results of the Cooperation between Banks and the Farmer Association in Developing Rural Household Economy in the Recent Period," *Vietnam Social Sciences* 1, 87 (2002), 47

¹⁵³ See: Nguyen Van Xe, *Policies and Programs for Hunger Eradication and Poverty Reduction in Ho Chi Minh City* (HCMC, NID).

¹⁵⁴ Do Xuan Truong, "Results of the Cooperation between Banks and the Farmer Association in Developing Rural Household Economy in the Recent Period," *Vietnam Social Sciences* 1, 87 (2002), 47.

The proper use of credit is often referred to as the implementation of a 'project' (*du an*)—one that is jointly funded by the state and the people. The project terminology also incorporates general household activities. The encouragement of appropriate household plans for the use of loans has become a growth industry among local governments, as manuals and guidebooks have been created and distributed to local officials to aid them in developing economic development plans for those poor households that continue to lag behind.¹⁵⁵ The discipline behind household economic planning reflects a longstanding belief that the poor and marginalized suffer more from a lack of planning skills or laziness than from a lack of resource endowments. In particular, Vietnamese scholars place some of the major causes of poverty among poor ethnic minorities that have high populations and population growth and unplanned spending habits.¹⁵⁶

This chapter has shown that succeeding generations of rural credit have long maintained the goal of transforming society. These goals, under the French, under socialist Vietnam, and today in the era of *doi moi*, have fluctuated between offering credit as an agent of economic modernization and as a means to restrain differentiation in the countryside. Indeed, one can see very different goals that follow different eras, following the development ideologies of state involvement in the countryside. French credit programs attempted to offset some of the more pernicious impacts of colonial involvement in the countryside by spurring agricultural investment and maintaining equality. Following the Vietnamese revolution, overdue private loans were abolished and credit was gradually redirected towards state owned enterprises and cooperatives in order to support the building of a socialist state. Following *doi moi*, agricultural credit has largely shifted to support the development of the household economy. Over the past decades, the social policy functions of rural banks have gradually been removed and support for the poor placed in specialized institutions—the Bank for the Poor and the Bank for Social Policies.

These credit subsidies for the poor have been instituted to channel credit to those who are assumed to be unable to afford credit at market rates. However, credit for the poor also serves a larger purpose of providing incentives for poor households to learn the techniques of the modern economy through

¹⁵⁵ So Tay Pho Bien Kien Thuc, *Dieu can biet de phat trien kinh te ho gia dinh* [Some necessary information for household economic development] (Hanoi: Nha xuất bản văn hóa dân tộc, 2002).

¹⁵⁶ Bui Minh Dao, ed. 2003. *Mot so van de ve giam ngheo tai dan toc tieu so* [Some issues regarding poverty reduction for ethnic minorities] (Hanoi, Nha Xuất Bản Xã Hội): 41.

developing household economic plans and applying new techniques. On a social level, credit channeled through mass organizations is argued to increase cooperation among farmers and the development of stronger communities. This thesis now turns to take the discussion a step further through a qualitative case study of credit in one rural uplands commune.

Chapter IV

Credit and Local Government: A Case Study of Subsidized Credit in Chau Khe Commune, Nghe An Province

One can pay back the loan of gold, but one dies forever in debt to those who are kind.

-Malay Proverb

Chau Khe commune is located in the western uplands area of Nghe An Province in Con Cuong district. The commune has a 23.4 Km border with Lao PDR and shares many historical, cultural and ecological features with the neighboring country. The home province of founding President Ho Chi Minh, Nghe An has provided a disproportionate number of Vietnam's political elite, cementing its traditionally important role within the Vietnamese state. The province is also one of Vietnam's poorest, and is listed among the poorest of Vietnam's six development zones.

Chau Khe is composed of three major ethnic groups. Of these, the ethnic Thai¹⁵⁷ are most numerous, and number 475 households or 2,370 people. They are followed by the Kinh, with 352 households or 1,517 people and the Dan Lai at 243 households or 1,288 people. Current government statistics state that the poor account for 34.6% of the Commune's population. The case study in this chapter focused on Thai households in the villages of Chau Dinh and Ban Xat. Kinh households in the commune live primarily in the commune centre of Khe Chuan, and work for government offices, the local Forest Management Board (formerly the State Forest Enterprise) and in small shops.

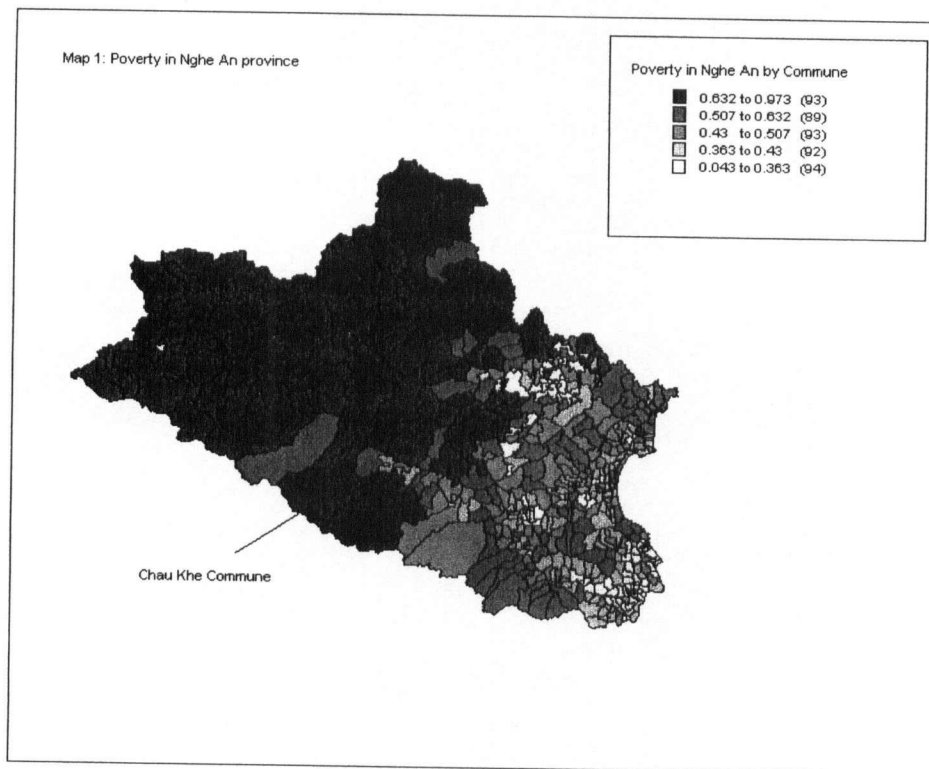
Economic Structure

Livelihoods in Chau Khe have traditionally depended on the forest, through cutting trees, gathering forest products, hunting and subsistence agriculture. Households have practiced swidden agriculture, otherwise known as 'slash and burn,' through rotating fields in order to overcome the low quality soils in the region. In recent decades, numerous government programs have encouraged an end to swidden

¹⁵⁷ The Thai are also known as the Tay, Tay Dam, Tay Khao, Tay Muoi, Hang Tong, Phu Thay. They have a population of close to 1,000,000 in Vietnam, or close to 12 percent of Vietnam's 8 million ethnic minority peoples. They live primarily in Son La, Lai Chau, Nghe An, Thanh Hoa, Lao Cai, Yen Bai, Hoa Binh, Lam Dong provinces.

fields, which are argued to be destructive of the forests, comparatively unproductive, and unfavorable to social and economic development.¹⁵⁸ Government policies now encouraging sedentarization through 'fixed fields with fixed residence' (*dinh canh dinh cu*) to replace 'migratory fields, migratory residence' (*du canh du cu*). In 1998, commune cadastral staff assigned fields to each household for the production of wet rice and certain annual crops. Land use rights for a period of 40 years are offered through the issue of 'red books' (*bia do*), which can be transferred to another household or used as collateral for a bank loan. Many households have been offered paddy land far from their own village, and must walk up to 10 Kms to their fields.

Map 1: Poverty in Nghe An¹⁵⁹



¹⁵⁸ There are numerous counterpoints to this argument. For a full review of the rather limited impacts of swidden agriculture on deforestation, see Rodolphe DeKoninck, *Deforestation in Vietnam* (Ottawa: IDRC, 2000)

¹⁵⁹ Source data from CD Rom distributed by the Vietnam Poverty Mapping Task Force. Map created in Mapinfo 7.0 using basemap polygon data from the Ministry of Agriculture and Rural Development.

Land reform has gradually moved into forestland, as most households have been allocated sections of forestland in the buffer zone of nearby Pu Mat National Park. Households are offered a package of rights to these lands, including the gathering of non timber forest products such as bamboo and medicinal plants, and cutting old trees with the permission of the local forest management board (*ban quan ly rung*). They are also encouraged to cut sections of trees to replant with higher value wood such as cinnamon.¹⁶⁰ Many households have diversified agricultural income away from rice by planting fruit trees and sugarcane on their sloping land.¹⁶¹ Investment in these small plots of forest land remains low due to the slow process of producing long-term land use certificates. As of 2002, most households were only holding temporary certificates (*bia xanh*) for their land.

With the gradual loss of the forest as a reliable source of income, animal husbandry has come to comprise more than 50% of the total income for most villages within the commune. Common household livestock includes cows and buffalo, as well as small fowl such as chicken and ducks.¹⁶² Cattle represent one of the major liquid assets of many families, and are often held as a form of savings.

Chau Khe does not have a general market, but does house a number of shops in the commune centre of Khe Chuan Village. Stores are primarily run by Kinh Vietnamese, often the families of government employees and local politicians who migrated to the highlands in the 1970s and 1980s. Thai and Dan Lai minorities rely heavily on Kinh intermediaries for the provision of consumer goods such as clothing and tools, agricultural products and services and some forms of food.

While the Commune centre of Khe Chuan village has a vibrant market economy, smaller villages, particularly those located far from the centre, participate in this cash economy in but a limited sense.

¹⁶⁰ One farmer noted the irony that in order to receive government aid to plant trees (*tong rung*), he must clearcut sections of trees (*pha rung*).

