

# DEMAND FOR AND EFFICIENCY OF RURAL CREDIT IN HỒNG NGỰ DISTRICT OF ĐỒNG THÁP PROVINCE

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In Vietnam's rural industrialization and modernization at present, capital for production is now an urgent problem. Nevertheless, the funding shortage is prevalent in rural areas. As such, farmers are badly in need of money for production and business.

To evaluate the credit requirement and development trend in rural areas, we have conducted a survey on demand for and efficiency of rural credit in Hồng Ngự District, Đồng Tháp Province.

## I. FACTS OF RURAL CREDIT SYSTEM IN HỒNG NGỰ DISTRICT

### 1. Rural credit system

The investigation reveals the district rural areas remain two credit systems including official and unofficial systems

a. The official system includes:

- The Hồng Ngự District-based Branch of Bank for Agriculture and Rural Development is an institution associated to the Đồng Tháp Province Bank for Agriculture and Rural Development.

- The Hồng Ngự District Bank for the Poor is a branch of the Đồng Tháp Province Bank for the Poor.

- The Rural Joint Stock Commercial Bank is a collective credit institution located in rural areas and founded by shareholders.

- The Hồng Ngự District Branch of Bank for Industry and Commerce is a transaction office among four offices of the Đồng Tháp Province Bank for Industry and Commerce. It is an only district of Đồng Tháp Province having a branch of the Bank for Industry and Commerce.

- The group of saving women includes 30 to 50 women aged from 18 to 50 with permanent residence in the district. It is established in the principle of voluntariness with the aim of mutual assistance in life.

b. Unofficial credit organizations include:

- Usury activity: This is the earliest form of credit, it grows strongly and is dominant in the underground credit market. It is common in rural areas, especially in remote areas where the official credit institutions are not strong enough or lacking. This is really a pattern providing short-term loans with interest rates higher than market rates (from 10 to 20% per month). There are two kinds of lending in cash or kind.

- Mortgaged loan: usury requires no collateral but mortgaged loan requires collateral including appli-

ances, commodities, and jewelry... It is of short-term loans provided by pawn-brokers. This credit serves mainly personal spending.

- Tontine: in addition to usury and collateral lending, there is another way of lending, namely tontine. It offers both short-term and long-term loans in cash or in kind.

- Short sale of products: this form is very popular in rural areas. Before harvesting farmers usually need money to spend, for example, buying fertilizer and insecticide, hiring labor... Financiers often make the best use of this opportunity to provide credit in the form of short sales of farmers' plants and animals with prices equal to a half or two-thirds of those just at the harvest. The most popular are short sales of paddy rice.

Table 1: Loan demand of farmers in Long Khánh and Bình Thạnh Villages in 2000

| Objective              | Demand for loan  |          |                   |                       | Percentage |           |
|------------------------|------------------|----------|-------------------|-----------------------|------------|-----------|
|                        | Money (VND mil.) | Families | Amount per family | Amount per ha or raft | By amount  | By family |
| Rice growing           | 4,996.0          | 2,803    | 1,782             | 4,000                 | 24.47      | 48.00     |
| Non-rice crop          | 2,164.8          | 838      | 2,538             | 8,000                 | 10.43      | 14.35     |
| Breeding fish in rafts | 10,800.0         | 108      | 100,000           | 100,000               | 52.03      | 1.85      |
| Breeding pigs          | 1,934.0          | 1,934    | 1,000             | 5,000                 | 1.85       | 33.11     |
| Others                 | 863.5            | 157      | 5,500             |                       | 4.16       | 2.69      |
| Total                  | 20,758.3         | 5,840    |                   |                       | 100.0      | 100.0     |

Table 2: Structure of borrowing objectives

| One objective          |        | Two or more objectives    |        |
|------------------------|--------|---------------------------|--------|
| Objective              | %      | Objective                 | %      |
| Rice growing           | 48.00  | Rice, non-rice crop, fish | 1.84   |
| Non-rice crop          | 14.35  | Rice, pig                 | 20.50  |
| Breeding fish in rafts | 1.85   | Rice, non-rice crop       | 12.80  |
| Breeding pigs          | 33.11  | Rice, fish                | 1.50   |
| Others                 | 2.69   | Pig, fish                 | 2.40   |
|                        |        | Pig, non-rice crop        | 28.90  |
|                        |        | Non-rice crop, fish       | 1.80   |
|                        |        | Rice, others              | 30.26  |
| Total                  | 100.00 |                           | 100.00 |

