VIET NAM:
RURAL CREDIT
PROJECT and RURAL
INFRASTRUCTURE
SECTOR PROJECT

A Case Study from the 2006 Special Evaluation Study
on Pathways Out of Poverty and the Effectiveness of
Poverty Targeting

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Asian Development Bank
Abbreviations

ADB  Asian Development Bank
FDI  foreign direct investment
ha  hectare
HCM  Ho Chi Minh
kg  kilogram
km  kilometer
m²  square meter
MARD  Ministry of Agriculture and Rural Development
OEM  Operations Evaluation Mission
O&M  operation and maintenance
PCF  people’s credit fund
PFI  participating financial institution
RCP  Rural Credit Project
RISP  Rural Infrastructure Sector Project
SES  special evaluation study
VBSP  Viet Nam Bank for Social Policies

Note

In this report, “$” refers to US dollars.
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I. Introduction

1. Selection of the Projects for Case Studies

The Rural Credit Project (RCP) and Rural Infrastructure Sector Project (RISP) in Viet Nam were selected as case studies for their poverty reduction objectives and good performance. The RCP was financed by a loan of $50 million from Asian Development Bank (ADB) to channel subloans to rural borrowers through branches of AgriBank and people’s credit funds (PCFs). The RISP was financed by another ADB loan of $105 million to finance investment in rural roads, markets, irrigation, and water supply systems through the Ministry of Agriculture and Rural Development (MARD). At the time of the fieldwork, both projects had been completed. AgriBank was implementing a follow-up project with ADB,1 and the ministry was preparing another rural infrastructure project to be financed by ADB.

2. Fieldwork of the Operations Evaluation Mission

From 21 April to 19 May 2005, an Operations Evaluation Mission (OEM)2 made six trips to Viet Nam in areas under these two projects. During the 1 month of fieldwork, the OEM visited 39 villages in six provinces, including Lang Son in the northeastern mountains, Bac Giang on the outskirts of Red River Delta, Quang Nam in the central region, Tra Vinh on the Mekong River Delta, and, finally, Son La and Dien Bien in the northwestern mountains. In these areas, the OEM visited 21 subprojects, which represented 12% of the 180 subprojects completed under RISP.

A second OEM visited Viet Nam from 1 to 16 September 2005 to conduct post-evaluation of the RCP. The OEM visited 12 villages in three provinces, including Dak Lak in the Central Highlands, Phu Yen in the south coastal region, and Dong Nai in the southeast region. In addition to meetings in the central offices of the participating financial institutions (PFIs), the OEM visited 14 of their local branches.

To compare areas with and without ADB-financed projects, the OEM interviewed households in control areas, such as villages that had not benefitted from the project investment, or areas proposed for infrastructure investment from future ADB projects, where conditions were considered similar to a typical RISP subproject area before the interventions. For the RCP, the OEM interviewed farmers who borrowed from AgriBank or PCFs as well as those who did not borrow.

All together, the OEM visited 51 villages in nine provinces in Viet Nam and conducted 299 interviews in addition to meetings in Hanoi with the central government agencies. The interviews included (i) in-depth interviews1 with 161 rural households (91 men, 55 women, and 15 couples), out of which 33 were poor; (ii) in-depth interviews with eight migrants who had moved from rural areas to cities (including five women); (iii) brief interviews with 30 traders in markets (including 29 women); (iv) detailed discussions with 41 local government officials (one district official, 18 commune officers, 18 village leaders, and four staff—all women—working in commune clinics); (v) interviews with 59 field staff working in rural financial institutes or other government agencies (24 from AgriBank, 18 from PCFs, two from Viet Nam Bank for Social Policies, two from the State Bank of Viet Nam, five from water supply companies, five from irrigation management companies, two from market management offices,

1 ADB. 2000. Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Socialist Republic of Viet Nam on the Rural Enterprise Finance Project. Manila (Loan 1802-VIE, for $80 million, approved on 12 December).
2 The OEM comprised a senior evaluation specialist from ADB as the mission leader, one international consultant, and two local interpreters.
3 Each of the in-depth interviews lasted from 20 minutes to over 1 hour.
and one from a health insurance company). The following table provides a list of subprojects and villages visited.

**List of Subproject and Villages Visited**

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II. Results of Poverty Exit

1. Poverty Reduced

6. The OEM was impressed by the significant reduction in rural poverty achieved in Viet Nam in the past 2 decades. In most villages visited, the poverty rate had fallen from 60–80% in the early 1990s to 10–20% at the time of the OEM visit in 2005. Only in some mountainous regions did poverty remain high—up to 57% in a poor commune dominated by ethnic minorities near the border with the Lao People’s Democratic Republic. Most interviewees said that their life was much better than it was 5 or 10 years earlier and that they considered themselves no longer poor.

7. The OEM noted, however, that the official poverty line in Viet Nam is low, and the poverty definition used by interviewees was also narrow. Some interviewees said that they were no longer poor because they no longer suffered from hunger. While some households still encountered food shortages for 2–3 months in a bad year, they borrowed from others and repaid after the rice harvest, or they covered the food shortage by working as day laborers. They said this was a big improvement over the past, when they could not borrow because most households in their villages were also poor, and they

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No. = number, PCF = people’s credit fund, PFI = participating financial institution.

a Hamlet is a subunit under a village, counted as village in this report.
b Nonproject commune or village.
c Subprojects proposed for next ADB-financed projects, included in the study as control groups.

Source: Operations Evaluation Mission.

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The official poverty line in Viet Nam increased substantially in August 2005 from ₡100,000 ($6.3) to ₡200,000 ($12.6) per person per month for rural areas and from ₡150,000 ($9.5) to ₡260,000 ($16.5) per person per month for urban areas (General Statistics Office of Viet Nam).
could not find wage employment, so they had to dig up wild plants in the woods to survive. These interviewees used hunger as a major indicator of poverty, which had been eradicated in the villages visited.

8. Housing conditions are another indicator, albeit less accurate. Within the same village, poor households tend to have poorer houses compared with the better off, but this indicator varies by region. In some mountain villages visited, almost all households, including the poor, lived in wooden or concrete houses. In some villages located in lowlands (such as Tra Vinh), the OEM observed better-off families living in thatched houses, reportedly by preference. Improved living standards were also reflected by more varied and better food, more clothes, better furniture, and television and motorcycle ownership.

9. While most interviewees have risen from poverty (by both their own definition and official poverty lines), the OEM visited households that remained poor. Some said that their life had improved little or not at all. These often included households headed by women, with many young children, and of young couples recently separated from their parents with little farmland. Young couples usually had young kids, which made it difficult for the parents to migrate or search for off-farm employment outside their villages. These couples had farms too small to support a family of four (a couple and two kids) living on agriculture (para. 16).

2. Sustainability of Poverty Exit

10. While most interviewees had risen from poverty, the sustainability of their non-poor status remained a major concern for two reasons. First, the poverty definition is narrow and, in the areas visited, many rural households seemed to be near poor. Many interviewees considered themselves average because they did not officially qualify as being poor. According to the definition used by various government poverty reduction programs, poor households are those that have been voted as poor by village assemblies using the poverty line defined by the Government (footnote 4). These families usually had little or no land, little furniture, no large animals (pigs, cows, or buffaloes), and extremely poor housing. Households officially designated as poor received government assistance such as free health services and exemption from school fees. In almost all areas visited, commune heads and village leaders were able to say precisely how many households were in their communes or villages and precisely how many of them were poor, reflecting a high awareness of officially defined poverty. In sharp contrast, when the OEM asked how many households in their villages were better off, a typical answer was that no one was better off, as everyone was average except for the poor. This observation seems to be consistent with official statistics. In 2003, the nationwide $1-a-day poverty index using purchasing power parity was 10.6%, and the $2-a-day poverty was 53.4%.5

11. Second, the OEM found that a high proportion of the households interviewed were vulnerable to slipping back into poverty, and this issue has not received sufficient attention. So far, most government efforts have focused on reducing remaining poverty and paid much less attention to dealing with household vulnerability. The OEM interviewed some households that had become poor due to misfortune and identified the following shocks as threats to the sustainability of poverty exit. The first threat was serious illness of family members. When a household member suffered a one-time illness or accident, the cost to the family was usually a high medical bill and related expenses. The OEM found that, in such cases, most households could recover by themselves by working harder and reducing consumption, if they had timely access to credit at affordable cost, such as commercial interest rates instead of the high rates that moneylenders charge, and if the credit was of long maturity so that they had sufficient time to recover. In the case of repeated or chronic sickness, such as a kidney problem, however, some households reverted to poverty as high debts built up. The OEM interviewed

households that had sold animals and farmland to repay their debts and became landless poor, but these cases were few in the villages visited.

12. A more common cause of household vulnerability was investment failure resulting from (i) animal deaths due to disease, (ii) price fluctuations, and (iii) natural disasters. Animal deaths, reported by many households interviewed, were due primarily to epidemic outbreaks that affected ducks, chickens, pigs, cows, fish, and prawns. In one village in Tra Vinh, a man said that he became poor after four instances of investment failure, losing 500–600 ducks each time to an epidemic outbreak. He sold land to repay the loan he had taken to make the duck investment. In Quang Nam, one woman said that she no longer dared to raise pigs after the repeated death of her pigs. In that area, the OEM was told that animal diseases were common during floods in the rainy season. While large animals such as pigs and cows could survive if vaccinated in time, there was little preventive treatment for poultry in the areas visited. In Tra Vinh, outbreaks of prawn disease were cited as the most serious threat—much worse than the frequent price fluctuations. As one interviewee put it: “You may become rich quickly by investing in prawn farming. But you may become poor after three investment failures.”