¹⁶¹ Sugarcane cropping has grown substantially in the past three years as a large sugar processing factory was built 200 Kms away in the same province.

¹⁶² The economic value of cattle comes from the fact that they are easy to raise, can be cared for by women and children, and can fetch a good income when sold to traders. One mature cow can be sold in for as much as 4,000,000 VND in nearby town markets.

Barter is used for many transactions, including many purchases in the centre of the commune. Sugarcane and other valuable crops serve as a form of currency throughout the year. Services such as house building or the provision of materials are most often offered through reciprocal networks based on kin. Food can be purchased in Khe Chuan through barter of sugarcane or bamboo shoots. Even the ice-cream salesman, who passes through once a day on a dilapidated bicycle, trades old bottles and used sandals in exchange for tasty treats.

Political Structure

Thai villages in Vietnam have a strong and historically rooted political structure that has for centuries retained a good deal of autonomy from the Vietnamese State. The Black Thai first moved into the mountains of northern Vietnam in the first few centuries AD. Local elders claim that their own land was within the borders of Lao one century ago.¹⁶³ Thai principalities (*muong*) traditionally ruled over several Black Thai villages and at times villages of other ethnic groups. Each *muong* was ruled over by a lord (*phia*) who offered the villages considerable autonomy in decision making and conflict resolution. French colonization and Vietnamese expansion into the highlands did little to change these high levels of autonomy even into the 20th century.¹⁶⁴

The Vietnamese revolution forced most of the Thai royalty to flee to Lao in the 1950s and 1960s.¹⁶⁵ Cooperatives, state forest enterprises, and other government offices gradually brought with them a series of Kinh settlers who played a strong role in district and commune government through the 1960s to 1980s. Today, much of the local government at the commune level is run by Thai, while the district government in Con Cuon town remains dominated by Kinh. The official political structure of commune government follows the common Vietnamese model, and need not be reviewed here in detail. The legislative body of the commune is the People's Council, which is elected by ballot for 5-year terms. The People's Council appoints the People's Committee, the executive, to terms that officially should not exceed 8 years, but often extend much longer. The Communist Party Secretary is

¹⁶³ A claim that many Vietnamese officials find ridiculous.

¹⁶⁴ Thomas Sikor, "Local government and the exercise of state power: the politics of land allocation in Black Thai villages." Draft Manuscript.

¹⁶⁵ It is notable that in official interviews with local elders regarding the history of the commune, none reflected on the role of the royalty or on the spread of the Vietnamese revolution into the highlands.

appointed by the CPV cell in consultation with the district CPV cell. While lacking official executive or legislative power, the Secretary holds considerable formal and informal power, and is empowered to act on some budgetary and financial issues without approval from the People's Committee at either the commune or district levels.

People tend to refer to government officials and representatives of mass organizations by their responsibility or professional portfolio: the People's Committee President is naturally referred to as Ong Khai Chu Tich or President Khai. The credit officer of the bank is referred to as Ong Viet Ngan Hanh, or Banking Viet. The same is the case for nurses at the local clinic, the government pharmacist, and all of those with a professional designation. Attaching names to the designation reflects a dominant trend to personalize relationships between the people and the state. Particularly in the case of savings and loans, most residents were quite aware of which individuals to approach should they need to access loans, but they were not aware of the different programs and institutions that were represented by those individuals. Indeed, the fact that the same individuals were most often responsible for all programs in the commune, irrespective of their source, made the initial source of the money all but irrelevant.

Mass organizations

Mass organizations, while officially separate from the public administrative system at the provincial and national levels of government, are closely linked to commune level government, sharing office space and overlapping in tasks with local government officials. The commune is home to active cells of the Farmers Union, the Women's Union and the Youth Union and to somewhat less active cells of the Elderly Association and Veterans Union. Of the three highly active organizations, the Woman's Union has the broadest range of credit activities, with the Farmer's Union being primarily involved in agricultural extension.

In 2002, the Women's Union counted 685 Members in Chau Khe. The organization plays a strong role in organizing cultural activities for women, coordinating training on issues pertinent to the household, and serves as an intermediary for loans offered through the Bank for the Poor. The president of the local WU described the role of the organization as being to: a) organize and mobilize women; b) help women to understand state policies, and particularly those that affect the family and the household economy; and, c) support hunger eradication and poverty reduction for families. She

further explained that the WU plays a key role in promoting state policies that impact women and families, such as the provision of credit, the encouragement of family planning and general capacity building (*nang cao nang luc*) and community development for villages.

When local women participants were asked about the role of the WU and their relationship with it, most referred to the cultural activities, such as singsongs and dances, that are organized on an annual or biannual basis. A small number of informants referred to loans, and no mention was made of educational or economic activities of the organization. This reflects a dominant understanding of the WU as a largely social and cultural organization—a view that contrasts with the more formalistic descriptions of the association as an economic development offered by the union's leadership. Interestingly, it also contrasts with a popular view of mass organizations as providing little but material benefits for their members.

Village Structure and Politics

Most villages (*ban*) in Chau Khe are akin to what Eric Wolf has described as a “closed corporate community.”¹⁶⁶ Villages are structured around closely knit kin groups, with extended families reaching into neighboring villages and communes. This both facilitates close relationships within the community and creates restrained relationships outside of the community. It was commonly explained that Thai women are not allowed to marry outside of their own ethnic community, though some exceptions would be made for marriage to Kinh people.

The politics of village life are extremely opaque, and it will be difficult to offer a suitable interpretation of the varied overlapping informal and formal power structures at play. In a formal sense, executive power in the village rests with the village leader (*truong ban*), who is chosen by a show of hands through village elections. While chosen in an open manner, there are many indications that the leader is selected largely on the basis of kinship ties. In the case of Chau Dinh and Ban Xat villages in Chau Khe, the current village head possesses strong hereditary ties to past leaders, and come from families who also led cooperative units prior to *doi moi*. In both case, the village leader is also closely related to

¹⁶⁶ Eric Wolf, “Closed Corporate Peasant Communities in Mesoamerica And Central Java,” *Southwestern Journal of Anthropology* 13: (1957): 1-18.

the Party Secretary (brothers), and to the village representatives of both the Farmer's Union and the Women's Union.

The village leader plays important roles both within the village and as a representative of the village within the government apparatus. Within the village, his informal responsibilities place him as a key individual responsible for conflict resolutions. Outside of the village, the leader has reporting responsibilities to the commune government, for which he receives a small stipend of 80,000 VND (\$5 USD) per month. The low stipend was acknowledged by both commune and village leaders as not reflecting the level of responsibilities carried by the village leader. Typical duties include collecting taxes, introducing and explaining laws to villagers and mobilizing their participation in important government activities and socio-cultural movements.¹⁶⁷ Largely due to their low initial salary, village leaders often take on other official government roles, such as local agricultural extension agent, forest management club leader, and head of irrigation user group, each of which carries a management stipend. In Chau Dinh village, the village leader held no less than 7 different official positions associated with different government programs. According to many local informants, the wives of village leaders often take on the role of credit group leaders with the WU as well.¹⁶⁸

Any major decisions, and in particular those that may impact on the commune or other higher levels of administration, must be approved by the village management board (*ban quan ly*). The commune People's Committee chooses the management board in consultation with local people. In Chau Dinh village, the management board consists of the village leader, a past village leader and village secretary of the Communist Party of Vietnam, and a local resident and employee of the Commune People's Committee. While the village leader is responsible for ensuring that relations between the commune government and villagers remain amicable, it is the management board that is invested with power to allocate finances acquired through government transfers.

Also important to the ongoing administration of the village are the elders (*ong gia lang/ong gia ban*) who must be consulted on all issues of importance. In Chau Dinh village, there are two elders who weigh

¹⁶⁷ Ho Chi Minh National Political Academy, *Lang Xa Viet Nam Ngay Nay (Vietnam Villages Today)* (Hanoi: Nha Xuat Ban Chinh Tri Quoc Gia, 2001).

¹⁶⁸ In the two villages surveyed in detail for this thesis, one village leader's wife served as head of the WU and local credit group, and one did not.

in on any decisions that impact the commune. Both elders have at one time been heads of the village, and both also played roles as cooperative leaders under state socialism. In one case, the current village leader is the son of one of the elders. It is also notable that the key elders that hold sway in the village played key roles in the past. Both were leaders of the local cooperatives (*cong tac xa*) from the 1960s to the 1980s.

At the village level, as with the commune level, leaders are seen as political, moral and economic leaders. Local political leaders tend to be among the most prosperous people in the village. The previous village leader who served from 1989 to 2000 is known as a fine agriculturalist, and is cited by both village members and commune leaders as a model of hard work and discipline. His work in planting fruit trees, for which he received a large government loan, is cited by many officials and residents as evidence of his work ethic and knowledge of agriculture. He is also the owner of one of the only two televisions in Chau Dinh. His house serves as the most popular gathering place in the village, and is the first stopping point for visiting police officers, extension officers and other government officials. He is also known as a kind and friendly individual (*vui ve*), a trait that is mentioned by many senior government officials.

It is common for outsiders conducting research in Vietnam to attempt to find the 'true' moral authority at the commune and village level, and to examine traditional forms of government and their relation with the formal bureaucracy. Evidence from Chau Dinh village suggests that there are many links between the two. Unfortunately the time allocated to my village stay did not allow a complete unbundling of different spheres of authority.¹⁶⁹

Who is poor, anyhow?

At the heart of questions regarding allocation of subsidized credit are questions regarding the measurement of poverty and the mechanisms used to allocate subsidies to poor households. Vietnam

¹⁶⁹ When working with outsiders, many farmers and some local leaders accidentally refer to local officials as leaders of the local cooperative (*cong tac xa*), though the cooperative has ceased to provide any functional role in the local economy or administration. When asked to explain the differences between the *cong tac xa* of the 1970s and that of today, one Village leader, who referred to himself as head of cooperative, explained that "the major difference is that in the past the cooperative allocated labour so that people were told where to work and on what fields. Today, people work on their own fields in the way that they want to. Many of the other activities of the cooperative—to take care of people, and to organize their social and cultural lives—are the same as before."

has numerous overlapping and competing standards to measure poverty, most of which were reviewed in Chapter II of this thesis.

