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Vietnam: Credit Supply in Rural Areas I

Ex-post evaluation

OECD sector	Agricultural financial services / 31193	
BMZ project number	1996 65 837	
Project executing agency	Vietnam Bank for Agriculture and Rural Development (VBARD)	
Consultant	./.	
Year of evaluation	**2003**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	1st quarter 1998	1st quarter 1998
Implementation period	18 months	36 months
Finance, of which FC funds	5.1 million EUR	5.1 million EUR
Other institutions/donors involved	None	None
Performance rating	**Rating 4**	
• Significance/Relevance	Rating 3	
• Effectiveness	Rating 4	
• Efficiency	Rating 4	

Brief description, overall objective and project purpose with indicators

The overall objective of the project consisted in improving the income of rural families (borrowers) by granting personal loans for investment. The purpose of the project was successful lending for investments (including loans for operating inputs) to borrowers and their use of these facilities. The project area is made up of five rural provinces with an above-average poverty index where resource conservation projects are already being carried out by German development cooperation. The loans are issued by the Vietnam Bank for Agriculture and Rural Development (VBARD).

Owing to the close link between project purpose and overall objective, the overall objective was to be deemed to have been achieved with the achievement of the project purpose. The indicator for the attainment of the project purpose and overall objective was defined as a *timely* repayment rate of at least 90%. VBARD records the repayment rate for the credit funds set up in the FC project as ranging between 91% and 95% (1999 - 2001). This (exaggerated) figure is of very little informational value, because during the period under review the repayments anticipated ex-ante have been corrected by many undocumented 'adjustments' in an intransparent way. Based on surveys by the evaluation mission the *actual* repayment rate is estimated as well under 90%. Moreover, due to the weak loan monitoring system and lack of incentives for *timely* repayment, the *actual* repayment rate ought to be well below the indicator defined as timely repayment rate. The project therefore fell far short of the indicator for project purpose and overall objective achievement. The informational value of the benchmark chosen as indicator, 'repayment rate', is a critical point. More to the purpose would have been the use of the portfolio at risk (defined as delinquency > 90 days) as an indicator. Based on analyses by the World Bank and their own surveys, the evaluation mission for the credit fund from FC finance came to an estimate of 20-25%.

Project design/Major deviations from original project planning and their main causes

The project target group is defined as the part of the population able to make profitable investments that are eligible for finance. At project appraisal it was expected that the credit line would be made use of for the most part by poorer sections of the population. This was not the case, however. A particular reason for this is that the poor population has access to loans on favourable terms from the Bank for the Poor. This issues loans of up to VND 7 million (approx. EUR 443) at subsidized interest rates that are about half the rates charged by VBARD. With FC funds under discussion here nearly 74,000 loans were granted to households that were well above the poverty line and most of which already had access to the formal banking system via VBARD. The loans were used to finance various investments in small animal husbandry and agriculture. In part, the investments enabled a diversification of the household income base.

The real economic impacts of the project are largely beneficial. Most of the borrowers were able to raise their income thanks to the investive measures. The project purpose, successful lending for investment (including operating loans) to borrowers and their use of the facilities was achieved with definite shortcomings, particularly due to the restricted institutional efficiency of VBARD. The overall objective of improving the income of the borrowers was largely achieved, with the proviso that part of the target group had access to adequate finance.

Key results of impact analysis and performance rating

Summarizing all the above cited impacts and risks, we assess the developmental effectiveness of the project as follows:

a) Effectiveness

The project purpose, successful lending for investment (including operating loans) to borrowers and their use of the facilities was achieved with distinct shortcomings, particularly due to the restricted institutional efficiency of VBARD. A positive point is that the FC funds revolved 3.1 times. In recent years, however, VBARD has not managed to achieve full-cost recovery in lending business or even progress towards becoming a self-sustaining cost-effective financial intermediary. On the contrary, business volume growth over the last five years has not made a profit, which is ultimately why the bank's equity capital has been completely exhausted. To continue doing business, VBARD has to rely on ongoing capital replenishment from the Vietnamese government. We therefore assess the sustainable **effectiveness** of the project as **insufficient** (**Subrating 4**).