13. Price fluctuations affected mostly untraditional agriculture, defined in this report as new varieties of crops, fruits, animals, or other farm commodities newly introduced to an area. Cases observed included the fruit trees litchi and longan, a new variety of prawn introduced in the areas visited in Tra Vinh, and coffee in the Central Highlands. In Bac Giang, the OEM was told that litchi prices fell by 90%, from D15,000–D16,000/kilogram (kg) in the peak years of 1995–1999 to D1,500 in 2002–2005. One migrant interviewed in Ho Chi Minh (HCM) City said that he was encouraged by the high price of longan (D6,000/kg) in 2000 and borrowed D20 million from AgriBank to plant longan trees. As the longan price fell by two-thirds, to D2,000, in 2004–2005, he lost D5 million in 1 year. He borrowed D20 million from a moneylender to repay the AgriBank loan, which was due at that time without the possibility of extension. He paid the moneylender D120,000 per day for 3 days and took from AgriBank a second loan of D20 million to repay the moneylender. At the time of the interview, he was still D20 million in debt to AgriBank. He migrated to HCM City and relied on the long-distance fruit trade to repay the debt.

14. In areas visited in Dak Lak, a coffee-producing province in the Central Highlands, the high price of coffee in the early 1990s attracted numerous migrants from all over the country. As coffee production increased sharply by 90% in that area, its price fell from D40,000–D45,000/kg in the peak years of 1995–1996 to D4,000/kg in 2001, far below its breakeven level of D11,000–D12,000/kg. As a result, many farmers suffered losses and were unable to repay their loans to AgriBank. While most farmers survived the crisis with assistance from the Government, some failed to manage it, especially those who had invested in coffee after its peak years and therefore had not accumulated savings from coffee profits before the crisis. Some of them cut down coffee trees and shifted to growing maize.

15. Many visited villages suffered from natural disasters, including droughts, floods, tornados, and storms. Some mountain villages also experienced hail and frost. When serious disasters occurred, the Government provided free assistance, such as a grant of D1 million ($65) for families whose houses were completely destroyed by a tornado in 2004, and D500,000 for those whose roofs were destroyed. However, not all losses were covered by government assistance. In one mountain village in Dien Bien, the OEM was told that 14 households had become poor after their lands were buried by landslides caused by a severe storm. That village was small, with only 101 households. Although the village head persuaded some families to contribute about 100 square meters (m²) each, each of the 14 families received only 300–400 m² of land, which was too small to support a family by agriculture.

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6 With the help of a Government-backed rescue package involving a moratorium on principal and interest payments for a period of 3 years, most borrowers were able to continue their coffee operations. According to the AgriBank branches visited, most outstanding loans for coffee had been repaid by the end of 2004, following a rise in coffee prices to above breakeven levels.
16. Finally, another major factor determining the sustainability of a family’s rise from poverty are the employment prospects of its rising generation. In most villages visited, with a few exceptions, farmland was distributed equally to all households in the early 1990s. The land allocated to each family was tiny—500 m² per capita of lowland in villages visited in Lang Son and Bac Giang; 250–300 m² in villages in Son La and Dien Bien, and the worst case of only 160 m² in a mountain village in Dien Bien. Since the early 1990s, there has been no more additional land for distribution. Thus, if the grown children of a family remain in the village and rely on agriculture, they would receive an even smaller plot of land from their parents. In some villages visited, young couples were among the poorest if they did not have the chance to migrate or obtain off-farm employment. In these areas, the OEM observed widespread cultivation of maize and cassava on steep slopes, some as steep as 45 degrees, and was told that soil degradation was a serious problem, threatening the sustainability of the natural resource base.

17. Most families understood very well the critical need that the rising generation leave agriculture. Many interviewees, including the poor, expressed their strong willingness to invest in their children’s education. When asked how far, a common answer was that they would support their children in school as far as they could go. Unfortunately, the OEM observed many cases of school dropouts. The young migrants interviewed in HCM City said that dropout rates in their high schools were as high as 50%, largely due to parents’ financial difficulties. In one mountain village, whose secondary school is located in the district town about 30 km away, the OEM was told that no poor household in the village could afford the cost of supporting one student in secondary school. While poor families enjoyed 50–100% exemption from school fees, other costs, including uniforms and school boarding expenses, were too heavy a burden on them.

III. Poverty Exit Strategies

18. The OEM observed significant variation in the poverty-exit strategies adopted by households. These closely related to regional disparities, which affected the options available to rural households.

19. **Agricultural Intensification.** Many interviewees adopted this strategy, including (i) adopting improved crop varieties, (ii) increased use of pesticides and fertilizer, and (iii) investment in irrigation to enable a second rice crop each year. Utilization of improved rice and maize seed was reported by many households. The seed was provided by government agencies and reportedly contributed to better production. Among the measures above, irrigation had the largest impact because sufficient water supply was the most important condition for high and stable yields. It was also a condition for effective utilization of fertilizer because the impact of fertilizer is marginal without water. In a number of cases, the OEM observed irrigation investments by private households or communities. In Lang Son, the OEM visited a village without an ADB project but located next to an irrigation system rehabilitated by the ADB-financed RISP. This village did not benefit from the RISP because its farmlands were higher than the irrigation canal, but some households used pumps purchased at their own expense for irrigation, which enabled them to intensify rice production from single to double cropping. In Bac Giang, the OEM found two cases where village leaders took loans and invested in small pump stations. Later, they sold village-owned land to repay the loans. These village investments were supported by the farmers interviewed because they allowed a significant increase in rice production.

20. The importance of irrigation, however, did not guarantee significant impact from any particular irrigation project. The OEM found that the real impact of irrigation subprojects varied significantly among the case studies, depending on the capacity of the water source in the dry season as well as the reliability of operation and maintenance funds after project completion.
among the cases studied, depending on the capacity of the water source in the dry season as well as the reliability of operation and maintenance (O&M) funds after project completion. In some cases studied, the impact of the irrigation subprojects seemed to be marginal for two reasons. First, the capacity of the water source was small, and the irrigation subprojects mainly benefited farmlands next to the irrigation canals, which accounted for only a small portion of the farmland in the villages. Due to insufficient water in the dry season, many farmlands did not receive sufficient water even after the irrigation investment. Second, while the small area of farmland that received water realized significant yield increases in terms of percentage, the absolute amount of the rice increment per household was small largely because of the tiny area of lowland available per household. In these cases, the OEM asked beneficiaries if they would have been willing to pay for the irrigation investment if the subprojects had not been free to them, and the answer was no.

21. **Agricultural Diversification.** Compared with intensification, agricultural diversification played a more important role in poverty exit, having been adopted by a larger portion of the households interviewed. The OEM found that, to a certain degree, this strategy was a result of farming according to household resources available rather than preference. For example, in mountainous Son La and Dien Bien, lowlands suitable for rice production were extremely limited, so farmers had no choice but to cultivate maize and cassava on steep slopes, though they preferred rice. In the sand belt in Quang Nam, farmers grew peanuts and sesame because the sandy land was not suitable for rice. In a village in semi-mountainous Quang Nam, households grew rice on tiny plots of lowland, planted ginger and fruit on the uplands, raised animals, and collected forest products. In these cases, diversification was a response to context, village traditions, and family resources. In Bac Giang, the OEM visited a village with high population density and a tradition of conducting petty trade, where many farmers were part-time traders. In one village located in a lowland area, almost all families were engaged in the traditional activity of making baskets for harvesting shrimp. One household ran multiple businesses, including rice, tobacco, pigs, chickens, a small rice mill, a tiny winery, and a small shop that earned less than $1 per day.

22. **Untraditional Agriculture.** This strategy was usually adopted by a few aggressive farmers with great success and then followed by many others who did not have the same fortune. In Bac Giang, a farmer invested in litchi trees in the early 1990s and received sizeable profit during the peak years when few people produced litchi and its price was up to ₫16,000/kg. Sharply reduced litchi prices in the early 2000s brought big losses for the latecomers who planted litchi trees at the end of the 1990s. When a new variety of prawn was introduced in Tra Vinh in the 1990s, some households became rich from it, but others failed because they were unable to manage price fluctuations or the frequent outbreak of prawn disease. A similar case was the boom of coffee production in the Central Highlands, where the early investors earned sizeable profits and the latecomers suffered losses due to sharply reduced coffee prices (para. 13).

23. **Off-Farm Employment.** The availability of off-farm employment varied significantly across the regions visited, reflecting village traditions as well as the conditions surrounding rural households. In mountainous Lang Son, the only off-farm employment available was carrying wood as porters. In the lowlands of Bac Giang and Quang Nam, many rural households engaged in trade on a tiny scale in local markets. In Tra Vinh, booming prawn farming increased demand for farm labor, with many casual

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7 In Bac Giang Province, for example, an irrigation subproject reportedly increased the system’s command area from 180 ha to 250 ha. In an upstream village that benefited from that subproject, the OEM found that only 4 out of the 42 ha (less than 10%) of paddies had actually benefited from the subproject. Land in that village—both irrigated and not—was distributed equally to all households. In two households visited, two-fifths of their land received water with or without this ADB-financed project, and another two-fifths did not receive water with or without the project. Only the remaining one-fifth received water as a result of the project, enabling rice production to increase from one to two crops per year. The increment in production was small, about 100 kg of rice for each household. In 2004, there was no increment in rice production because the land did not receive sufficient water.
laborers collecting day wages, including landless poor. In the minority-dominated villages of Son La and Dien Bien, interviewees reported almost no off-farm jobs in their villages. Low population density in the remote mountain villages, and the self-sufficient economy—with even cloth made at home using traditional looms—restricted trade and other off-farm employment.

