

RELATIONS BETWEEN VIETNAMESE FARMERS' HUMAN CAPITAL AND THEIR ACCESS TO OFFICIAL CREDIT

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Cheap credit in rural areas is deemed as an important tool to help private farmers to improve their income. In Vietnam as well as many developing countries, there are so many official credit institutions (banks, organizations, credit programs) established for this objective. Nevertheless, although the interest rate in the official market is far lower than that in unofficial markets (usurers, friends, relatives...), there is a great amount of farmers become debtors of the unofficial market. According to UNDP's statistics in 1996, the unofficial credit accounted for some 70% of the Vietnam's rural credit market. At the same time the WB and Vietnam National Statistics Bureau's survey on the living standard of residents in Vietnam's rural areas (1998, VLSS98) shows the interest rate is 4.53% per month in the unofficial market and 1.25% in the official market. However, the unofficial credit still represented a high percentage in the rural credit market (above 50%, Table 1)



private farmers' access to official credit. Among their characteristics, farmers' low human capital is considered as a significant factor affecting farmers' borrowing from the official institutions. Some researchers indicated it, e.g. Ladman in Bolivia

Before looking for the effects of education on loans, we make a theoretical consideration of other effects on loans. Some argued that the government's support given to rural areas, e.g. ceiling interest rate, was one of reasons for clogging farmers' access from official credit. Low loan interest rates will lead to low savings interest rate, this will obviously discourage farmers' depositing in banks, the number of loans supplied will be thus limited. In addition, bankers do not want to lend more in spite of great demand for loans in reality because they will gain less profit. Recent studies say the demand higher than the supply in the credit market is attributed to not only the government supporting policies but also asymmetric information in the market. The asymmetric information in the credit market occurs when the official institutions have no sufficient information about their customers. They will find it hard to assort borrowers and their projects. As a result, loans are offered to riskier clients and projects which are highly profitable but more likely to fail. This implies higher risks of borrowers. Furthermore, when they cannot distinguish borrowers and their objectives, banks are forced to use an only interest rate for all of them. If

Table 1: Average interest rate and market segment of credit institutions

Credit Institutions	Average interest rate	Market segment (%) (number of loans)
Unofficial sector	4.52	50.15
Usurers	5.18	11.13
Relatives	3.14	23.16
Others	4.18	15.86
Official sector	1.25	49.85
Private banks	1.70	0.08
Vietnam Bank for the Poor	1.09	7.40
Vietnam Bank for Agriculture	1.27	31.59
Others (credit programs)	1.3	10.77

Why did many farmers have to borrow from the unofficial market like that? The theoretical and empirical research have indicated many factors such as government policy, asymmetric information, family features (income, land acreage, education...) may constitute obstacles to

(1982) and Davis in Romania (1998). This article aims to understand the above relations in Vietnam's rural credit market.

1. Relations between rural education and private farmers' loans

the rate is very high, it will stimulate borrowers to invest in risky projects. This certainly causes bad consequences to them. In contrast, if the bank applies low interest rate, it will lead to the same results as in the case of using the ceiling interest rate as mentioned above. To reduce risks from asymmetric information, the lender requests collateral and complicated procedures to bind the borrower. They are just hindrance to poor and low educated farmers which want to take loans from banks. As such, what are effects of education on farmers' access to official loans?

First, education mentioned in this article includes official and unofficial ones. The official education is provided in schools while unofficial one is outside such as farm promotion programs, technical assistance programs, or training courses on television and radio.

Second, education may affect farmers' loans as follows:

-Completion of the borrowing procedure:

The complicated procedure requested by official financial institutions may be one of obstacles to private farmers' loans from the official financial market, especially for those with low human capital. They will have to spend more time on fulfilling the borrowing procedures and understanding new terminology in the dossiers. This makes them reluctant to borrow from official institutions.

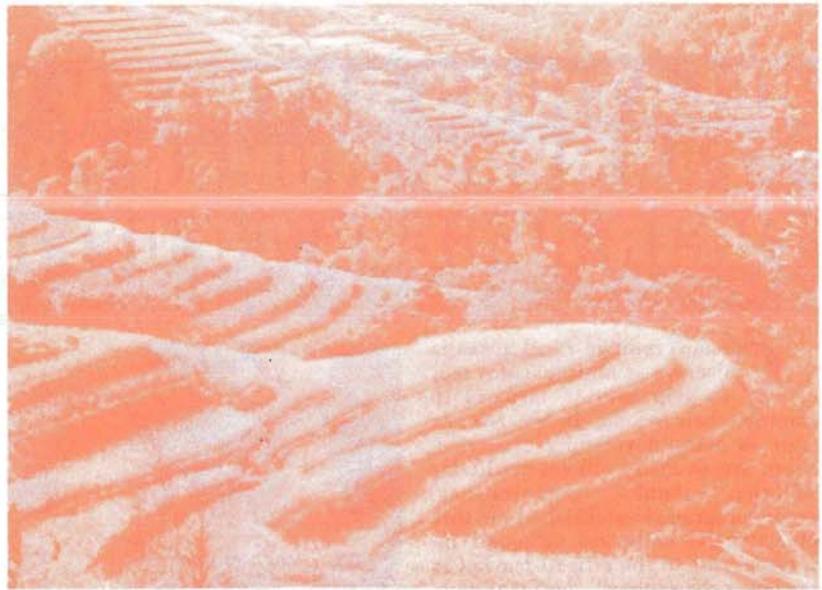
-Approval of technical innovation in farm production:

Due to ever-changing technical advances, education is deemed as a factor having great effects on farm productivity. Many studies indicate education affects strongly the efficiency of farm production. This clearly influences farmers' access to credit because when they see high return on investment, they are willing to take more loans from banks.