Annual surveys conducted by MOLISA are used to set targets for numbers of poor households within any particular District or Commune. Following household income surveys, the number of poor households is chosen based on average income criteria for each village, commune and district. These numbers are verified at the local level by the commune chair and are then used both for reporting and planning purposes and for allocating of resources for entitlements. First, at the provincial level, one-year, five year and ten year poverty reduction plans are developed to set targets for the number of poor households who are to be 'eradicated'¹⁷⁰ (*xoa*) in the coming period. Financial assistance for local government to assist poor households is then adjusted to meet the new targets.

The result of this decision making structure is that official numbers of poor households are adjusted to reflect targets rather than reality. The village leader explained that while he had been allocated 15 poor households, the local people had evaluated that at least 60 (out of 80) were actually poor. Consequently, resources must be rationed among households at both the commune and the village level. This rationing is well understood at the village level, where decisions are made regarding resource allocation. Therefore, for the targeting of subsidies and benefits, a second step must be taken at the commune and village level. In short: the official targeting mechanisms select the total amount of credit and other subsidies that can be allocated to the commune. Following this, it is necessary to decide who, among the poor, can access these subsidies. In Chau Khe, the mass organizations in 2002 offered a list to the commune government of households that they felt were poor. These were then evaluated by the Party Cell and by the People's Committee, and sent to the villages for verification. At the village level, the village leader would then host a meeting of all household heads to verify the officially poor families for that year and decide on the allocation of resources.

All households interviewed for this thesis stated that the method for selecting poor households was fairly easy to understand, and noted that they were allowed to participate in the village meetings during which poor households were selected. Anecdotal evidence from the study time, including a short

¹⁷⁰ An unfortunate turn of phrase, but one that is the common Vietnamese term used in this context.

wealth ranking survey with a group of women, and visits to poor households, indicate that the households on the list of the poor did not contain any of the richer households in the village.

A common complaint from many households referred to the recent exclusion of Communist Party members in 2002 from the list of poor households. One respondent complained that this exclusion was both illogical and unfair, for there remain many members of the Party who are quite poor. Even a number of poor households who were not members of the Party agreed that they should not de facto be excluded from the list.

Perceptions of poverty

Conversations between eager researchers and local people in Chau Khe always seem to end in discussions about poverty. Even over beer at the end of the day, farmers and officials alike tend to make poverty the key topic of discussion. In formal interviews, local leaders and richer households placed a great deal of emphasis on the role of knowledge and access to financial capital in facilitating poverty reduction. One informant stated that: "rich and well off households are those that have capital, knowledge and the experience needed to conduct business, which is why they become rich." Others speak of the relative laziness of the poor and their inability to work hard enough to secure an income. One district leader stated that

Poor households are resigned to their fate. We have split poor households into two groups. The first lacks capital and knowledge. The second does not have an effective plan for household development, engages in social evils and does not like to work. At times, when they do have some money, they will even spend more money than the rich on luxuries such as weddings. Ethnic minority people spend money on other rituals, some of which are illegal. When we ask local people about the reasons for their poverty, some of these people say that it is because they lack funds. But I think that this is not true, because they can now get loans from the Bank for the Poor. Preferential loans are restricted, but there is a Bank for Agriculture. Obviously we see that if they can get loans, then that is not why they are poor.

Leaders at the village level also point to the fact that many of the poor do not take enough responsibility for their own development. The local Communist Party Secretary in one village, himself the recipient of many government loans, though none from the Bank for the Poor, noted that there were still many households in his village who had chosen not to get electricity, even though you could get it for free if you simply traveled to the District to put in a request.

When queried about what indicates a poor household¹⁷¹, local people argued that, while income is important, there are many other factors that should be taken into account. The poor in the commune were also deemed to be those families who have many children (*dong con*), households that have little property or other assets (*tai san*), households that have many elderly members, and households that had members who were regularly sick. One informant stated that while his sons are poor, they are still young. His sons had few cattle, only one buffalo and a relatively small and ramshackle house that stood on the ground rather than on stilts.¹⁷² Later in life, most households will gradually invest through building a more solid house and purchase small consumer durables such as radios and televisions. This view is not always shared by young families themselves, who often fear that the diminishing availability of land offers them lower access to resources than their parents. One informant argued bluntly that “I am poor because I was born too late! If I was my father’s age, I would now be rich.”

Informal Financial Services

A key initial assumption in this thesis is that Chau Khe would be home to numerous overlapping informal credit and savings schemes. ROSCAs, having been active throughout Asia for hundreds, if not thousands, of years, would dominate the financial landscape. Surprisingly, there were relatively few ROSCAs and moneylenders present in the study area. Of those that could be found, there was a sharp distinction between activities in the Kinh dominated commune centre and in the Thai villages. In the centre, economic ROSCAs and moneylenders prevailed. The villages were home to some very small scale schemes of borrowing and saving, which operated on a very different logic. Both are in turn described below.

There are a number of private moneylenders operating in the commune, all of whom do so part time to supplement incomes as shopkeepers or government officials. Private lending of this sort was generally described as lending to “friends,” albeit with interest rates of up to 10 percent per month charged on the loan. Moneylenders and shopkeepers generally describe moneylending as a legitimate exercise that assists people to increase their incomes and put surplus money to good use.

¹⁷¹ Results of a group discussion using a wealth ranking exercise

¹⁷² Which, paradoxically, can either be a sign of wealth or poverty.

Moneylending takes a number of different forms, but seems to be concentrated in the purchase of social goods (health care and education) and in some productive activities, such as the purchase of fertilizer and agricultural inputs. One informant, herself a moneylender, claimed that she and some of her wealthier friends were borrowing less than they had in recent years because they now had access to loans from VBARD. She also mentioned that she was also lending less than in the past because she no longer needed as much extra income.

Informal sector loans of this sort seem to generally go from Kinh to Kinh households, and in a very small number of cases to richer Thai households. There was little evidence of poor Thai people borrowing from moneylenders in the commune centre. Indeed, I was only able to meet one Thai person who had borrowed from a private moneylender. When queried about their reasons for not borrowing on the private market, most poor people note that they could not pay back the money, and would be afraid to go into deep debt to people whom they did not know well. Moneylenders explained that they would only lend to people whom they know and trust. In keeping with current understanding of the functioning of rural financial markets, the costs of acquiring information about potential households in this case would seem to be prohibitive.¹⁷³

National statistical evidence suggests that there are strong links between the formal and informal credit sectors, and that there is a good deal of onlending of funds from the formal to the informal.¹⁷⁴ Interviews conducted in Chau Khe seem to advance this point. There were no government officials who admitted to bank loans being used by moneylenders to loan to those who cannot access money. But conversations and informal interviews indicate that a large number of Kinh in the centre of the commune make use of VBARD capital to lend to other households at higher interest rates. Some borrowers would in practice extend their formal sector loans by borrowing at the end of their loan term from the informal market, paying their bank loan, and borrowing a larger sum from the bank to repay their informal loan. Using these methods, one borrower explained that she could in practice

¹⁷³See, for example: K. Hoff and J. E. Stiglitz, "Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives," in eds., K. Hoff, A. Braverman and J. Stiglitz, *The Economics of Rural Organization* (Oxford and Washington: Oxford University Press): 37-43.

¹⁷⁴ A. Haroon Akram-Lodi, *Landlords are taking back the land:: the agrarian transition in Vietnam* ISS Working Paper 353 (The Hague: ISS, 2001): 23.

extend their bank loan indefinitely, all while receiving larger and larger loans because of their repayment.

Informal ROSCAs, known as *phuong* are also popular in the commune centre. *Phuong* is played solely by women, in groups averaging nine or ten. Each member contributes 1,000,000 VND at the beginning of the cycle, and continues to contribute the same on a monthly basis. Participants then bid to borrow the whole sum each month through offering to discount to pay interest to each other member. In doing so, the participant with the most pressing need for money will borrow earlier in the cycle by offering a high rate. Participants who have no pressing need to borrow discount less at a later date, and will often make a total profit after each participant has borrowed. The woman who organizes the *phuong* holds a special place, and can borrow without interest at a time of her choosing. That aside, there are few financial benefits for the organizer, who must herself spend time and money to arrange for meetings and offer snacks and tea to the participants. One informant explained that the host a *phuong*, is a good means to increase your social standing, particularly for a younger woman. The *phuong* is therefore as important as a social institution as it is as a means to borrow and to save.

There are no poor households or ethnic minority households who participate in *phuong* in the commune centre. When asked for the reason for their absence, one group leader explained that the interest rates and the high levels of the contributions were too high. She explained that poor households play their own kinds of *phuong*, often in-kind to build houses or distribute agricultural products. Two local officials (PC Chair and Vice Chair) were questioned on informal credit each were clear in stating that there were *no* Thai households who participated in *phuong*.

Informal Credit and the Poor

While the informal sector among the Thai is indeed small, there were numerous activities that fall into this area. Private loans are often solicited from family members, kin and close friends in a time of emergency. Loans are given without interest, and repayment occurs over a long period of time, most often in kind rather than in cash. Thai people at times refer to this as *phuong*, and in other cases simply as loans (*va*). Informal loans from kin members are fast and flexible, but highly limited by the lack of capital within the community itself. Because much of a family's savings are not in cash, they have little to lend to a friend or relative in a time of need. Loans between family members and friends are

therefore quite small, and therefore an individual who would borrow for a large event such as a wedding or a funeral must approach a wide range of people to solicit funds.

An example can be given for one local man who was charged VND 2,000,000 by a priest to perform an exorcism (*Cung*) ceremony to rid him of a string of ill health and bad luck. Without the liquid capital to perform the ceremony, one that was deemed necessary by both his family¹⁷⁵ and local village elders, he was forced to borrow from friends and family. However, there were few people in the Village who could loan him more than VND100,000. He therefore borrowed small amounts from a wide selection of villagers, using family members and local elders as intermediaries. Having amassed almost enough money to perform the ceremony¹⁷⁶, he retained a debt of gratitude to a large cross section of the village. When asked how he could repay, he replied that he would have to save and pay people off one loan at a time. If this was not possible, he would work on their farms when asked and perform other favors when needed.