24. **Migration.** This was a common strategy to rise from poverty in the lowlands visited, especially in southern Viet Nam, which was experiencing fast economic growth. In Tra Vinh, many households in the villages visited had family members working in HCM City or other urban centers. Migrants interviewed in HCM City said that almost all young people in their villages had migrated, because there were no jobs at home. In the lowlands visited in Quang Nam, interviewees said that it was easy to find jobs as maids or construction workers in Da Nang, a large city about 60 km from their villages. In the provincial town of Lang Son, day laborers from villages about 15–20 km away came to town early in the morning and waited for employment, which was reportedly increasingly available thanks to a small boom in private house construction as many families received resettlement compensation resulting from a road project. Migration was rarely observed from the mountain villages, however, where even high school graduates returned to farming after leaving school. Interviewees said that they did not know how to migrate because they had little contact with people outside their communes.

25. **Transfers and Remittances.** Remittances did not play a big role in poverty reduction in the areas visited. While migration was common in southern Viet Nam, remittance from migrants was neither significant nor frequent. Due partly to the shortage of jobs for all migrants, and partly to the relatively short history of migration, many migrants had jobs with low salaries, earning barely enough to cover the high urban cost of living. It was said that only young girls regularly sent money home, and only before they got married. They worked as maids with a monthly income of ₡500,000 ($32) or so. Some sent home ₡400,000 ($26) monthly because they lived with their employers and had few living expenses. Other remittances were small and limited. A few interviewees received temporary support from relatives in times of difficulty, such as food shortage or sickness. More often, interviewees said that they turned to moneylenders in times of emergency. Transfers from governments was also limited. In a few villages visited, local authorities reported providing free houses to poor households, but far fewer than demanded by eligible applicants. In one commune with 795 poor households, only 100 received free houses. In another village visited, only two households received free houses.

26. **Pluriactivity.** Multiple sources of income were essential to almost all rural households, as no interviewee relied on a single source of income, except those who migrated to cities and worked in factories. The most common mix was crop production, combining lowland rice and upland grains, or animal-husbandry. The latter seemed to be a most common strategy to rise from poverty, especially in areas with little hope of migration and few off-farm employment opportunities.

IV. **Household Resources**

27. Household resources included physical, financial, natural, human, and social capital in the cases studied, and the following factors had significant impact on households’ selection of poverty exit strategies.

28. **Farmland.** Almost all households interviewed had a few plots of farmland. Their total area, however, was too small to support a family relying on agriculture without off-farm income. In most villages visited, farmland was distributed to all households in the village on a per capita basis in the early 1990s following the policy reform in 1986. Since then, no land has been distributed to the rising generation because no additional land exists. In many cases, grown children received only a small plot land from their parents after marriage, as the household’s original land allotment was simply divided. While the area of upland was large in some mountain villages visited, land without water had low value and productivity. Some interviewees with relatively large areas of upland remained poor.
29. **Houses.** All interviewees—both poor and not—had houses, though of varying size and quality. While the size and quality of houses reflected living standards, they were more the result of poverty rather than its cause. The OEM observed many new houses built by households after they had risen from poverty and become better off.

30. **Equipment.** Only a few families owned farm machinery such as small milling equipment, probably because of the tiny size of subsistence farms visited. More common were motorcycles, seemingly the most common transportation mode in both urban and rural Vietnam. In many villages visited, motorcycles were used in trade. In some remote villages, high school students went to school by motorcycle.

31. **Farm Animals.** Animals were common in the villages visited. In areas short of farmland and with little off-farm employment, cattle and buffalo rearing was the most common strategy for rising from poverty, and most interviewees had one or two large animals. Interviewees reported, however, that expanding animal production was constrained by insufficient resources such as grasslands. Animals were a common form of household savings that could be sold to meet emergency needs such as medical expenses. The distress sale of animals brought losses to some households due to low prices at less-than-optimal times of sale, especially when the animals were still small.

32. **Savings and Other Financial Assets.** Few households interviewed kept savings account in banks or PCFs except for large traders or shop owners. Many interviewees said they had no savings or other financial assets. In a few cases, the OEM found that households bought jewelry as savings. Finally, some better-off farmers said they used spare money for lending to others instead of depositing it in banks. Several factors seemed to underlie the seeming lack of demand for bank deposit services in the rural areas visited, including (i) insufficient public confidence in banks, (ii) a shortage of cash in many rural households, and more importantly, (iii) farmers’ lack of ready access to formal credit when needed, especially in times of emergency. That is why some interviewees preferred to lend their extra money to others than put it in banks.

33. **Household Size and Demographic Features.** This seemed to be a key determinant of rural poverty in the areas visited. Having a lot of children was cited by many interviewees as a factor contributing to poverty, as young children prevented parents from migrating or searching for off-farm employment away from the village, and children’s education means heavy costs to cover school fees, uniforms, and boarding expenses. Finally, grown children demanded land from parents, resulting in less land per household for parents and children alike if children remained in the village and relied on agriculture. When the OEM asked about the impact of migration, most interviewees said its best feature was allowing grown children to take care of themselves without demanding land from their parents.

34. **Human Capital.** The OEM found that aspects of human capital important to poverty exit included not only the physical health of family members but also their schooling, skills, and personal characteristics. The combination of these factors defined a household’s labor assets. In the cases studied, substantial disparities existed in the lowlands regarding schooling, unlike in mountain villages, especially those dominated by ethnic groups, where little schooling was the rule. In the lowlands visited, most adults, both men and women, finished at least elementary school, and many completed the 9 years of compulsory education. In the minority-dominated villages, however, the illiteracy rate was high, especially among women. Many men had only 2–3 years of education, and most women and some older men did not speak mainstream Vietnamese, or Kinh.

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8 While most households interviewed had four members (a couple and two kids), the OEM visited families with 5–6 children in a few cases. In mountain villages dominated by ethnic minorities, the OEM observed large families of up to 14 members, with 3–4 generations living in the same house.
35. The OEM found that, for formal employment such as in government offices or foreign-invested factories, formal schooling was crucial, because the minimum requirement for these jobs was graduation from junior high school, or 9 years of schooling. Graduating from senior high schools (12 years of schooling) may provide access to better-paid jobs initially and better chances of promotion later. For informal employment or self-employment, such as farming, trade, construction, housework, and other services, a high-school education did not seem to make a big difference. A more important factor determining the success or failure of informal employment seemed to be personal characteristics. While almost all interviewees worked hard, their different capacities for managing risk and uncertainty seemed to underlie their success or failure in self-employment or finding off-farm jobs.

36. **Social Capital.** For migration, social capital, especially connections in cities, seemed to be most crucial. In the lowlands visited, such as Bac Giang, Quang Nam, Tra Vinh, Fu Yen, and Dong Nai, migration was relatively easy because many rural households had relatives, friends, or other fellow-villagers working in HCM City, Hanoi, Da Nang, or other towns and cities. It was reported that these social connections provided information about job openings and offered temporary housing for new migrants during their initial days in cities, thereby reducing the cost and risk associated with migration and job hunting. In contrast, many interviewees in mountain villages said that no one had migrated from their villages. The lack of social connections seemed to have discouraged migration from those areas.

V. Context and Conditions

37. Context and conditions influenced options available for poverty exit in a particular area and affected households’ selection of poverty-exit strategies.

38. **History and Culture.** The OEM found in the cases studied that the most important factor in history and culture was village tradition, which varied significantly across regions. In lowlands with high population density, many villages had a tradition of trade, handicrafts, or migration to urban areas. These traditions were absent in the villages visited in remote mountainous areas, where most interviewees said that they did not know how to make a living other than by farming. In areas dominated by ethnic minorities, the OEM found extremely low levels of education in both children and adults, especially among females, the underlying causes being cultures that little value education and the language barrier, as schools were taught in Kinh, which was difficult for minorities. In conjunction with topography, the language barrier contributed to isolating households in remote mountain villages and made it more difficult for them to search for off-farm employment outside their region.

39. **Gender.** In the lowland areas visited, men and women appeared to play equal roles in family decisions. During interviews, women often more actively answered questions than men, reflecting their full knowledge of family business and confidence in household management. In the minority-dominated mountain villages, however, men usually dominated conversation during the interviews, while women sat outside the room. This might have been partly due to the language barrier, because many minority women did not speak fluent Kinh due to their lack of education. In a few cases when the minority women spoke Kinh, they actively answered questions.

40. **Government Policies.** Policy reforms have played key roles in reducing poverty in rural Vietnam in the past 2 decades. The most important reforms have included the following:

   (i) The program of *Doi Moi* (literally “change and newness”) in 1986 marked the start of the transition from central planning to a market economy.

   (ii) Resolution 10 of the 1988 land law granted land-use rights to individual households with 15 years of secure tenure and automatic renewal. After that, agricultural markets were liberalized, and investment decisions were left to households. As a result,
agricultural production increased rapidly after 1988, and Viet Nam went from being a net rice importer to the world’s second largest rice exporter.

(iii) The 1993 land law granted to households the right to transfer, exchange, inherit, rent, and mortgage land. The land law was implemented by issuing land-use certificates, alternatively known as land tenure certificates or red books, which greatly facilitated rural lending.

