DETERMINANTS OF PERFORMANCE OF RURAL FINANCIAL INSTITUTIONS IN VIETNAM WITH SPECIAL REFERENCE TO THE MEKONG DELTA

by

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ABSTRACT

In the context of Vietnam, agriculture has played a key role in economic growth in the past decade. Meanwhile, many farmers depend on the informal sector in which interest rates still remain extremely high in relation to those of the formal sector. Moreover, most of the formal institutions are more likely to focus first on wealthier customers who can offer collateral for loans. Therefore, it is important to identify the determinants of the performance of rural financial institutions. The prime objective of this study is to explore the nature of factors affecting the performance of rural financial institutions in Vietnam. The determinants of the performance were examined using the Mekong Delta as a case study.

As a background to the study a comprehensive review of available literature on theoretical and empirical aspects of rural credit markets in the developing countries was undertaken. It was found that for the analysis of the performance of Vietnam's rural financial markets an amalgam of the theories so far presented is more suitable.

In this study performance was measured by the achievement in providing loans to rural households by outreach programs, default rates, SDI's, profits and sustainability in providing loans to rural households by informal lenders as well as Formal Rural Financial Institutions (FRFIs). Most of the readily available data sets do not provide much useful information regarding determinants of their performance. Therefore, surveys of rural households and FRFIs were conducted in the Mekong Delta. Some descriptive analyses and econometric models were used to evaluate significant factors affecting the performance of the institutions. We found that the informal lenders were successful in the provision of credit to rural households particularly in the credit markets, which were segmented along geographical and kinship lines. Meanwhile, the performance of FRFIs depends on two groups of factors: internal and external. The internal factors included mechanisms of screening the borrowers, incentives to repay, mobilization of savings, and structure of organization. The external factors were effects of government policies on interest rates and rural infrastructure. Among these factors, incentives to repay and mobilization of savings were found to be prime determinants. The policy implications of these findings and the possible outcomes from implementation of alternative policies have also been discussed.