Other more mundane examples include loans of rice and/or money that are offered to the few households who are unable to grow enough food to feed themselves throughout the year. In the three months prior to the dry season, a poor household is often forced to either borrow rice from richer families or to work on their farms for a rate from 8,000 VND to 10,000 VND per day. In the case of a loan, households are expected to repay without interest within two years. There are few mechanisms to enforce the repayment, and it is implicit that repayment on these 'loans' is not expected. Rather, borrowing households must repay the debt in the future through other means.

Informal credit sources are seldom used for 'investment' projects of the kinds prioritized by local government. Indeed, during five weeks in Chau Khe, I was unable to find one farmer who had borrowed on the informal market to purchase seedlings, fertilizer or cattle. When queried as to why they did not borrow for these purposes, one informant responded that he would not be able to borrow enough to use the money productively. The cost of purchasing a cow, for example, greatly

¹⁷⁵ He explained in conversation that it was primarily the pestering of his mother that convinced him to enter into the *Cung*. It was assumed that the gods were angry with him because he failed to provide his father with a proper burial because of his inability to provide for a coffin.

¹⁷⁶ He saved money through community benevolence as well. A large portion of the cost of the *Cung* is the slaughtering of 6 pigs. At the ceremony itself, it was obvious that there were only 3 pigs killed. When I asked about the numbers, I was told that there were, in fact, 6 pigs. And all future references to the event referred to 6 pigs.

exceeded what most local people could lend. Instead, health care plays a large role in this borrowing, followed by house construction, weddings and funerals. In short, loans are used to fund major life-cycle events for which many families would find it difficult to save, and for dealing with emergencies and other shocks for which households are unprepared.

The one common form of *phuong* that is used for investment purposes is a practice known as *nuoi xe*. *Nuoi xe* works through exchanges of labour and livestock between households. Through this practice, a 'rich' family will provide a poorer family with a calf or a cow. The poor family must care for the cow, and must give the rich family the first two calves that are produced. Following the second calf, they are allowed to keep the cow. Many Thai families described the practice as a beneficial use of their own resources. Their children would look after the borrowed cattle, and in doing so, added to the household's access to resources. Lending households also benefit by reducing the labour inputs required to care for a cow, by offloading to another household.

Overall, informal services were more limited than would be supposed by an outsider accustomed to other parts of Asia. Moneylenders and financial ROSCA membership was limited to the Kinh and the richer households. While informal finance did exist among the Thai, it was limited to very small loans with very few mechanisms available for repayment. Instead, a 'loan' offered in the Thai community was akin to a gift which would be repaid through other favors further down the road. The only borrowing on the informal market for investment purposes was through the practice of *Nui Xe*.

Official views of informal finance

Interviews with local officials of the district, commune and village level offered a surprisingly wide range of views on the informal sector in the commune and its connections with state programs. At the district level, two out of three officials interviewed for this study refused to admit that there was any informal sector financial activity in the commune at all, equating it with a 'social evil.' Commune officials were willing to speak of *phuong* and of private moneylending, but with differing levels of detail. When speaking of informal sector moneylenders, local officials avoided the reference to profit-making through lending. When asked specifically about the profits that can be made by moneylenders, one official stated that the loans were "only to help those who need help." It was also well known (though not discussed) that the same official's wife was a major moneylender in the commune.

In one case, when interviewing the commune President, the word *phuong* elicited an uncomfortable smile, followed by a querie of how it was that the interviewer had heard of *phuong*. Discussions about *phuong* drew out descriptions that highlighted the cooperation that lied at the heart of the system, while at the same time arguing that some forms of *phuong*, such as *nui xe*, reflected unequal structures and hence should be replaced with other, more egalitarian structures. Indeed, when informal finance is described as a social or cooperative enterprise, local officials were without exception happy to describe how the rich and poor alike engage in helping (*giup do*) associations with one another. The construction of informal finance as an essentially benevolent and cooperative activity places it outside of the sphere of finance in the commune. *Phuong* is often described by officials as a traditional means of cooperation and is used to refer to a broader range of activities that describe the various means that local people work together. In comparison, the associations joined by the local Kinh are much more financially minded, and offer concrete short-term rewards.¹⁷⁷

When asked to describe economic basis of these associations, however, such as the interest rates charged to discount *phuong* in the centre of the commune, local officials took a very different stance. One commune official claimed that

some individuals try to benefit from *phuong* by preying on unexpecting poor people. In these cases, they are trying to hide high interest rates. When a rich household loans a poor household a cow, it is really business with interest rates. If the poor have access to state loans then they will be protected from these practices.

The rather perplexing official interpretations of the informal sector tended to change following the means through which the sector was described. When *phuong* was described as short-term loans and gifts between friends and family, local officials saw it as a beneficial practice that should be recognized. However, when described as a practice that could benefit the person who offers the loan, such as in *nui xe*, officials were less than receptive. In one case, a vice president stated clearly that one of the major goals of government loans were to combat these exploitative practices, and reduce the hidden interest that was paid by the poor.

¹⁷⁷ In his examination of ROSCA's from across Asia and Africa, Geertz notes that the Vietnamese model is perhaps the most economically minded of them all Clifford Geertz, "The Rotating Credit Association: A 'Middle-Rung' in Development," *Economic Development and Cultural Change* 10, 3 (1962): 253.

The Women's Union organizes *phuong* groups with a goal of reducing poverty for its members. In total, it coordinates 20 groups in the commune. Each group saves 200,000 to 300,000 per month. Unlike the *phuong* played outside of the WU, there is no interest or discounting on the loans. Potential borrowers are chosen by consensus taken within the group based on presentations from the members about why they need the loan. When there is more than one woman who would like to borrow at the same time, the group will decide through random selection.

While WU officials spoke highly of the official *phuong*, it was difficult to find women who were participating in this activity. Richer households in the centre of the commune stay away from the 'formal' *phuong* because it has too many restrictions and does not offer any interest. Poor families held that the contributions, though lower than for the informal *phuong* in the centre of town, were simply too high for them. Pressure exerted by the Women's Union to prioritize loans for household economic development rather than for consumptive activities provided another disincentive for many of the poor households. Further, the method of prioritizing loans according to need or through the drawing of straws was disliked by richer women, for this made it more difficult for them to control when and how they could borrow.

Formal financial Services Available in the Commune

Both the Bank for the Poor and the Bank for Agriculture and Rural Development operate in the Chau Khe. Also operating in the commune is the National Program to Create Employment (Program 120), which offers loans to the poor and non-poor alike to encourage the development of small business and agricultural production, and a program financed through a European Union project to support communities in the buffer zone of Con Cuon national park. This final program, though of definite relevance, will not be reviewed in this thesis because the timing of my visit did not allow a review of their activities.

Accessing Loans

Both village and commune leadership are well placed to benefit from economic change in ways that are not accessible to the average farmer. Access to loans, information and services ensure that the political and economic elite is one and the same. Some local farmers complained that they were not informed about many opportunities that arose in the village. For example, subsidized loans offered by the government programs 327 and 773 to Reforest Barren Hills have largely gone to village leaders and

their close relatives. The same can be said for program 120 on job creation. One local official noted that of 12 loans offered in the commune in 2001, all but 2 went to village leaders or commune officials. He agreed that this was a problem that must be overcome in the future, but saw it as an information issue rather than corruption, arguing that most farmers had difficulty accessing information about different government services.

Most farmer informants for this study saw the disproportionate levels of access of local political leaders to government services as a logical result of their better ability to properly utilize inputs such as credit and seedlings in a productive manner. One informant cited the fact that political leaders are rich because they are very intelligent (*thong minh*) and hard working. The same traits of high study (*hoc roi*), hard work (*cham chi*) and joviality (*vui ve*) are expected to serve them well in all areas of life. One informant explained that one of the key difficulties of many government programs was that the general intellectual level (*trinh do dan tri*) of most farmers was too low to make the best use of inputs from government services. When local political leaders used these inputs to develop models of agricultural and household economic development, local people would be better able to learn from example. Villagers therefore see a limited separation of the political and economic spheres, an issue that will be explored in further detail later in this thesis. It should be noted, however, that these examples do not refer to programs that are targeted directly towards poor households, which will be referred to below.

Having political connections hurries along the process of loan approval for VBARD. One rich villager, and close relative of a commune vice president, told a story of how one year ago she was able to borrow 10,000,000 VND within 24 hours from VBARD in order to pay for emergency surgery for her husband following a motorbike accident. Likewise, the largest government loan offered in recent memory was given to the Vice President of the Commune to plant trees.

Those who do not have social connections find it much more difficult to access credit. The same holds true for informal credit and indeed, a lack of social connections may make it more difficult to borrow on the informal market than in the formal. As an example, the local pharmacy will sell medicine on credit to buyers if they do not have the money to pay up front. However, the pharmacist noted that this is only available to those who he knows and respects. The risks posed by loaning to people whom one does not know, and perhaps more importantly, has no control over, are an

important disincentive for lenders on the informal market. The local agriculture extension officer described a similar process with agricultural inputs. He often sold inputs on credit at a modest interest rate, but would only do so for those from whom he was certain to recoup the money. While arguing that he made no distinction between the poor and the non-poor, he did admit that it was difficult to be certain that a poor household would be able to repay in full.

Many poor households complained that the Bank for the Poor was channeling large sums of money to the richer households while only offering meager loans to the poor. One farmer complained that “the Bank for the Poor drew a list of poor households but offered (funds) to rich households and poor households were granted small loans or even nothing.” Following the conduct of a simple wealth ranking exercise with local female farmers, it became clear that none of the ten poorest households in Chau Dinh had received a loan from The Bank for the Poor. However, no rich households had received loans either. Rather, most of the loans in Chau Dinh went to poor, but not the poorest, households.