From the above analysis, we can come to a conclusion that the higher human capital the private farmers have, the more loans they will take from the official financial sector and vice versa.

2. Results from the empirical analysis on the relations between education and private farmers' access to official credit in Vietnam rural areas

To interpret the above relations in Vietnam's rural areas, we use the investigation data of the Vietnam National Bureau of Statistics and the World Bank in 1998. The education



variables include schooling years of the householder and other family members in working population and forms of unofficial education. The econometrics model is used to analyze this relation:

$$L_i = \ln\left(\frac{P_i}{1-P_i}\right) = Z_i = \beta_0 + \beta_1 x_1 + \dots + \beta_n x_n$$

where x_i is an education variable or featuring variable of the household (income, land). L_i is a dependent variable indicating whether the farmers take loans from the official financial institutions or not.

The outcome is as follows:

a. Effects of official education

The average number of Vietnamese farmers' schooling years is rather low, about six (the Vietnam National

Statistics Bureau's survey in 1998). The percentage of householders who are dropouts from primary school is 41% and the percentage of householders with no schooling years is 11.5% (Table 4)

In addition, the empirical analysis in Table 2 indicates the relation between the households' schooling years and their borrowing is positive. This is proved by positive regression. Moreover, coefficient and statistical tests also show these variables are of statistical meaning. As such, we can conclude that the more schooling years the farmer has, the more loans they take from banks. This result is more obvious in Table 3. If the farmer's schooling years increase by five, the household's loan probability will rises 30%-32.69%, and similarly the

Table 2: The regression outcome between education variables and private farmers' loans from official institutions

Variables	Regression coefficient *
Householder's schooling years	0.025
Other members' schooling years	0.029
Unofficial education	0.464

(*) These figures have a statistical meaning of 5%.

Source: The writer's calculation from figures of VLSS98

Table 3: Changes in borrowing probability of private farmers when their education status varies

Variables	Initial probabilities		
	30	50	70
Householder's schooling year	32.69	53.12	72.56
Other members' schooling years	33.13	53.62	72.95
Farmers' involvement in unofficial education	40.54	61.40	78.78

Source: The writer's calculation from figures of VLSS98

result is 30%-33.13% for other members.

Based on the facts on Vietnamese farmers' educational attainment and the above results, we may come to a conclusion that low human capital is one of factors hampering farmers from access to official credit.

Table 4: The educational attainment of households in Vietnam rural areas (%)

Human capital	Rural areas	Farmers
No schooling	8.83	11.15
Below 5 schooling years	29.75	30.81
5-9 years	23.73	23.35
9-12 years	23.64	21.84
Above 12 years	4.11	3.73
University degree	1.03	0.62
Others	8.91	8.5
Total	100	100

Source: Vietnam National Statistics Bureau 1998



b. Effects of unofficial education

Table 2 also indicates the relations between unofficial education and private farmers' borrowing is positive. That implies the households which are involved in official education take more loans than those are not. The loan probability of the household involved in unofficial education is 40.45% and that of others 30%.

The research outcomes partly affirm economists' argue that one of factors restricting loans of Vietnamese farmers, especially for those liv-

thus unwilling to borrow.

The farm promotion system is one of typical example of unofficial education. The Vietnam's farm promotion system has so far remained short of staff and budget. Only 30% of villages have farm promotion according to the Public Expenditure Magazine 2000. As a result, to renew and diversify forms of unofficial education boost is a must to stimulate farmers' loans from the official credit market.

Furthermore, what are the relations between official and unofficial education in their effects on farmers'

loans? If the schooling years are higher, are the effects of unofficial education greater? Our analysis reveals that the higher the official education is, the smaller effects on loaning the unofficial education has. This may be interpreted as follows: when the householder are high educated, they will train themselves with papers and books and need not participate in farm promotion courses, therefore the effects of unofficial education on these farmers are smaller. In the meantime, the farmers with low human capital often take part in unofficial courses, the effects of unofficial education on their borrowing is thus larger.

3. Conclusion

From the above analysis, we draw a conclusion as follows:

-The higher human capital they have, the more loans the farmers take from the official credit market.

-The unofficial education has greater effects on private farmers' access to official credit in comparison with the official education.

-There is a substitute effect between official and unofficial education in the farmers' borrowing from the official financial institutions in Vietnam's rural areas.

Based on outcomes in the research, we have suggested some measures and policies to promote the households' access to official credit such as simplifying lending procedures, and enhancing both official and unofficial education for farmers. The dissemination of information about prices and markets to farmers should be boosted in unofficial education. ■

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