b) Significance/Relevance

The project can rate as relevant. Inadequate capital resources of households in rural areas remains a major constraint on raising productivity and generating additional income for farming households. The project made a contribution to creating income and employment in rural households. The overall objective of improving the income of the borrowers was largely achieved. In financial terms, however, the project was not significant enough. The policy of cost-ineffective, subsidized interest rates and the rather lax loan monitoring have adverse structural impacts on the financial sector. Overall, we attest the project a **sufficient significance/relevance** (**Subrating 3**).

c) Efficiency

Altogether, we gauge the production efficiency of VBARD to be insufficient. The operative efficiency of VBARD can rate as satisfactory in connection with the bulk of business, cost-intensive personal lending to the agricultural sector. A problem is, however, that VBARD does not earn a sufficient margin to cover the finance costs, the administrative costs and the loan losses as well as additional equity capital to expand business volume. The deficient management information system does not enable VBARD to obtain informative, adequate and timely information on the loan portfolio in line with international accounting standards (portfolio at risk, repayment, etc.) nor to actively manage and control the development of the loan portfolio. Due to unsatisfactory loan monitoring and lack of incentives for borrowers to repay loans on time in conjunction with inadequate liquidity management, the loan portfolio revolves much slower than the existing demand for credit would give grounds to expect. We therefore also assess the allocative efficiency as insufficient. Overall, we gauge project **efficiency** to be **insufficient** (**Subrating 4**).

Weighing up the effectiveness, efficiency and significance/relevance, we rate the project's **developmental effectiveness** overall as **insufficient** (**Rating 4**).

General conclusions applicable to all projects

We recommend that the executing agency align reporting on the ongoing project (Lending and Savings Programme in Rural Areas, BMZ No. 2000 66 316) with indicators for portfolio at risk and repayment rate in accordance with international accounting standards.

Consideration should also be given to the possibility of complementing the above ongoing project with a training measure to strengthen the management information system and train loan officers for adding to and analyzing the loan records and maximize the flow of information between the different levels of VBARD. As a pilot project, the training measure could for example concentrate on one province of the ongoing project.

As part of possible additional FC assistance, VBARD should be given support in remedying the institutional weaknesses cited (e.g. in a flanking measure).

It should be made clean to the political agencies involved that lending is not a suitable instrument for the neediest sections of the population. What is needed here is an intelligent social policy. Loans should be granted on commercial terms. Heavily subsidized lending facilities, such as those offered by the Bank for the Poor, hamper the development of structures for effective pro-market financial relationships in a financial institution geared to the target group.

Key

Developmentally successful: Ratings 1 to 3
Rating 1   Very high or high degree of developmental effectiveness
Rating 2   Satisfactory degree of developmental effectiveness
Rating 3   Overall sufficient degree of developmental effectiveness

Developmental failures: Ratings 4 to 6
Rating 4   Overall slightly insufficient degree of developmental effectiveness
Rating 5   Clearly insufficient degree of developmental effectiveness
Rating 6   The project is a total failure

Criteria for evaluating project success
The evaluation of a project's developmental effectiveness and its assignment in ex-post evaluation to one of the various levels of success described in more detail below addresses the following fundamental questions:

- Have the **project objectives** been reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental impacts** (project **relevance** and **significance** measured by the achievement of the predefined overall developmental objective and its political, institutional, socio-economic, socio-cultural ecological impacts)?
- Was/Is **funding/expenditure appropriate** for achieving the objectives and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of project design)?
- Where undesired **(side) effects** have occurred, are these acceptable?

Instead of treating **sustainability**, a key aspect in project evaluation, as a separate category, we look at it as a cross-sectional element of all four fundamental questions on project success. A project is sustainable if the project executing agency and/or the target group can continue to use the project facilities set up for an economically viable period of time in all or to carry on with the project activities on their own to beneficial effect after financial, organizational and/or technical assistance has ended.