Concerns about loans flowing to the rich stemmed from a lack of understanding about the difference between different government programs. Loans offered through the Bank for the Poor were uniform at VND 3,000,000 over a period of three years. The loans were disbursed in a single group of loans in 1999, and had recently reached term at the time of my research in Chau Phong. Following discussions with other households, it became clear that many of the borrowers confused the activities of the Bank for the Poor and the VBARD. Many households had borrowed much larger sums (up to VND 30,000,000) for planting trees and engaging in other agricultural activities. Loans from the National Program to Create Employment, though limited, were also of large sums and went to the richer households of the commune.

The strong ‘cooperation’ between different agencies in delivering loans here brings us to an interesting point. There is only one channel for most poor families to borrow money in Chau Khe. While there are many ‘funds’ (*quy*) from which they can borrow, accessing any of these involves petitioning the village leader and gaining the approval of the Commune Chair. And if a borrower defaults on any loan (or, perhaps, has another problem) then he or she will become ineligible to borrow from any sources. While richer households can understand the distinction between many different sources, many of the poor households—particularly those who lived remote from the centre of the commune—did not

appreciate the nature of the different funding sources. For these households, the individual responsible for the loans, or the point of contact, was more important.

However, the expansion of subsidized credit programs offered through the HEPR program via the VBP seem to have improved the ability of subsidized credit to reach poor households. While, in theory, the VBP and VBARD are separate institutions, in practice, they shared a common delivery system for their products. Both banks share one credit officer, who visits the commune twice per week, and is responsible for a total of 3 Communes in Con Cuon District. While his official time spent in Chau Khe is limited, there is reason to believe that his connections to the commune are stronger than to the other two, as he keeps his home in Chau Khe. Focus on the formal sector in this section will focus on loans that are offered through the Bank for the Poor.

Those who would like to directly access services from VBARD must work through the district branch located in Con Cuon town, located 17 Kms down the highway from the commune centre. Those who would borrow from the Bank for the Poor, however, cannot directly access the bank.¹⁷⁸ Instead, they must join a borrower's group through the Women's Union or the Farmer's Union. In order to benefit from loans from the Bank for the Poor, families must be certified as poor through inclusion on a list of poor households that is drawn up on an annual basis by commune officials.¹⁷⁹

Loans from both the Bank for the Poor and VBARD are disbursed in close collaboration with the local People's Committee. Whether this is required by VBP policy is at times unclear. Some policy documents state that the commune President need not be involved in the decision making and, indeed, should not be involved. Dufhues et. al. report that in some Tay communes, this regulation is overcome by Presidents using 'coded' signatures on documents to pass their own decisions on to the credit officer.¹⁸⁰ However, in Chau Khe, commune officials were open in stating that in all cases

¹⁷⁸ At the time of submission of this thesis, the relationships between VBARD and the Bank for the Poor have changed dramatically. The Bank for the Poor was dissolved in 2003 and reconstructed as the Bank for Social Policies, which is developing its own branch network. It seems that while this means many changes in financial management and staffing at District level and above, the new Bank will continue to work with mass organizations and therefore follow a similar lending model at the village level.

¹⁷⁹ The selection process is described above.

¹⁸⁰ Thomas Dufhues, Pham Thi My, Ha Thi Hanh and Gertrud Buchenrieder, "Fuzzy Information Policy of the Vietnam Bank for the Poor in lending and targeting of the poor in Northern Vietnam" Paper presented at the International

where a household does not have collateral to secure a loan, the Bank for the Poor relies on guarantees from the People's Committee in order to ensure repayment. State policies are clear that loans under the amount of 10,000,000 VND should be offered without collateral. However, in reality, no poor household, even those with collateral, can borrow without the guarantee of the local People's Committee President. The local Bank official was very clear regarding who cannot borrow from the Bank for the Poor and who can. Among the poor, those who cannot or should not be allowed to borrow are those who drink, do not work, or are lazy. Among the non-poor, those who do not have a 'rational' project that is 'precise' (*chinh sac*) cannot borrow.

The approval procedure of the application proceeds through the following steps: (i) the credit officer signs the credit application which is synonymous to his approval and (ii) the head of the VBP cosigns the contract. Normally, the head of the VBP follows the decision of the credit officer. The timeframe for this procedure varies between two weeks and nine months in the case of the research villages.

Mass organizations, credit groups and village structures

The head of the Women's Union explained that the Bank for the Poor and the Bank for Agriculture in Chau Khe have cooperated with the Women's Union for 10 years to provide loans through credit groups. While one can question the dates (the Bank for the Poor was established in 1996) it seems that there are certainly long standing relationships between banks and the WU. It could therefore be one of the longest standing such programs in Vietnam. The role of the Women's Union in delivering loans is to organize borrowers into groups, facilitate loan applications and collect payments on behalf of the Bank for the Poor. Credit groups (*nhom tin dung*) are organized throughout the Commune, with one group existing in each village. The President of the People's Committee described the relationship between the Women's Union, the Bank and the Government as one by which the mass organizations managed funds on behalf of the state. He claimed that one of the major reasons that the Bank for the Poor is very well regarded in the Commune is that the mass organizations have done a very good job of assisting to manage the program.

This view of loan services as programs of the state has led to the assumption that the state must control the loans to ensure proper use. Government officials were adamant that the loans could not

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and should not be used for consumptive activities, a seeming waste of the State's money. Consumptive uses were listed as the purchase of televisions or other household goods, repair of houses, paying school fees and purchasing health care, among others. Instead, loans must be used for productive activities that will improve the household's economy. The often stated fact that the poor are to 'implement' loans from the state highlights the view of partnership with which state officials approached loan programs. One of the key roles for local officials working in these programs is then to train local people to 'use' their loans properly.

In most cases, government loans were combined with agricultural extension services offered through the district's agricultural extension (*khuyen nong*) service. Borrowers were invited via the Women's Union and Farmer's Union to attend training courses on topics ranging from the appropriate use of pesticides and fertilizer to veterinary techniques for pigs. While extension services were said to be ongoing, respondents reported that they in general only attended one to two meetings per year. Local officials play a key role in ensuring that these projects are in accordance with the development needs of the province and the district levels of government. One district official noted earnestly that his task was to ensure that the 'projects' used by loans are appropriate (*phu hop*) for the development needs of the region.

The president of the WU cell in the commune claimed that she had complete discretion over loans given out to poor families, and that she often had to refuse to sponsor a loan because she was certain that the family could not repay. When asked about her role in judging applicants, she said that this was the hardest part of her job:

...of course I must refuse some women who want to borrow money. Sometimes the loan purposes are not rational or I know that they are not good people. It is a very difficult job, and makes me sick sometimes. I get headaches from the responsibility.

She said that when borrowing from VBARD, women required some sort of collateral. When borrowing from the Bank for the Poor: "I am the collateral" (*tai san*). The strong role of the government 'guarantee' should not be underestimated here. Local officials and bank officials all spoke of the role of the Women's Union in ensuring the control of capital and the repayment of loaned moneys. Likewise, to borrow from the WU, a family must become a member of the mass

organization. Membership requires a small fee, which while nominal for the organization itself, is not insignificant for a poor family. Many have argued that it is only for concrete benefits such as access to loans that most peasants join mass organizations.

While, as reviewed in the previous chapter, policy dictates that the Bank must offer 1% of the interest rates on loans to mass organizations for management fees, none of these resources were disbursed at the commune level and below. The head of the commune Women's Union and her deputy both depended on state salaries to cover their own costs along with a small stipend from the Women's Union itself. Local representatives from the village level depended on irregular contributions from borrowers to finance their own trips to the commune and district centres on behalf of the borrowers as needed. The President and Vice President of the Women's Union are also local government officials,¹⁸¹ one of whom is the local official responsible for family planning (*ke hoach hoa gia dinh*), while the other is responsible for recording statistical information in the Commune.

Structure of Rural Credit Groups

If a woman would like to borrow money from the Bank for the Poor, she must join a group, and in so doing, become a member of the Women's Union. In the case of men, they must join the Farmer's Union. These two organizations thus become the sole intermediaries between the subsidized credit program and the individual.

The role of credit groups in allocating credit and organizing borrowers was discussed by all of the government informants. However, as seen above, the Women's Union leadership exercises considerable control in the allocation of loans and the supervision of these loans. Loans from the Bank for the Poor were disbursed at one time in the year 1999. These loans were offered to all members of the WU, and were for a period of three years.

¹⁸¹ ...and, aside from the secretary and preparer of tea, the only female officials employed in the head office of the People's Committee

Figure 2: The procedure to request loans from the VBP¹⁸²

1. Potential borrowers establish a group of at least five people
2. Election of a group leader
3. Leader goes to the district VBP in order to purchase the application forms
4. Individuals complete credit application forms
5. Leader submit the forms to the commune and get the approving signature and stamp of the head of commune and of the chairman of the PRB (part of the screening process)
6. Leader brings the forms back to the bank
7. Leader goes to the bank and take the loan booklets for each member (the loan booklets summarize the loan terms and is used by the credit officer to record the interest and principal payments)
8. Leader brings the loan booklets back to the commune and get another recognizing stamp and signature of the head of commune and of the chairman of the PRB (submits them to the monitoring process)
9. Leader brings the booklets back to the bank and wait for the disbursement of the loans (credit officer disburses the loans to the credit group members during a meeting in the commune or village)

While Women's Union members from higher levels compare their organization of credit groups with models such as the Grameen Bank, there are few similarities between the institutional organization of Vietnamese rural credit groups and those designed by microfinance 'best practice' programs. When discussing credit groups with local leaders of the Women's Union, none mentioned the use of credit circles in other NGO programs, and were not aware these programs and methods. Responsibility for loans and loan default lies with the individual rather with the group, and there are no sanctions used against a group member in the case of another member defaulting. Likewise, as made evident in the previous two boxes, the members of the group play a minimal role in deciding whether or not a potential borrower can access loans.