(iv) A new policy in 1989 that allowed individual households to borrow from AgriBank. This was cited by the AgriBank branches visited as a major factor contributing to the 20–30% growth per annum in rural lending over the past decade. The OEM noted that the increased supply of rural credit, and easy access to it for most rural households, played a key role in enabling self-employment, including in particular livestock rearing, which was what many interviewees used as an avenue out of poverty.

41. **Macroeconomic Growth.** Economic growth in urban areas, including in particular foreign direct investment (FDI) in HCM City, played a critical role in reducing rural poverty by creating many jobs for young migrants from rural areas. National economic growth did not, however, seem to facilitate poverty exit in the mountain villages visited, where few people, even those with a high-school education, migrated to urban areas, apparently for lack of social connections in cities.

42. **Local Economic Growth.** Economic growth in provincial or district towns provided employment for households in nearby villages, though on a limited scale in the areas visited. Many households living within 3–5 km of towns engaged in marketing and trade. Some young males living in villages within 15–20 km of towns commuted to them early in the morning to wait for day labor. In the villages visited in Quang Nam, many farmers, both women and men, went to Da Nang, a large city about 60 km from their villages, to work as maids or in construction. In addition, many households had family members who seasonally migrated to provincial or district towns for temporary construction work. The impact of local growth, however, seemed to be marginal in mountainous regions, which remained unattractive to private investors even with good roads, due probably to the high cost of conducting commerce in remote areas.

43. **Geographic Location and Topography.** The geographic location and topography of a village played a crucial role in determining the options available for households’ rise from poverty. In the lowlands visited, many households adopted multiple strategies, including (i) agricultural diversification, growing, for example, rice, coarse grains, tobacco, peanuts, fruit, as well as engaging in animal husbandry and aquaculture; (ii) off-farm employment such as trade and day labor; and (iii) migration to urban areas. As in the mountain villages, farming in the lowlands was restricted by the shortage of arable land per capita. However, households in the lowlands engaged in more off-farm activities made possible by higher population density; proximity to cities; quick, easy, and low-cost travel to commercial centers; and, more importantly, access to formal and informal urban jobs in manufacturing, construction, housekeeping, and other sectors. These options were largely unavailable to rural households living in remote mountain villages. In the mountainous areas visited in Lang Son, Son La, and Dien Bien, the OEM found little private investment. The good roads from Hanoi to the capitals of these provinces had very little traffic.

44. **Infrastructure.** The impact of good roads is manifested in the lowlands, where investment in national highways attracted FDI and other private investors. The expansion of industrial zones created thousands of jobs for the youth migrating from rural areas. The infrastructure in mountainous areas, such as the good roads from Hanoi to Lang Son, Son La, and Dien Bien did not seem to have had the same impact. Despite the roads’ good quality, the mountainous regions remained unattractive to private investors, apparently because of their low population density and limited commercial activity.

45. **Population Density and Local Markets.** One major disadvantage in the mountainous regions was their low population density, which meant small local markets and little trade. Most visited
households were largely self-sufficient, with little farm surplus to sell or cash to spend. In minority-dominated villages, the OEM observed households using traditional looms to make cloth, primarily for family use. The lack of marketing and trade reinforced the isolation of mountain people, who lived by subsistent farming.

46. **Access to Education.** While education is available to all citizens in Viet Nam, the cost of education and the location of schools restricted poor households' access to secondary education in some villages visited. While government policies exempted poor households from school fees, other costs, especially uniforms and boarding expenses, remained a heavy burden on poor parents. In a remote commune where a secondary school was located in the district town about 30 km away, high boarding costs kept poor parents from sending their children, making secondary education a luxury affordable to only the better-off families (one family reportedly paying ₫5 million, or $320, per year for their son's attendance in that school). In other cases, the OEM was told that dropout rate was high among senior high school students from rural areas, largely because of their parents' financial difficulties. In the minority-dominated areas visited, the OEM found high dropout rates even in primary schools. In one female-headed household, the OEM found a girl of 14 years in grade 4 whose younger sister, aged 9, had never been to school. At the time of the interview, the mother was planning to have the older daughter drop out of school to allow the younger one to go, because she could not afford to send both girls to school.

47. **Access to Health Services.** Health service cards were issued to poor households and households living in poor communes in the areas visited. Card holders were entitled to health services free of charge. In many cases, the OEM found that this policy had positive impacts, as the cards served as free health insurance and thereby reduced the cost of medical services for the poor. However, the policy was far from being a comprehensive safety net for the poor, because certain medicines and services—such as treatment following traffic accidents, expensive operations, and, in some communes, hospitalization—were not covered. Some poor households said that they used private doctors instead of government clinics even when they had free medical cards because their sick patients could not stand the 3–4 hours of waiting time to be treated. Some said they bought medicines at their own expense instead of using the free services from government clinics, even when they had the medical cards, to get better quality. In one case, a kidney patient said he paid ₫600,000 ($40) to get treatment from a private doctor instead of using his free medical card because he could not afford the time for the long process of getting treatment approvals from village, commune, and district authorities. Finally, the actual implementation of this policy was restricted by the budgetary resources available to particular communes. In one poor commune visited, though all households were entitled to free health services, the commune had a monthly budget for health services of only ₫40 million ($2,580), which was allocated on the basis of ₫10,000 ($0.65) per capita per month. As a result, restrictions on demand were imposed. The first visit to the commune clinic was free, along with 5 days' worth of medicine, but subsequent visits and medicine supplies had to be paid for. In many other cases, the OEM was told that poor households borrowed from relatives and moneylenders to pay medical expenses that were not covered by the medical cards. In one case, while a patient was hospitalized free of charge, her family had to borrow from moneylenders to pay for moving the patient from the village to the district hospital, as well as for the food and lodging for a daughter who stayed in the hospital to take care of the patient. In two cases, households became poor as high debts piled up after borrowing from moneylenders to pay medical and associated expenses. One female-headed household sold land to repay the debt after her mother was hospitalized. Another poor interviewee said that, as he could not afford to send his wife to a hospital when she was seriously ill, she stayed in bed for almost a month before recovering by herself. He said that no one would lend him money because he already had high debts.

48. **Access to Credit.** In the areas visited in northern Viet Nam, the OEM was impressed by farmers' easy access to unsubsidized loans from AgriBank, which made loan application and approval simple, easy, and relatively quick for most rural residents. Most of the interviewees had taken loans
from AgriBank or other PFI s, such as PCF or the Viet Nam Bank for Social Policies (VBSP). Most of the
loans were used for animal rearing, which helped many families rise from poverty. The loan processing
time was reportedly short, ranging from 3–5 days in the best cases to 2 months in the worst, with most
interviewees reporting a period of 10 days or 2 weeks. Most borrowers used their land-use certificates,
or red books, as collateral, which were kept by the PFI until the loans were fully repaid. A shortage of
credit remained common, however, in the central and southern areas visited, where demand for large
and longer-term loans was high due to the prevalence of commercial farms growing coffee, sugarcane,
and fruit.

49. The repayment rate was high at 95% or above, according to both loan officers and borrowers
interviewed. This finding from the grassroots was consistent with nationwide statistics provided by
AgriBank’s headquarters in Hanoi. The good performance seemed to be attributable to multiple factors.
First, commercial lending in Viet Nam, unlike the subsidized loans under some poverty reduction
projects run by governments and funding agencies, was collateralized with red books, which provided
borrowers with a strong incentive to repay loans, because they would not have access to new loans
until they fully repaid their current loans and got back their red books. Second, local authorities were
strong in rural Viet Nam, which provided strong support for rural lending by government banks. Finally,
semi-official organizations, such as farmers’ and women’s associations, often facilitated rural lending,
especially in government lending programs for the poor (paras. 59–60).

50. In spite of the achievements above, the OEM found the following weaknesses in current rural
lending in the areas visited. First, due to a shortage of long-term funds, the AgriBank branches visited
restricted demand for long-term loans by setting maximum lending terms, such as 12 months for short-
term loans and 3 years for medium-term loans, with no provision for loans longer than 3 years. Since
many farmers took AgriBank loans for animal rearing, they said that the best term for them would be
5–6 years: 2 years to raise a calf to maturity, another 2 years for the cow to produce a calf, and 2 more
years to raise the calf so they could sell it as a big cow for a good return. Since AgriBank did not
provide long-term lending, some borrowers agreed to take a short- or medium-term loan and
requested an extension at the end of the loan period. In many cases, AgriBank permitted extensions for
periods not exceeding half of the original term. To cope with this problem, a number of interviewees
said that they borrowed from a moneylender at high interest to repay their loan to AgriBank and then
took a second loan from AgriBank to repay the moneylender. Such transactions wasted money and
time but enabled borrowers to effectively extend loans to continue their businesses. If AgriBank, after
assessing a client’s capacity to repay, granted him or her the second loan, it might have been better if
AgriBank had allowed him or her to extend the loan for as long as the reassessment demonstrated
good repayment capacity and low risk of default.

51. Second, the OEM observed a lack of flexibility in actual lending practice in some cases. In Bac
Giang, some borrowers reported a ceiling of $5 million ($320) for the first loan. In Quang Nam, a
ceiling of $4 million ($260) was imposed on loans for trading activities. These loans were considered
too small to be useful by the interviewees. In some cases, borrowers were told to pay interest charges
either by the month or by the quarter, which discouraged some farmers from borrowing, because they
did not have monthly or quarterly income to meet the payment requirement. They said that, since they
borrowed for animal rearing, they could repay all interest charges and principal at the end of the loan
period when they sold the animal. This option was not allowed in many cases interviewed, though this
practice might not represent a formal policy of AgriBank. In the villages visited in Phu Yen, borrowers
enjoyed flexibility in loan repayment, permitted to repay any amount of principal and interest at any
time on or before the due date.