**Table 3: Local credit institutions' lending capacity**

| Objective        | Demand              |        | Lending capacity    |        | Percentage |        |
|------------------|---------------------|--------|---------------------|--------|------------|--------|
|                  | Money<br>(VND mil.) | Family | Money<br>(VND mil.) | Family | Money      | Family |
| Rice             | 4,996.0             | 2,803  | 2,248.2             | 1,264  | 45%        | 45.1%  |
| Non-rice<br>crop | 2,164.8             | 838    | 1,385.47            | 535    | 64%        | 63.9%  |
| Fish<br>breeding | 10,800.0            | 108    | 2,160.00            | 21     | 20%        | 19.4%  |
| Pig breeding     | 1,934.0             | 1,934  | 1,131.39            | 1,131  | 58.5%      | 58.5%  |
| Others           | 863.5               | 157    | 107.07              | 20     | 12.4%      | 12.4%  |
| Total            | 20,758.3            | 5,840  | 7,032.13            | 2,971  | 33.88%     | 50.87% |

**Table 4: Capital use efficiency in rice production**

| Indicator                                      | Unit | Result    |
|--|------|-----------|
| 1. Production cost                             | VND  | 6,000,000 |
| 2. Self-provided capital                       | -    | 2,000,000 |
| 3. Bank loans                                  | -    | 4,000,000 |
| 4. Bank interests                              | -    | 210,000   |
| 5. Total output value                          | -    | 7,500,000 |
| 6. Agriculture tax/ha                          | -    | 450,000   |
| 7. Net income                                  | -    | 840,000   |
| 8. Net income/production cost                  | %    | 13.5      |
| 9. Output value/one dong of<br>production cost | %    | 1.25      |
| 10. Net income/loan capital                    | %    | 21        |

**Table 5: Capital use efficiency in fish breeding (one fish raft)**

| Indicator                                    | Unit | Result      |
|--|------|-------------|
| 1. Production cost                           | VND  | 216,000,000 |
| -Breed (20,000 fishes, VND8,000/fish)        |      | 160,000,000 |
| -Feed (10 months, 3.5 kg/fish)               |      | 56,000,000  |
| 2. Raft building cost (depreciation cost)    | -    | 5,000,000   |
| 3. Bank loan                                 | -    | 100,000,000 |
| 4. Bank interest                             | -    | 17,500,000  |
| 5. Output value<br>(26 tonnes, VND15,000/kg) | -    | 390,000,000 |
| 6. Net income                                | -    | 151,000,000 |
| 7. Net income/production cost                | %    | 68          |
| 8. Output value/one dong of cost             | %    | 1.76        |
| 9. Net income/loan capital                   | %    | 151         |

## 2. Demand for loans and providing capacity

### a. Demand for loans

The local farmers' demand for loans is indicated in the following table:

### 2.2 Loan providing and lending capacity

The following figure shows the Bank for Agriculture and Rural Development and other credit institutions cannot meet production families' requirements for loans. The Bank for Agriculture meets only 56% of total demand and other institutions 6%. As a result, farmers have to borrow money from usurers.

### c. Lending capacity

## 3. Credit efficiency

### a. Efficiency of using capital in production

### b. Fish breeding efficiency

## 4. Remark

The survey and analysis indicate although rural credit has experienced a robust growth over the last years, the Bank for Agriculture and Rural Development meets only loan requirements of 50% of total

families and other credit institutions 6%. So usury is still persistent and making up a rather large percentage. Farmers' rice growing and fish, pig breeding have brought profits to farmers. The ratio of net income to production cost is 13.5% in rice growing; 30.9% in pig breeding and 68% in fish breeding.

As a result, the official credit network should be enhanced to meet loan requirements of production families, only by doing so, can usury be restricted and farmers' living standard improved.

The capital use efficiency reveals if farmers have enough capital and use it in accordance each plant and animal, the efficiency is very high. Credit institutions are required to renovate their lending methods. When they extend the credit network to village and study borrowing duration and appropriate interest rates, they will achieve good results.

## II. CONCLUSION

Đồng Tháp is one of the country's major food areas. Nevertheless, its ratio of poor farmers remains high. Capital for production is seriously lacking, so farmers are forced to bor-

row money from usurers and accept short sales of rice and consequently they become poorer. Just because of this, capital for production is now an urgent problem to the Đồng Tháp Province credit system.

The survey indicates farmers' demand for loans is very high. In spite of their great efforts, credit institutions meet only 70% of total requirements. Therefore, banks and other institutions have to expand their services. Only by doing so, can they reduce usury in rural areas and improve farmers' living standard. ■

## REFERENCE

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3. *Documents of the conference of national bankers*, January 1996.
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**Figure 1: Shares of loan providers**