Credit groups officially meet once every three months for payment of interest installments and training on issues relating to household economic management. Of 18 group members interviewed for this study, the only able to offer details on the goals of the meetings were the village level leaders. Other interviewees did not voluntarily offer the fact that they met regularly with members of the borrowing group. While formal meetings were infrequent, the physical proximity of group members and close kinship bonds meant that they see each other very frequently. Credit contracts are signed with the household rather than with the group. Credit loan applications and contracts must be signed by both

¹⁸² Source: own interviews and Dufhues et al., "Fuzzy Information Policy of the Vietnam Bank for the Poor".

the man and the woman of the house. The woman's signature is needed in order to access the woman's union; she must also either be a member or be willing to become a member of the union.

Estimates of how long it takes between requesting a loan and disbursement vary widely as well. The President of the Women's Union claimed that from the time that a person announces her intention to borrow to the time that she is given the loan is usually 15 days. The estimate from the Bank was much shorter, claiming that it was only five. Interviews with borrowers gave a much different picture, as the process of joining a group and being selected to borrow is itself a long process, at times as long as 9 months to a year in Chau Dinh village.

Credit groups overlap not only with the structure of the Women's Union, but more importantly, are nested within the political structure of Village life. Indeed, the credit group as a relevant, distinct social group loses relevance, for the credit group is, in most ways the village. In the Commune of Chau Khe, each village has exactly one credit group. Potential borrowers must borrow from the group in their own Commune, which is headed by the Village representative of the Women's Union. Thus understood, it is the village rather than the group, which may be the best unit of analysis.

The connections between local village structure and the role of the Women's Union credit groups were observed in the actions of many members of these groups. Many women borrowers seemed to know little of what the role of the Women's Union is, or what the purpose of the Union's activities is. Of those women who seemed to take an active part in the Union, many emphasized the role of the Women's Union in organizing cultural performances and folk singing events. Not one woman volunteered information about training in health care, home economics or animal husbandry, which are to accompany loan programs.

In one case, when I questioned a young mother about the interest rate and term on her loan, she was unable to respond about the length of the loan, the rate of interest nor offer details about what it was used for. She asked the village leader—a male—in the house next door to explain the terms of the loan and the interest rates. He was aware not only of the general conditions, but also of the specifics of the woman's loan, including how much she owed, when it was due and the reasons for her difficulty in repaying. It is telling that she did not go to any of the neighboring women, who were officially members of her group, and instead asked the local politician for advice.

Mass organizations have a key incentive to increase their own memberships through the implementation of credit programs. As institutions, they are offered small financial incentives through contracts with VBARD and the Bank for the Poor. Individuals working at the commune level also stand to benefit from both small fees charged to the banks and informal gifts from borrowers. A recent article has noted that the Farmer's Union has a plan to include over 70 percent of Vietnam's rural population as members.¹⁸³ Given the wide memberships of these groups, the dual role of their representatives as state employees and representatives of social groups, and the close relationships to commune and village life, it is perhaps not useful to consider them as separate social actors, but instead as forms of association that are embedded in the State.

Official views of the formal sector

Official views of the formal financial sector in Chau Khe reflect dominant constructions of the role of the state in relation to the private sector. In interviews, government officials in Chau Khe consistently referred to the Bank for the Poor and the VBARD as government 'projects' (*du an*) or 'programs' (*chuong trinh*) rather than Banks (*ngan hang*). Likewise, in personal evaluations of credit project performance, reference was often made to the achievements of these organization in terms of economic impact at the commune level, such the number of poor people who have 'escaped' from poverty thanks to the loans, the number of trees planted, the number of cows purchased, rather than banking indicators such as size of portfolio and repayment rates.¹⁸⁴

Likewise, government leaders spoke at length of the overall outreach of the banks, usually in terms of the percentage of commune residents who had borrowed from at least one of the banks. These achievements were often explained in references to government targets for future lending. For example, the head of the People's Committee explained that the commune hopes that all households listed on the list of poor households will have borrowed from the Bank for the Poor by the end of 2003. It is notable that the key incentive for government leaders and bankers running these programs, and the Bank for the Poor in particular, is to meet administratively defined lending targets as laid out by central guidelines.

¹⁸³ *Nong Thong Ngay Nay* (Countryside Today) September 15th, 2003.

¹⁸⁴ Government statistics cited that 21 poor households has been eradicated in 2001 thanks to loans from the Bank for the Poor.

When asked about the major weaknesses of formal sector loans, one senior official pointed to the relatively high interest rates:

Poor people cannot borrow capital with a high interest rate. The Bank for the Poor's interest rate includes payments to the Bank for Agriculture and to mass organizations to manage to fund. If these fees were removed, then we could lower the interest rate to a more appropriate level for the poor.

When describing financial services available in the Commune, villagers seldom if ever used the word for bank (*ngan hang*). Indeed, one prominent villager in Chau Dinh—a member of the Village Management Board—angrily exclaimed that there was no bank in Chau Khe, only limited government programs. Many women who had borrowed from the Bank for the Poor said that they had borrowed from the Women's Union, acknowledging the organization's role in organizing and coordinating credit groups at the Village level. Some were unaware that they had borrowed funds from the Bank for Poor or with the Bank for Agriculture at all.

Control over loan use

Official conceptions of the role of financial services as arms of state planning are further emphasized in the controls that are placed on residents who would borrow from the government funds and banks. These controls are more evident in subsidized loans with a poverty focus, and reflect common assumptions about the nature of poverty and the nature of credit itself. The President of the People's Committee explained in an interview that one of the major successes of the Bank for the Poor was its tight administration and control over the 'projects' implemented by the households:

Cooperation between the Women's Union, the commune and the banks have ensured that the local people follow their plans according to the goals (*dung much dich*). We have been very careful to visit them often to make sure that they are not wasting their loan on frivolous activities, and are implementing the project on schedule.

Indeed, the success of these Banks was most often tied to the ability of local officials and mass organizations to control the 'proper' use of the loans rather than other common indicators of success, such as loan repayment. Results of the program, argue many local officials, are tied to the close monitoring and supervision of borrowers: "it is when they do not follow their set purpose that they fall back into poverty."

According to government officials, policy loans disbursed from the Bank for the Poor in Chau Khe must be used for animal husbandry—largely for the raising of cattle or buffalo. The Bank for the Poor will not offer loans for agriculture, for planting trees, fertilizer and purchasing seeds. These activities, one local official argued, should be financed by the Bank for Agriculture. After all, this is the name of the Bank. Officials and local people alike often referred to the Bank for the Poor as the “Animal Husbandry Fund” (*quy chan noi*) and the Bank for Agriculture as the “Agriculture Fund” (*quy nong nghiep*). Results of the program, argue many local officials, are tied to the close monitoring and supervision of borrowers. “If the poor people follow the goals set out for them,” one official noted, “then they will definitely have very good results.” “It is when they do not follow their project that they fall back into poverty.” The need to follow ‘the plan’ and the moral exhortation that comes along with it has strong precedents in the cooperative system that preceded the focus on the household economy.

Control over the use of loans reflects a discourse of discipline that permeates the local state and manifests on other levels as well. This discourse of discipline has its origins in the use of funds for transformation of the household economy, but also has precedents in broader relationships between the poor and non-poor. In Chau Khe, these relationships are structured by inter-ethnic relationships, among others. The political construction of discipline for poor farmers thus became articulated on many levels in the relationships between local authorities and peasants. The role of the local official was described by one university-based academic as the principal of “taking one by the hand to show them how to work.” It is notable that most of the officials who now promote the use of agricultural models and the implementation of government ‘plans’ by households have been trained in a systems of collective agriculture based on cooperatives.

Local banking officials have a broader view of credit use. The commune’s credit officer stated that those who borrowed from VBARD were free to borrow for buffalo, planting trees or even for fishing. They could, he stated, ‘borrow to follow their own needs’ (*theo yeu cau*). He further explained that any controls placed on borrowers were counterproductive. Poor people, he clarified, can in practice borrow for any purpose. The difference between poor and rich families is that in order to borrow for purposes other than those prescribed by local government officials, the poor must lie. He offered as

an example the fact that some poor people will borrow to buy a cow and will promptly sell the cow for a quick cash reward, and if questioned, may claim that the cow died.

Loans from the Bank for the Poor, which are heavily subsidized, are the poor person's substitute for access to VBARD. In order to access these loans, however, one must position oneself within the sphere of government officials in different ways. Membership in a mass organization is but one necessary means. Submitting the local government plan is another. Local government controls placed on the poor have led to recurring cycles of regulation and avoidance. Peasants agree to follow government guidelines and then do what they can to use the capital provided to suit their own needs. Peasants, more than the officials that supervise loans, are well aware that financial capital is a fungible asset. The obvious derivation from the plan then leads to new systems of regulation and supervision. One local official claimed that one of the reasons for insisting on cattle and livestock is that they are much easier to monitor than other investments. If a cow dies, for example, the poor family must report to the bank through the Women's Union and fill out a form. Local officials can visit families to ensure that the cows are still present.¹⁸⁵

The promotion of household models and the regulation of acceptable activities must be seen within the context of the ideological shift from collective to household as the appropriate unit of analysis and intervention.¹⁸⁶ District extension officers, advisors and Commune authorities see it as one of their tasks to popularize appropriate models for household economic production and management. Some officials, particularly those higher up at the district level and above, argue forcefully that borrowing groups should not be restricted to the poor. In one interview, a district official argued that:

Poor households should cooperate closely with rich households to borrow capital and implement projects. When a poor household can see the results of a loan to a rich household, then they will understand the scientific technique used. The rich household can help the poor household by showing good examples.

¹⁸⁵ The fact that even most poor families have many cattle is often lost on them.

¹⁸⁶ The high levels of interest in the VAC system in the late 1990s among academics and government serves as but one example. The model garden has also been supported by foreign projects and donors, who are keen to invest in sectors that show the potential to contribute to overall economic growth and increased household incomes and security.