The only exception was subsidized loans from VBSP, which used government or funding agency funds to run
lending programs for the poor, including loans with a maturity of 5 years. The supply of the subsidized loans,
however, was limited. At the time of the OEM visit, VBSP covered only 6% of the formal credit market in rural
Viet Nam.
52. Third, group lending was imposed in some remote areas visited, where borrowers were required to form a group of 5–20 members to gain access to loans from AgriBank or VBSP. According to the loan officers interviewed, the primary benefit of group lending was low administrative costs to AgriBank, because the group leader would collect monthly or quarterly interest payments from all members and submit the payments to a loan officer (loan officers interviewed strongly preferred group lending). Group lending also imposed strong peer pressure for borrowers to repay, because group leaders and other members were held accountable for default by any member. While some weak members appreciated group lending, the OEM noted complaints from some strong borrowers, who said that the long time needed to form a group, up to 2 months in some cases, meant missing the best business opportunities and reduced the usefulness of the loans. Combined liability also discouraged them from participating in group lending.

53. Fourth, the OEM observed unmet demand for credit for education and emergencies. The OEM noted that many households, including the poor, would like to invest in their children’s education for as far as the children can go. These parents understood the importance of education for the young generation’s access to formal employment, which was their hope for a permanent exit from poverty. They were, however, constrained by their inability to cover high school-related costs. Long-term loans to parents to enable education investment for children may effectively and sustainably reduce rural poverty.

54. Lending for emergencies was another area not served by formal financial institutions. When asked about their coping strategies in times of emergency, most interviewees said that their options were to (i) sell animals, even with less-than-optimal timing and at depressed prices; (ii) borrow from relatives and friends without interest but with limited loan size; and (iii) borrow from moneylenders at high interest. The last option was typically used when the first two options were eliminated. The OEM interviewed households who sold land at depressed prices to repay the high debts that had accumulated quickly after borrowing from moneylenders. While borrowers clearly knew the high cost and risk of borrowing from moneylenders, they had no other choice because moneylenders were the only source of money available on the spot or within a same day, conveniently in a same village, and offering maximum flexibility, with no restriction on loan size or maturity and repayable in any amount at any time.

55. The OEM found that borrowing from moneylenders was common in many villages visited. Households borrowed frequently and repeatedly for various purposes—for food in times of food shortage, emergency medical payments, and repaying loans from AgriBank when no further extension was allowed. Moneylenders were better-off households in the villages, or farmers who had recently sold cows or buffaloes and therefore had extra money. In a few cases, even loans from friends and relatives were at a monthly interest rate of 2–3% if the loans were long term. To a certain degree, informal lending from moneylenders provided the safety net of last resort for rural households, albeit at a high price for borrowers. In one village, the OEM found that the interest rates charged by moneylenders were only slightly above the commercial rates charged by AgriBank and PCFs largely because of stiff competition among the numerous moneylenders in that area (para. 62).

56. Finally, subsidized loans to poor households were provided mainly by VBSP but also by AgriBank in some cases under special programs financed by funding agencies. Lending rates were 0.45% or 0.50% per month under these programs, compared with commercial rates of 1.15% per month from AgriBank and 1.35% from PCFs. The OEM observed a mixed performance from lending programs for the poor. In some cases, the repayment rate was reportedly high due to careful loan appraisal by loan officers as well as strong support from local authorities, which put heavy pressure on

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10 While the land price was about $4 million per 1,000 m² in many areas visited, a number of poor households interviewed in Tra Vinh said that they sold land for $2 million per 1,000 m² under time pressure.
borrowers to repay loans. In these cases, the subsidized loans without collateral enabled poor households to raise cows, pigs, or buffaloes, contributing to their climb from poverty. The OEM observed cases where borrowers repaid the subsidized loans, rose from poverty, and continued livestock production using their own savings. In other cases, however, the OEM observed significant leakage of the subsidized loans to the non-poor, including village leaders. In a few cases, repayment rates were poor, and the farmers’ and women’s associations that had been involved in the lending programs collapsed. Borrowers no longer had access to formal credit due to their bad debts.

57. **Local Institutions.** In the areas visited in rural Viet Nam, local authorities were powerful, especially the chairmen of the people’s committees of communes and the village leaders. The commune is the lowest level of government in rural Viet Nam; village leaders are elected by villagers and receive a monthly allowance from the government. In the cases studied, village leaders played a key role in identifying poor households based on criteria set by government programs. The identification process involved several steps, including self-assessment by all households, checks and confirmation by village leaders, and approval votes by village assemblies. Finally, village leaders submitted to communes a list of households qualified to be labeled poor. After approval by commune and district authorities, the officially identified poor would receive a poor household certificate and health service card, which entitled them to free schooling and health services. Poor households were identified yearly, with the process taking more than 3 months in some cases observed.

58. Most interviewees said that the most powerful person in their village was the village head, who connected villagers to various government agencies, explaining to them government policies and defending village interests when necessary. In two non-project villages, the OEM observed cases in which village heads took loans to invest in village infrastructure with strong support from villagers.

59. Local authorities played an active role in facilitating rural lending by AgriBank and VBSP. First, all borrowers had to submit to banks an official permit issued by their commune authorities to officially confirm their permanent residence in the communes. This simple procedure reduced the risk of borrowers running away without fully repaying their loans. The OEM was told that no farmer could afford to offend local authorities, because they needed official help to receive certificates for free schooling and medical care and permits for other needs as well, such as migrating to urban areas. Second, village leaders played a key role in urging households to pay irrigation fees and interest charges and repay loans. In one village, however, the OEM observed how the excessive power of local authorities can do harm. A village head and a commune officer forced a poor household to take subsidized loans for them when the poor needed their permit to borrow from the subsidized lending program. In the end, the officers failed to repay the loans due to investment failure, making the poor bear the bad debt and lose future access to formal credit.

60. In all villages visited, the Government supported identical mass organizations such as associations of farmers, women, veterans, and youth, as well as fathers’ foundations. Farmers’ and women’s associations were active in lending programs for the poor run by AgriBank and VBSP. They identified poor households, recommended borrowers, facilitated the formation of borrower groups, helped people fill in application forms, channeled loans to borrowers, and collected interest payments from borrowers. In some cases, the associations received a commission of 3% of the interest payments they collected. The role of these organizations was minimal in AgriBank’s commercial lending, though some loan officers consulted them when they needed information about specific borrowers.

61. PCFs were supported by the Government and operated only in populous areas near towns. In Tra Vinh, the OEM visited a PCF located in a district town. The PCF was formed by 17 traders and large farmers and had about 100 savers and 790 borrowers. Most of the savers were traders or better-off farmers, while the borrowers were low-income households in towns as well as farmers in nearby villages. The savers used the PCF to gain high returns for their spare money, and the borrowers
appreciated the quick and easy access to loans, albeit at a monthly interest rate of 1.35%, higher than AgriBank’s 1.15%.

62. The OEM did not find active informal institutions in most villages visited, probably due to the existence of strong local authorities and government-supported mass organizations. Only in one village in Bac Giang did the OEM observe informal credit groups organized by farmers. Each of the groups had 60 or more members. Each member contributed monthly ₡200,000 (about $13) for 72 months and was entitled to a loan of up to ₡12 million (about $774). Members of these groups were better-off families with large savings, many of them with multiple businesses including trade, small agro-processing, farming, and livestock. Moneylenders were active in that village, and competition among them resulted in an interest rate of 1.50% per month, only slightly higher than the AgriBank’s commercial rate of 1.15% per month.

63. **Project Interventions.** Projects from various government agencies, nongovernment organizations, and aid agencies influenced the context in which rural households rose from poverty. For example, health service cards issued to poor households reduced medical costs for them. Under Program 135, the central Government allocated a small annual grant of ₡50 million, or $3,200, to each poor commune. Some poor communes used the grant to build schools, clinics, bridges, or small irrigation projects. In one case, a poor commune used 2 years of the annual grants to build a 1 km road. Such a short road did not seem to contribute significantly to poverty reduction in that commune. The OEM also visited villages with reforestation programs financed by international agencies or nongovernment organizations that paid wages to participants for 3 years for tree planting and maintenance, earning extra income for those families.

64. The OEM observed strong positive impact of the RCP financed by ADB. Loans from ADB were the only source of long-term funds in the AgriBank branches visited, enabling them to provide medium-term loans of 3 years. The easy access to formal credit from AgriBank enabled many poor households to rise from poverty by raising animals—the most common strategy in areas severely short of farmland and off-farm employment. Lending from PCFs, while at a monthly interest rate higher than AgriBank’s, was appreciated by borrowers due to its convenience and flexibility. Loan processing in PCFs reportedly took only 2–3 days. Repayment could be made earlier than the original plan if borrowers preferred. Loans could be applied to nonproductive uses such as school fees or motorcycles. In some PCFs, no-collateral loans were available at a high monthly interest rate of 1.7%, which was still lower than the 2–3% most moneylenders charged.

65. The impact of the RISP, however, was marginal in the cases studied. The OEM visited 12% of the subprojects completed under the RISP, including rural roads, markets, and irrigation and water supply systems. The road subprojects upgraded previously gravel inter-commune roads to a paved surface 6 meters wide and 32 centimeters thick. In most cases, the OEM observed light traffic on the improved roads. While households along the roads appreciated the public investment that was free to them, the actual benefits seemed to be insignificant, mainly making travel on foot or by bike or motorcycle less difficult. While some interviewees (especially commune officials) reported rising prices for farm outputs after road improvement because more buyers came to the villages, the OEM noted that most households had little surplus to sell, as they had barely enough farmland for self-sufficiency. In some mountain villages visited, cassava was the only commodity sold by households. Even with a large price increase from ₡700–barang ($0.05)/kg to ₡1,200 ($0.08)/kg after road improvement, the low-value cassava did not contribute significantly to poverty reduction. Furthermore, interviews with households about 1 km away from the roads found no impact at all, as buyers did not visit those villages even after the project investment. In these cases, the positive impact of the road subprojects appeared to be limited to a few families who opened small shops on the roadsides, as well as reduced travel difficulty for other households living along the roads.
66. Most of the project roads observed by the OEM did not link to commercial centers. In two cases, the OEM observed upgraded roads ending at a river or next to a wetland that needed a bridge. Interviewees said that if the subproject design had included a budget for bridge construction, the investment could have linked the upgraded rural roads to a national highway, and the roads would have attracted substantial business. According to project staff, however, no such budget was available under the RISP, which focused on upgrading rural roads in poor regions instead of improving road networks. Overall, the OEM found that the improved rural roads provided convenience for a small number of residents along them, but did not promote economic growth or stimulate business, due largely to the relatively isolated location of the project roads. Small populations in the subproject areas failed to attract commercial users of the roads even after their improvement.

67. The irrigation subprojects visited by the OEM suffered more problems. In Lang Son, an irrigation management company collected only 20% of the irrigation fees due at the time of the OEM visit. Some beneficiaries with farmlands located upstream of the irrigation system refused to pay because they received water with or without the ADB-financed project. Some said that they suffered from the project because water from the canal overflowed on their lands several times. In one village at the tail of the system, a canal constructed about 1 year previously had not yet brought any water to that village. The reasons were (i) insufficient water flow to the tail largely because of waste of water upstream, including overflows and excessive water use by some upstream users for power generation or fish ponds, and (ii) the lack of a water-user group to take care of water allocation in the tail village. The village head and farmers interviewed in the tail village said that they did not know who financed the canal construction or when they would receive water. No one had informed them that they should form a water-user group to receive water. They were not in a position to complain because they did not pay for the investment. In Bac Giang, an irrigation project improved 9 km of canal, which reportedly increased the command area from 180 ha to 250 ha. In an upstream village about 1 km from the reservoir, the OEM found that only 4 ha out of the 42 ha, or less than 10%, of the paddy land in that village benefited from the subproject. Land in the village—both irrigated and not—was equally distributed to all households. In two households visited, two-fifths of their land received water with or without the project, and another two-thirds did not receive water with or without the project. Only the remaining one-third of their land received water as a result of the project, enabling a second rice crop per year. The increment in production was small, about 100 kg of rice for each household. In 2004, there was no rice increment because the land did not receive sufficient water.

68. Similarly, the drinking water subprojects visited did not seem to have a large impact on poverty reduction. These subprojects were located in district towns, where most clients were not poor. In Tra Vinh, the OEM visited a drinking water system completed in early 2004 in a district town with 2,476 households. The system was designed to supply water to 600 households, but only 288 households, or 48%, were connected to the water system at the time of the visit in May 2005, more than a year after subproject completion. The primary reason was insufficient demand. Since most households in the subproject area had their own wells before the project, some did not want to pay the connection fee of Đ400,000 ($26) even when the water pipe passed in front of their houses. The quality of the water from their wells was as good as that from the project well, all of them deep. The primary benefit of the subproject was the convenience of running water enjoyed by the households that paid the connection fee.

69. The 12% subprojects visited by the OEM might not have been representative, as they were not randomly selected. However, aggregated data provided by the central project management unit of the RISP seemed to confirm OEM’s findings. According to their data, irrigation fees to be collected as of May 2005 satisfied 25-90% of the O&M cost of the irrigation schemes. The collection of irrigation fees in lowland provinces was better than in mountainous areas, where the rate of collection reached only 30%. For drinking water supply systems, the total number of households connected reached just 60% of designed capacity.
VI. Issues, Underlying Causes, and Alternatives

1. Poverty Reduction and Household Vulnerability

70. While rural poverty has been reduced substantially in the areas visited, the definition of poverty was low, and many of the non-poor interviewed seemed to be near poor. They may easily slip back into poverty when encountering such misfortunes as sickness of family members or investment failure due to price fluctuations, outbreaks of animal disease, or natural disasters. Finally, the employment prospects of the rising generation strongly affect the sustainability of a rural family’s rise from poverty. Many of the rural areas visited suffered severe shortages of farmland and local off-farm employment. In these areas, the rising generation may easily become poor if most of them remain in the village and rely on agriculture.

71. The OEM found that most households could recover from one-off sickness or investment failure by themselves if given timely access to unsubsidized credit that was long term enough and affordable—that is, at commercial instead of moneylender interest rates. Given the hard-working culture in rural Viet Nam, these households could recover by reinvesting, working harder, and reducing consumption. Free or subsidized assistance from governments or funding agencies, such as medical service cards, subsidized loans, or free houses, while bringing short-term benefits appreciated by recipients, may not be the best solution in the long run. As the subsidies attracted non-targeted participants more powerful than the poor, the OEM observed leakage in the subsidized lending program, with loans going to village leaders and other non-poor who could afford commercial interest rates. In the villages visited, the supply of free houses was far below the number of eligible applicants, due primarily to budget constraints for the government program. In the long run, free money may have more negative impacts as beneficiaries and local authorities develop a culture of dependence, as has been observed in many developing countries with a long history of free assistance from funding agencies.

72. A better alternative to assist the poor and the near poor at times of misfortune may be to provide unsubsidized credit in a timely manner, with simplified procedures, short processing times, long maturity, and maximum flexibility in repayment arrangements. This should be doable, as evidenced by real cases observed by the OEM. In Dak Lak, a visited PCF provided quick loans within 1 day for emergencies, which led to the disappearance of moneylenders in that area. In Fu Yen, an AgriBank branch allows repayments in any amount at any time on or before the due day, and this flexibility was highly appreciated by the borrowers interviewed. With concerted efforts, such good practice could be replicated in more areas to maximize the positive impacts that formal credit could have in reducing household vulnerability and rural poverty. At the initial stage of replicating this practice, emergency loans could be limited to former or existing clients of AgriBank or PCFs. Since AgriBank or PCFs already know their clients, or keep their land-use certificates as collateral, the lending risk should be manageable. If successful, this practice may encourage more rural households to borrow from AgriBank or PCFs in order to have timely access to formal credit in times of emergency.

73. Since most formal financial institutions currently do not provide emergency lending, the quick and flexible loans from moneylenders are rural households’ last resort in times of emergency. It seems that outlawing moneylenders will not bring their disappearance as long as demand for their services is not met by formal financial institutions. On the contrary, banning or tightening control of moneylenders would increase their operational costs, resulting in higher interest charges to borrowers. Concerns about the harm done by moneylenders should be addressed with measures specifically targeting the harm, not by simply banning moneylenders.
Meanwhile, long-term loans may be provided for rural parents to invest in their children’s education. Since private investment in education will benefit not only the investors and their children but also society by breaking the vicious cycle of inherited poverty, interest subsidies could be considered to encourage education investment, including in particular post-compulsory education, which creates access to formal employment.

Finally, public investment to control animal disease should receive sufficient attention. Given the serious impact of epidemic outbreaks on rural poverty, providing sufficient funds to accelerate research on controlling animal disease and provide free preventive treatments to all rural households seems to be an intervention effective for poverty reduction, as it addresses one of the most critical causes of household vulnerability, affecting many rural poor and near poor.

### 2. Public Investment in Rural Infrastructure

From a review of project documents, the performance of the RISP was impressive. It targeted poor regions and provided rural infrastructure—roads, markets, and irrigation and drinking water systems. It met all physical targets at a cost lower than estimated at appraisal. It used the cost savings to construct additional roads, irrigation canals, and water systems.

Field examination of subprojects and in-depth interviews with households, however, revealed the project investment to be less than relevant to poverty reduction in the subproject areas visited. For example, the RISP upgraded inter-commune roads from dirt or gravel to a paved surface, providing convenience to residents along the roads but not attracting private investment to the subproject areas or stimulating economic growth. Interviews with local residents found that the key constraints in those areas were a severe shortage of farmland, a growing labor surplus, and a lack of sufficient local off-farm employment to absorb the surplus labor. Without creating long-term jobs to ease the population pressure on farmland, the road investment did not seem to be relevant and worthwhile at a time that the urgent need was more employment. Furthermore, the OEM noted that households in the subproject areas had little surplus production to sell. Given the low population density in the remote areas and the lack of commercial users of the roads, dirt or gravel roads may well serve the current needs. With the exception of government agencies, most road users traveled on foot or by bike or motorcycle, which could manage dirt or gravel roads even in the rainy season, albeit with difficulty. The small convenience for a few residents along the roads should not have been the priority of public investment. Much more poverty reduction might have been achieved if scarce public resources had been used to improve infrastructure in areas that were naturally attractive to private investors, such as lowlands adjacent to commercial centers, or areas well connected to highways or road networks, where improved infrastructure could elicit large inflows of private investment to generate long-term jobs. Through migration, surplus laborers from poor regions may leave poverty behind by finding employment in more prosperous regions.