Repayment rates

The reliability (or lack thereof) of government data in Vietnam has been alluded to above. Statistics on loan repayment are particularly troubling, for there is ample evidence to indicate that the high repayment rates noted in the last chapter may not indicate the reality of borrowing. Government officials state that while there is no major repayment problem, some families have not been able to repay their loans. The Credit Officer at VBARD estimated that less than 15 percent of loans were in default (*het han*) and that a similar number were proving difficult (*keho doi*) to reimburse. Similarly, the People's Committee Chair said that there were some households who were not able to repay, but declined to offer a specific number or percentage.¹⁸⁷ It is telling that in the three weeks that I spent in Chau Khe, during which I spoke with 31 people about their finances, not one family (out of 21 formally interviewed) that had borrowed from the Bank for the Poor had repaid their loans in full.

When asked why loans were not repaid in full, most officials offered one of two explanations. The first was that natural circumstances, such as floods or sick animals, kept the poor from repaying on time. In these cases, the commune official would communicate with the bank on behalf of the family in order to extend the loans. Another reason was that the poor did not properly follow their plan, either selling their animals too early or using their loan for other devious purposes. In these cases, commune officials said that they would visit the family to persuade them to pay, often soliciting assistance from the local Women's Union representative and village leader. They complained that the households had very few assets that could be repossessed in order to pay for the loan guarantee. VBARD has yet to retain a land use certificate used as loan collateral, something that one commune official admitted would most likely never happen.

Many poor families complained that the loan duration of three years was far too short to allow them to repay. Some of the loans, in particular those available through a project implemented by the local national park, required monthly repayment of interest, which caused further difficulties. The key reason for the payment difficulties was that the three years was not enough time to see a cow through to maturation. Households complained that they at times had to sell their cow early – before it reached the optimum price – in order to repay their loans. All households formally queried about their

¹⁸⁷ Anybody familiar with Vietnam would know that when a statistic is not offered or cited, then the number must be one that is counter to the argument being made.

loans stated that longer loan terms would be the most effective means to improve the quality of the system:

...if we want to escape poverty, the government should lengthen the duration of loans for the poor so that they may have more time for raising livestock. In this way, the poor may be able to get rid of poverty. They cannot manage to repay the loans if the loan duration is too short. For instance, if they use the borrowed money to raise a cow, when the debt is due, they have to sell it to pay the bank. In such case, it makes their life more difficult.

One relatively wealthy informant explained that he had borrowed a total of VND 3,000,000 from the National Program to Create Employment in 1998 at .45 percent interest. Though the loan was technically due following three years, he had only repaid a total of 1.3 million, leaving him 1.7 million to refund. The reason that he has not been able to reimburse the loan is that his trees have not yet grown to the size where they can repay the investment. He did not seem concerned that he has not been able to repay, stating that "I have a small income, I will simply continue to pay until it is complete." He stressed time and time again that the state provided all of the opportunities that a poor family could need. If a family could not take advantage of the loans and the other programs provided by the state, then they were at fault.

Many of the poor, on the other hand, were more concerned about their ability to repay, and the consequences of eventual default. Many women who had borrowed in 1999 expressed dismay that they would not be able to repay, and did not know what the consequences would be. One informant had heard rumors that if she did not repay by the end of the year, then her household would lose many benefits -- including the land use certificate for their forestland. On numerous occasions, she brought up the large sum that they owed, saying that she was afraid that they would some day not be able to repay and the bank would confiscate their land.

Another informant who had borrowed VND 4,000,000 to purchase cattle that promptly died was justifiably distraught that she had only been able to repay a small portion (VND 500,000) when the loan came to maturity. She asked me if I knew of any place that she would be able to borrow more money, for, without the extra income from cattle or other animals, she would never be able to repay the money that she owed. She knew for a fact that without repaying her loan from the Bank for the Poor, it would be impossible for her to borrow from any of the other government programs in the commune.

In the case of some rich Kinh households, borrowers were able to informally extend the term of a loan from VBARD by borrowing on the black market at the time of loan maturation for a short period. Following payment of the full loan, they were then offered another larger loan from VBARD, once again at a relatively low interest rate. The same system was often used by playing off different sources of funds – borrowing from one program to pay off another and, in effect, extending loans indefinitely. This occurred with the collusion of local authorities, and tended to only be an option for the wealthy Kinh in the centre of the commune.

To review, this chapter has described the political structure of one village in north central Vietnam with a view to examine the linkages between political structure and credit delivery. It is difficult—perhaps impossible—to offer an evaluation of these programs. In particular, the lack of reliable data, and the lack of the time, resources and permission to conduct a broad study, disallows any verification of the impacts of loans delivery systems on targeting the poor and on ensuring repayment. Preliminary evidence from fieldwork suggests that targeting has improved greatly in recent years. While early subsidized credit programs invariably lent to rich households, newer loans from the Bank for the Poor seem to reach the poor, if not the poorest, households. Repayment issues seem more problematic in Chau Khe, for there were very few poor families interviewed able to repay government loans from any sources. Inability to repay seems to be covered up with the collusion of bank officials and local authorities, who are willing to extend loans to longer terms.

However, the goal of this thesis is not to evaluate the efficacy of credit programs, but instead to examine the political logic of credit. Chapter I suggested that this logic can be seen in the changing institutional structure in Vietnam, and in state society relations. In the next chapter, this thesis will turn to these issues.

Chapter IV

Discussion

This thesis has argued that microfinance is at once an economic, a social and a political tool. The first two of these assertions are commonplace among the NGOs and governments who promote and run microcredit programs. Indeed, the fact that credit programs can at once build financial and social stocks of capital is one of the core assumptions upon which program design has rested for the better part of two decades. The third argument, however, that contemporary microfinance has a political logic of its own, deserves further exploration.

The Political Economy of Rural Finance Revisited

The first chapter of this thesis reviewed the emerging political logic of microfinance policy on a global scale. Political economic analysis of rural finance draws largely on the traditions of microeconomics and public choice literature. Analysts such as Kane and Blair argue that the interests of politicians at the national level to attain and maintain office, and the need of local elites to maintain their own power bases, collude to ensure that subsidized credit goes to the wealthy, and invariably misses the poor. The policy reaction to this political economy analysis of rural credit intervention has led to the advancement of a liberal ideology of credit programs – one that draws on an idealized vision of the market as the ultimate tool for the allocation of credit, albeit a market that is softened and supported by social institutions and social capital at the local level. The current policy 'package' offered in microfinance programs of market based interest rates and delivery systems based on group responsibility and social lending circles therefore proposes a 'win-win' situation whereby poverty is reduced, communities strengthened and people empowered, all without cost to government budgets. The win-win situation, however rests on the necessary independence from government and on a dual empowerment of the community and the market, often at the expense of government.

The assumptions that underlie this model, however, do not always reflect the social, economic and political reality of many developing nations. In examining the modality microfinance, it is necessary to view the incentive structures that operate at the national level, where policies are created, and at the local level, where street level bureaucrats must bring policies to life.

Chapter II reviewed the changing political and economic structure of *doi moi* and the impact that these changes have had on the Vietnamese state banking structure and credit provision to the poor. In Vietnam, a consolidated¹⁸⁸ one party political system and relatively egalitarian rural class structure provide a different system of incentives than those assumed by most political economy explanations. It is telling that one of the key assertions repeated in Chapter I - that politicians' key incentives are to win elections - do not hold in Vietnam. Rather than maintain rural vote banks through directing subsidies to elite rural constituencies, the Communist Party of Vietnam must respond to a much broader need to maintain legitimacy across interest groups, with particular focus on rural areas that are falling behind the booming urban landscape. Initial fears of rising inequality and rural unrest in the mid-1990s, culminating with the Thai Binh incidents of 1997, led to a renewed focus on poverty reduction and on local democracy and ownership.

The timing of the development of credit programs for the poor and the movement towards local capital and democracy are reminiscent of a Polanyi-like 'double movement' whereby the growth of the market naturally brings with it a dialectical reaction from the state in the form of new regulations and new forms of support to maintain equity.¹⁸⁹ The need of society to protect itself from the unregulated market takes precedence over ongoing liberalization. Polanyi has become very much in vogue in recent years because of arguments like this. Social safety nets including credit and employment programs have become part of the 'third wave' approach now advocated in the West by powerful institutions such as the World Bank.¹⁹⁰

However, to see the relationships between liberalization and credit provision as a safety net, and as a reaction to the market, may miss the ideological basis of credit provision and the role that subsidized credit plays in both attempting to strengthen the market and the state at the same time. In Vietnam,

¹⁸⁸ Vietnam's one-Party system can be said to be consolidated in the same manner that current analysts write of the consolidation of democracy. While there may be occasional challenges to the membership of the regime, there is no internal force pushing for a short-term movement from one-Party rule. For a review of literature on consolidation see: Larry Diamond, "Introduction: In search of consolidation," in Larry Diamond, Marc F. Plattner, Tan-han Chu, and Hung-mao, eds., *Consolidating Third Wave Democracies: Themes and Perspectives* (Baltimore: Johns Hopkins University Press, 1997).

¹⁸⁹Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 2001)

¹⁹⁰ For a positive spin on this argument, see Joseph Stiglitz, "Forward," in *The Great Transformation: The Political and Economic Origins of our Time*, Karl Polanyi (Boston: Beacon Press, 1944; 2001). For a more sinister view, see Kanishka Jayasuriya, "Workfare for the Global Poor: Anti-politics and the New Governance," Asia Research Center Working Paper No. 98 (Melbourne: Monash University, 2002).

the growing use of credit parallels an increasing belief in individual responsibility for poverty reduction. Far from a mere safety net, credit also serves as a means to encourage self-discipline and hard work among the poor and in so doing bring them into the modern market. It both redefines the peasant's relationship with the state and with the market. Ideology is paramount in this process and parallels the shift from the plan to the market. In introducing *doi moi* in the 1986 Party Congress, prominent Party theorist Truong Trinh argued that:

...we have mistakes due to 'leftist infantilism,' idealism, and to the contravention of the objective laws of socio-economic development...The peasants have a spirit of private ownership. That is true. To advance socialism, it is necessary to get rid of that spirit. That is also true...Neither can we say that people who have a spirit of private ownership are not patriotic. Such an allegation cannot win the people's approval, and only alienates us further from the people...they [the people] cannot agree to our imposing on them things contrary to their legitimate interests and compelling them to obey our subjective will.¹⁹¹

In the nearly two decades following Vietnam's renovation, the nation's leadership has come full circle. Rather than fight against the individualist and economic minded peasant, the state must now take on the role of bringing financial knowledge and business skills to the poor and the excluded. Accordingly, credit is seen as an agent of modernization, and a step up the ladder of economic development.