The irrigation and water supply subprojects inspected by the OEM suffered more problems than the roads, including insignificant benefits from the irrigation investment and insufficient demand for drinking water to economically justify the investments. Many interviewees reported insufficient water supplies in the dry season even after the irrigation investment, which improved water availability but not significantly (para. 67). In the long run, financing of O&M will become another major concern. Even with free investments paid for by the central Government, the irrigation and water supply companies visited could not self-finance their operations, requiring staff salaries to be paid by district governments. As the water systems age, the cost of O&M will increase, and the problem of inability to collect the full amount of user fees will threaten their sustainability.

This analysis should not lead to the conclusion that all investment in rural infrastructure is not worthwhile or unnecessary. Whether or not a particular investment is worthwhile depends on its real benefits and costs. As this depends on local realities, there is no standard answer. The OEM asked local
leaders and beneficiaries if they would have invested in the infrastructure subproject if they had had to pay the costs. In most RISP subproject sites visited, the answer was no. In one commune with an irrigation system invested by the RISP, the commune head said that their urgent need was to build 17 footbridges. Since there was no free money from external sources to finance footbridges, the commune head said that they would like to take loans to build them and repay the loans by collecting annual fees from households. His only request was the provision of a long-term loan at low interest. Since he could collect only small fees from each household every year, it might take 10–15 years to repay the loan. In a non-project village, interviewed farmers expressed their strong willingness to invest in a small irrigation system at their own expense if a long-term loan was available at affordable interest rates. These interviewees had farmland next to a stream with sufficient water, but a lot of money was needed to build a concrete dam to effectively use the water. In another case, the owner of a large rice mill said that he would like to invest in a bridge if a long-term loan was available, as the investment would help him expand his business by significantly reducing transportation costs and attracting more clients. Finally, the OEM observed cases of private investment in irrigation facilities, village roads, or small bridges by farm households or community leaders. Some of these investments were financed by loans from AgriBank, with a maturity of only 3 years. These cases seem to support the hypothesis that farmers, individually or collectively, would be willing and able to pay for infrastructure investments that bring them more benefits than costs, if they had access to long-term loans at low interest.

80. The information critical to determining the worthiness of a particular investment is available only in the particular subproject area. The grant nature of funding agency-financed projects unfortunately prompts local authorities and beneficiaries to welcome any investment that is free to them. The executing and implementing agencies also have strong incentives to construct as many subprojects as their budget allows, regardless of the worthiness of the investment from the viewpoint of the public, because their budget allocation is linked to physically completing subprojects.

81. To ensure that only truly worthwhile investment in rural infrastructure receives public assistance, a better alternative may be to make long-term loans available to private entities, individuals, or beneficiary representatives for investment. While interest rates could be subsidized to encourage private investment in small-scale village infrastructure (which can be seen as semi-public goods), borrowers should be required to repay the full amount of the loans. This policy will serve to test the worthiness of the investment: If the investment is truly worthwhile, its costs can be fully recovered from its benefits, and beneficiaries should be able to fully repay the loans. In most cases, unwillingness to pay for the investment provides good evidence that it lacks worthiness.

82. This special evaluation study (SES) notes that this new idea needs pilot testing before actual implementation. Moreover, efforts are needed to search for appropriate mechanisms to deliver long-term loans and collect repayment. Given the long-term sustainability of its operations in rural Viet Nam, AgriBank may be an ideal mechanism for such lending. The OEM visited an AgriBank branch in Fu Yen, which provided 11 loans for village infrastructure investment, with borrowers being individuals (usually commune heads) who used their names to borrow on behalf of many beneficiaries. For lack of long-term funds, however, the maturity of the infrastructure loans was only 3 years.

3. The Role of Rural Credit in Reducing Poverty and Vulnerability

83. In the areas visited, rural households’ access to credit played a crucial role in reducing poverty and household vulnerability for the following reasons:

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11 Farmers may support even a bad project that is free to them, as long as they benefit a little from the investment, because a little is better than nothing when it is free. See ADB. 2005. Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems in Rural Development Projects? Available: www.adb.org/Documents/Reports/Evaluation/ssst-reg-2005-01.pdf
Many households borrowed formally to raise animals, which made a big difference in their cash income because they had previously been subsistence farmers, suffering severe shortages of farmland and off-farm employment, and unable to migrate as they had no social connections in cities.

Borrowing money was a typical household coping strategy in times of emergency, such as a family member falling seriously ill, especially when they had no animal to sell.

Many poor households interviewed said that they borrowed frequently in times of food shortage and repaid after the rice harvest or when they received wages.

When investment failed, many households coped with the crisis by borrowing and reinvesting.

In one case, the OEM observed a widow who borrowed to support her daughter’s completion of high school, with the hope that the daughter might find a good job after graduating and repay the loan.

Suppliers of rural credit in the areas visited included (i) formal financial institutions such as AgriBank, VBSP, and PCFs; and (ii) informal players such as relatives, friends, and moneylenders. For investment, most rural credit came from formal financial institutions. For emergencies, however, most borrowers turned to informal sources, including in particular moneylenders, who seemed to be the only source that provided the urgently needed funds on the spot or within a same day without requiring collateral and with maximum flexibility in terms of loan size and repayment scheduling. However, the high interest charged by moneylenders resulted in distress sales of farmland by some borrowers—a major factor underlying poverty reversion.

The OEM was impressed by the success achieved by AgriBank. In the areas visited in northern Viet Nam, rural credit from AgriBank was readily available to most rural households, including mainly near poor families and some poor as well. Success seemed to be attributable to a number of factors. First, the fairly egalitarian distribution of farmland in rural Viet Nam and the issuance of land-use certificates meant most rural households had red books\(^\text{12}\) to offer as collateral to formal financial institutions. The red books were kept by banks and returned to borrowers only after they had fully repaid their loans. This requirement provided strong incentives for repayment and reduced lending risk. Second, local authorities were actively involved in the lending programs run by government banks. Since local authorities were powerful in rural areas, their involvement contributed to the collection of repayments in most of the cases studied. Third, most villages visited had a strong culture of repaying debts, with borrowers willing to repay when loans resulted in successful investment, even if they did not plan to borrow again. Many interviewees took only one loan from AgriBank and relied on their own savings for continued investment, reportedly in line with a culture of unwillingness to be exposed to credit risk unless absolutely necessary.

The OEM observed the following areas that need improvement. First, loan processing time varied significantly, ranging from 3 days in the best case to 2 months in the worst, for group lending, with most interviewees reporting a processing time of 10 days or 2 weeks. This delay was acceptable to most borrowers for investment. In emergencies, however, none could afford to wait so long. This explained the observation that most borrowers turned to moneylenders in times of urgent need. While a long processing time may be unavoidable for the first loan, as a formal financial institute such as AgriBank needs to carefully assess a new borrower, efforts may be made to simplify lending procedures to existing clients for emergencies. These clients are already known to AgriBank, and their red books are kept by AgriBank as collateral. Discussions with AgriBank staff resulted in the hypothesis that, with concerted effort, timely provision of emergency loans to existing clients is possible, with processing time reduced to 1–2 days. If this can be implemented, AgriBank could contribute significantly to poverty reduction by reducing the high costs to rural households of loans for emergencies. To start

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\(^{12}\) With the exception of some young couples, who received land from parents without a separate red book, because splitting a red book required bureaucratic procedures that reportedly took a long time.
with, emergency lending could be restricted to existing clients who suffer a one-off shock, because lending to families with chronic patients could be highly risky. Even with this limitation, emergency lending could potentially save many near poor from slipping back into poverty.

87. Second, while AgriBank management in Hanoi assured the OEM that their lending policies allowed maximum flexibility, actual implementation of policies varied significantly in the areas visited, reflecting the discretionary power of loan officers at the grassroots. The OEM observed cases of setting maximum loan size, requiring lending to groups only in remote areas, limiting loan extension, and restricting loan use to productive investments. The last restriction denied borrowers’ demand for loans for other purposes such as education investments and coping with emergencies, and thereby missed the opportunity to mitigate two critical causes of rural poverty. Maximizing the role that formal credit plays in poverty reduction requires removing these restrictions. Formal financial institutions should be encouraged to provide unsubsidized loans to most rural borrowers based on demand and repayment capacity as well as the availability of funds. No restrictions should be imposed on loan use, size, length of maturity, or the number of extensions.

88. Third, given the need for rural infrastructure development and the shortage of grants from government or funding agencies, demand exists for long-term loans for private investment in small-scale rural infrastructure. High demand was observed in villages that had no access to free money from external sources. In a few cases, rural households contributed cash to upgrade small roads and bridges, but in most areas visited, farmers could not raise sufficient funds by themselves for infrastructure improvement. Providing long-term loans to finance such improvements, to be repaid by beneficiaries later, may accelerate rural development by alleviating the constraint of insufficient funds for rural infrastructure development. So far, lending for rural infrastructure improvement has been limited. While some visited AgriBank branches expressed interest in such lending, their lack of long-term funds was a major constraint.

89. Finally, two policy distortions continued to restrict the commercial operations of formal financial institutions. First, existing government regulations required financial institutions that provided loans to households living in remote areas to do so at subsidized interest rates. While the interest subsidies were funded by the Government, reimbursement was reportedly delayed, sometimes by 1–2 years. This policy might have reduced AgriBank’s incentive to expand lending in remote areas. Second, loans provided by VBSP were capped by the Government at highly subsidized interest rates of 0.45–0.50% per month, compared with 1.15% per month by AgriBank and 1.35% by PCFs. This regulation hurt VBSP’s incentive to mobilize deposits, as interest rates for deposits were higher than the subsidized lending rates. The OEM feels, and international experience indicates, that interest subsidies are unnecessary and hurt the sustainability of financial institutions—and, therefore, hurt borrowers as well in the long run. International experience also shows that poor people can and are willing to pay commercial interest rates, their priority being easy and rapid access to credit, especially in times of urgent need, rather than low interest rates. Subsidized interest rates can therefore have the opposite effect of that intended by government policy by reducing the incentive and capacity of financial institutions to expand the supply of credit to the poor, thereby forcing the poor to borrow from moneylenders at interest rates significantly higher than commercial ones.

90. In the long run, both AgriBank and VBSP have to rely primarily on mobilizing deposits instead of borrowing from funding agency projects or governments, if they intend to sustain their operations on a commercial basis. To encourage savings mobilization and provide strong incentives to expand and sustain lending to the poor, it may be better if the Government allows AgriBank and VBSP to lend to poor borrowers on a commercial basis, charging interest rates high enough to cover their operational costs and lending risk. If any need exists to subsidize poor borrowers, interest coupons could be issued

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13 Areas in Viet Nam are divided into three zones. The current policy requires 15% interest subsidy for borrowers living in zone 2 and 30% subsidy for those in zone 3.
by the Government and distributed directly to those for whom an interest subsidy may be justified. The poor would take commercial loans and pay the interest charges with interest coupons; banks would issue commercial loans to the poor and collect the coupons, which would be reimbursed by the Government.

91. Compared with the current practice of using government funds to provide cheap loans to the poor, interest coupons may have the following advantages. First, since AgriBank and VBSP would use their own funds for lending to the poor and receive interest coupons in payment for their interest charges, scarce government funds would be used for interest payments instead of for providing loans. Limited government funds would thus be leveraged into larger banking resources for lending to the poor. Second, since banks would use their own funds for lending to the poor, they would be more careful in appraising loans and more vigorous in collecting repayment than in the current practice of using government funds for lending to the poor, where all lending risks and losses are covered by the Government. Moreover, when facing difficulties repaying loans, borrowers may place a priority on repaying commercial loans with a high interest rate than to cheap loans from governments. By providing appropriate incentives to both financial institutions and borrowers, this new policy may significantly reduce the risk of lending to the poor. More importantly, by allowing banks to lend to the poor on a commercial basis, this new policy may sustain poor people’s access to formal credit in the long term. This SES highlights the need for careful design and pilot testing of such a new policy, which should be followed by rigorous evaluation of the pilot results before replication.

4. Household and Geographic Targeting

92. Targeting has been widely used for poverty reduction in Viet Nam. In the areas visited, the OEM observed the following methods of household targeting: (i) issuance of health service cards to poor households; (ii) issuance of poor household certificates to exempt the poor from paying school fees; (iii) provision to poor households of free houses, seed, and mosquito nets; and (iv) provision of subsidized credit. Geographic targeting was also observed, including (i) rural infrastructure improvement through government projects such as the RISP financed by ADB and (ii) limited annual grants to poor communes under Program 135 financed by the Government.

93. The OEM was impressed by the accurate identification of poor communes and poor households in rural Viet Nam. In the areas visited, communes and households identified as poor were indeed the poor ones. The following factors seemed to have contributed to this success. First, the selection criteria set by the central Government seemed to have been implemented strictly at the grassroots by strong local governments and village leaders. Second, since only a few households were identified as poor in any one village, most villagers had little chance of being selected. With no conflict of interest, most households might have been happy to help the authorities identify the poorest in their villages. Third, despite the complicated theories and methods used to calculate income poverty or measure other dimensions of poverty, in practice, it was rather easy to identify who were the poor at the grassroots. In all villages visited, most interviewees—including village leaders and ordinary households—knew who the poor were in their villages.

94. Success in identifying the poor did not guarantee, however, the success of poverty targeting, if success is measured by the number of poor households that rose from poverty. The OEM observed various problems in targeting programs. In the case of household targeting, the primary weakness was the small coverage of the targeting program, due primarily to limited budgetary resources for program operation and, consequently, supply being far outstripped by demand stimulated by the grant nature of the program benefits. In the areas visited, only a few villages provided free houses to the poor, and the actual coverage was about 10% or less of eligible applicants. The free health service cards were

14 For some poor who never borrow and therefore do not yet understand the potential benefits of investment, interest subsidies for the first loan may have certain positive effects.
distributed to all poor households or all households in poor communes. However, certain treatments and certain medicines were not covered by the program. A more binding constraint was the budget actually allocated to a particular commune. In one case, the budget was allocated on a basis of ₦10,000 ($0.65) per capita per month. To operate the program within a given budget, restrictions on demand were imposed, including providing medicines on a first come, first served basis, which denied latecomers, who might have had the most dire need for help.

95. In the case of geographic targeting, the primary weakness was less relevant investment financed by projects. The OEM found that many subprojects under the RISP provided small benefits to a few residents in the subproject areas but failed to mitigate the key constraints that held rural households in poverty. Typically, the rural roads that were upgraded neither stimulated economic growth nor brought in business. Even with good roads, poor mountainous regions remained unattractive to private investors, when investments in lowlands bought in much higher returns.

96. In both household and geographic targeting, leakage of project benefits, including subsidized loans, to the non-poor was observed despite the accurate identification of poor households and poor communes. The Viet Nam Development Report 2004 provided more data on the percentage of beneficiaries who were non-poor under various targeting programs. Leakage was estimated at 25.1% under the subsidized lending programs, 28.6% under the healthcare cards, 30.2% under the education fee exemption, and 44.8% under Program 135, which has provided annual grants to poor communes since 1998.

97. A major cause of the above problems seems to be incorrect assumptions underlying the targeting approaches, including that (i) poor people live in poor regions, (ii) money or public investment flowing into poor regions will automatically lead to poverty reduction, and (iii) the solution to poverty reduction in a poor region is within that region.

98. The OEM found inconsistencies between these assumptions and the observed realities. First, a bulk of poor people in Viet Nam live in less poor regions. Despite the high poverty incidence in the poor, remote regions, the absolute number of poor people in them was relatively small because of their low population density. A recent study on the spatial patterns of poverty in Viet Nam concludes that “most poor people live in less poor areas.” Second, available studies showed that locating a development project in a poor region did not guarantee significant impacts on poverty reduction, if the project interventions did not mitigate the key constraints on poverty reduction there. Finally, the solution to poverty reduction in the poor regions visited by the OEM seemed to lie largely outside those regions, where the primary causes of poverty included a severe shortage of farmland, a large and growing labor surplus, and insufficient local off-farm employment to absorb the surplus labor. The rural infrastructure completed under RISP did not address these key issues and did not make a significant difference in poverty reduction in the areas visited. A more effective and long-term solution to poverty in those regions seemed to be migration of the surplus rural labor out of agriculture and away from the poor regions, so that the remaining farmers might cultivate sufficient farmland to make a decent living. This approach requires (i) fast economic growth in non-poor regions to fuel the creation of large numbers of long-term jobs outside of agriculture and (ii) the orderly migration of surplus rural labor out of poor regions.


99. Based on its findings in the field, the OEM developed the following hypothesis. Targeting may be effective in welfare programs to channel public assistance to a desired group by excluding the undesired groups. Extending its use to investment projects aimed at poverty reduction, however, does not seem to be appropriate. For effective poverty reduction, project interventions need to be tailor-made based on a thorough understanding of the primary causes of poverty in the particular project areas. The targeting approaches, by focusing narrowly on accurately identifying the poor and excluding the non-poor, ends up separating the poor from the most dynamic actors in society, isolating them from the mainstream of economic growth, which is often led by the non-poor, and leaving them to rely on government subsidies or external assistance. History shows that large-scale poverty reduction has been achieved by economic growth, not by targeting programs. As concluded by the Viet Nam Development Report 2004, the spectacular success in reducing poverty in Viet Nam “took place in the absence of a mechanism to measure poverty or target the poor based on international standards” (footnote 6, page xvi).

100. Instead of narrowly focusing on locating projects in poor regions by geographic targeting, or on benefiting the poor by household targeting, a more effective way to reduce persistent poverty in poor regions may be infrastructure investment in areas naturally attractive to private investors, with a view toward creating a lot of long-term jobs. Meanwhile, special programs may be designed to facilitate the orderly migration of surplus rural labor from poor regions to the places where the jobs are. This may be a better approach for ADB assistance.

101. As a key constraint to labor migration was poor households’ lack of social connections in cities, especially those living in remote regions without a history of migration, special programs may be financed by ADB to help a first batch of young people migrate from poor, remote regions to cities. These programs may (i) encourage factories and companies to hire qualified young people such as high school graduates from remote areas by offering government assistance for their recruitment; (ii) select, with assistance from schools and local authorities, high school graduates as participants from remote villages currently without migrants; and (iii) provide temporary housing for these young migrants for their initial days in cities. It is reasonable to assume that, if these young migrants settle down successfully in cities, they will become social connections assisting their fellow-villagers’ migration to cities in the future, so assistance need be given to only the first batch of migrants from a particular remote village currently without migrants. Government programs do not need to provide training, which can be and is effectively arranged by employers, who know their training needs best.