The language of social and economic modernization is not new to Vietnam. Chapter III of this thesis showed that credit programs in Vietnam have always played a strong role in promoting economic change and personal responsibility among the peasants. This is also a discourse that is familiar to the agencies who promote microcredit at a global level. The language of 'social intermediation' used by agencies such as the Consultative Group to Assist the Poorest (CGAP) and USAID pits microcredit as a means to bring poor households into the financial market, with the goal of their eventually 'graduating' to save and borrow from private banks in the formal sector.¹⁹²

Ethnographic evidence from this thesis points to the possibility that forms of social cooperation encouraged by rhetoric such as 'the state and the people work together' in this case can lead to increased incorporation of villages and villagers into the modern state and the modern economy. The

¹⁹¹Cited in Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, 66.

¹⁹²E. Edgcomb and Laura Barton, *Social Intermediation and Microfinance Programs* (Washington: Development Alternatives and USAID, 1998).

pervading theme that has run through both elite view of microcredit and those of the local officials who administer credit programs is that of discipline. In order to borrow from the Bank for the Poor, the poor must submit to government controls not only on the amounts of money that they can borrow but also on their use of funds and the means through which they manage their household finances in general. Credit, therefore, offers a means through which the state enters into and transforms the economic lives of the poor. In doing so, credit also provides incentives for households to follow state plans—incentives that are increasingly difficult to provide in a post-socialist world.

The incentives of national governments to provide transfers and subsidies to the poor tell only half of the story in this thesis. What is particular about the Vietnamese case is the degree to which state-subsidized credit programs have been able to target poor households in recent years, and the degree to which local officials have seemingly followed through on the program with a relative degree of good faith. Chapter IV of the thesis related the changes between two generations of subsidized state credit programs. The first, evidenced from the National Program to Create Employment and the Program to Reforest Barren Lands, largely channeled finances into the hands of local officials and those who are well connected with centres of power. This is unsurprising: the rural elite in uplands Vietnam are both a political and economic elite.

A second round of loans issued in 1999 and 2002 through the Bank for the Poor under the HEPR program carried with it a direct focus on the poor, as defined by both national targets and local decision making. The targeting of households who would benefit from these loans was at the village level rather than at higher levels of government, in so doing could draw upon local decision-making resources and 'grassroots democracy'. The case reviewed in this thesis offers considerable anecdotal evidence that most of the households borrowing from the Bank for the Poor were indeed in the lower income strata in the commune. Local decision-making forces a higher degree of transparency in targeting than would be possible at higher levels of government. This local decision-making, with the added stigma that comes with being on the 'list of the poor' provides a strong incentive for resources to flow to poor, if not the poorest, households. Further impositions in 2002 stating that members of the Communist Party of Vietnam would not qualify for loans served to further the interests of the poor households.

It is notable that these changes took place in the context of a relatively strong state. Improved allocation of benefits at the local level could only take place in the presence of a committed national government through the issue of decrees both to increase transparency of local decision-making through 'grassroots democracy' and a tough-minded regulation to combat resource mis-allocation, such as disallowing CVP members from accessing state subsidies for the poor. While a full evaluation of the efficacy of microfinance programs is not possible here, these findings support Hume and Mosely's argument that large microfinance programs have, on the whole, been most successful in those countries without liberal democratic systems.¹⁹³ A relative degree of state autonomy from social forces at the local level can improve the ability of states to develop and implement social policies in an equitable fashion. It is important, however, to note that the argument that Vietnam has improved its targeting of subsidies does not mean that the subsidies are effective, which is an issue that can only be dealt with in another forum.

Microfinance, Corporatism and the State

Katherine Rankin argues that "microcredit must also be recognized as a state strategy that constitutes social citizenship...in a manner consistent with a neo-liberal agenda. As such it illustrates clear connections between state power and...oppression."¹⁹⁴ Left-leaning scholars have increasingly taken the microcredit industry to task for the wholesale commercialization of poverty reduction, and for the close links that credit provision for the poor has with the broader agenda of market liberalization. However, the social policy implications of credit in Vietnam provide an interesting paradox. On the one hand, they reflect the great importance that many global actors now place on 'participation,' and 'social capital.' On the other hand, they push a hard-headed form of personal responsibility and self-reliance reminiscent of some of the harshest promoters of the liberal state.

The riddle, far from unique to Vietnam, becomes clearer upon examination of the local implementation of credit programs in Vietnam. The language of social capital and empowerment promotes a strengthening of the village as a corporate unit, and of the mass organizations that serve to connect the villagers with the state and party apparatus. As reviewed in chapter IV, each village in

¹⁹³ Hulme and Mosely, *Finance Against Poverty*, 150-51.

¹⁹⁴ Katherine Rankin, "Governing Development: Neoliberalism, Microcredit, and Rational Economic Woman," *Economy and Society* 30, 1 (2001): 37.

Chau Khe was home to one credit group, and the representatives of these credit groups were for the most part relatives of village leaders and representatives of the Women's Union. In this case, there can be little distinction made between the credit group and the local representatives of the state.

In reviewing economic development in China, Oi can justifiably voice some surprise that "many a village party secretary also serves as the chairman of the board of directors of the village industrial corporation."¹⁹⁵ It is perhaps less surprising that the party secretaries and village leaders in Vietnam play key roles in the allocation of state subsidies in their villages. Credit, in this case, provides an important process and the right incentives to further entrench corporatist structures. The organization of credit groups at the village level provides a process around which local cells of mass organizations can continue to coalesce. Credit also offers new roles for local officials, who now take on roles as stewards of the poor and the vulnerable. Credit programs can therefore also provide political payouts for local officials who are able to buttress their local political basis, not through managing patron-client relationships, but in the ongoing strengthening of local, corporatist institutions. These structures can also bring with them financial rewards, such as management fees for the Women's Union representatives offered by the Bank for the Poor.

Villages, as corporate units, become incorporated further into the state apparatus through the delivery social services. Therefore, the economic incorporation of the poor into the modern market through access to credit, capital, and modern production techniques is also reflected in the political incorporation of the poor into the state through the expansion of mass organizations and incorporation of the village into the state apparatus.

The use of credit to facilitate growth of both the corporatist state and of the market at the local level can be defined as a battle between the formal and the informal. The relationships between formal subsidized credit and informal finance mirror the relationships between traditional forms of governance in the village and the modern state. In both cases, the agents of the state attempt to use the relationships, the traditional institutions and the social capital that have been built over generations to improve government performance. The overlap between traditional forms of authority and

¹⁹⁵ Jean C. Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China," *World Politics* 45, 1 (1992), 125-126.

modern agents of the state at the local level is evident. Likewise, *phuong* organized by the Women's Union and credit circles to borrow from the Bank for the Poor attempt to build upon local social relations and culture. However, the relationship is one that is often fraught with confusion and mistrust. In the case of credit, credit officers and local officials see their roles as to at once strengthen local cooperative systems and eradicate profiteering and usury from the village. In doing so, they attempt to replace local informal institutions with formal institutions.

As rural credit is delivered through the organs of the state, it provides a dual means of both reinforcing the state at the local level and reinforcing the increasing dominance of the market. Far from a zero-sum game, at this point in Vietnam's transition, the strengthening of the local state and the market are self-reinforcing processes. The role of the state is to create a market where it did not exist, and to 'disembed'—to use another Polanyian turn of phrase—the market from local social relations. However, to disembed the market from traditional social relations does not mean the creation of an idealized market as imagined by economists of the liberal world. The emerging rural financial markets in Vietnam, if credit for the poor provides an example, point to the creation of markets that are intricately tied into the exercise of political power.

It is certainly not a new revelation to state that the expansion of the state and the expansion of the market feed on each other. Credit for the poor provides but one example. Others examples can be seen in economic development committees in urban Vietnam, agricultural extension networks and in other state services in rural areas. It would be instructive to examine the corollary growth of private credit markets through other state owned commercial banks such as VBARD and the emerging private and joint stock banks in the South. But that is beyond the scope of this already too lengthy thesis.

This thesis has argued that standard political economic analysis of credit programs fails to accommodate the structure of rural societies such as Vietnam. These studies, on the whole, tend to separate the state and the market into separate, competing, spheres. I argue that in Vietnam, where the politics and economics of village life are dominated by informal institutions, the provision of formal credit through state banks can be seen as a battle of the formal, as represented by both the state and the modern market, against the informal. The findings suggest that the network of the Vietnamese state is expanding quickly. While the thesis is unable to argue that the Vietnam's state-run

financial programs are effective, it does point to the increasing strength of state institutions in rural society through increased penetration. This penetration of the state is accompanied by the increased incorporation of the poor into market based activities and production. The thesis therefore contributes not only to current knowledge in the field of microfinance, but also to a large body of work on state-society relations.

To end, the findings provide both a word of caution and a hint of optimism concerning the potentials of the sector. On the one hand, they point to the possibility that microfinance may be strengthened through the strengthening of state institutions at the local level. While the evidence is preliminary, the case study points to the opportunity for state structures at the local level to facilitate the allocation of credit in a more equitable manner. On the other hand, one must offer a word of caution. For those who would use credit to empower the poor through building their social resources and autonomy from the state, the Vietnamese case offers a more sobering thought. The language of participation and social capital can be used in many ways, in this case, as a means to incorporate the poor into the state. Along with credit come increasing controls over the lives of the poor. The normative questions at the heart of this problem cannot be dealt with in this thesis. But for those who would pit social capital against the state (and they do exist!) the Vietnamese case suggests that state microfinance for the poor may not be the best means to build autonomous social resources and empowerment for the poor as a social and political group.

Annex 1: Map of Vietnam



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