

# Community Development Approach under Local Initiative to Support Vulnerable Households – A Case Study of “Micro-Credit” Run by Women’s Union, Central Vietnam

Le Thi Thuy Hang

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## 1. BACKGROUND AND OBJECTIVES

Central Vietnam is one of the poorest regions in Vietnam with high poverty rate of 20.4% where is also a disaster-prone area (GSO, 2010 and SRV, 2004). As a result, local people are more vulnerable to risks of natural disasters and to poverty; especially the poor, the elderly, the widow or the disabled who lack the means or capacity to cope. In order to reduce risks and shocks, local people diversify income sources as an important way to enhance their household income; however, they are lacking financial resources to develop their livelihood activities.

The study focuses on the following objectives (1) To grasp livelihood activities which support household’s income; (2) To know situation and access to credit; and (3) To examine the effectiveness of “micro-credit” to support vulnerable households.

## 2. METHODOLOGY

The study was carried out from August to September 2011 and from January to February and September 2012 in Huong Phong commune, Thua Thien Hue province, Central Vietnam. The main methods are reviews of documents, household survey, in-depth interviews and key informant interviews.

## 3. RESULTS AND DISCUSSION

Although agricultural activities are considered as major livelihoods in Huong Phong commune, the income from these livelihoods occupies low percentage rate in total household’s income due to high risks such as occurrence of natural disasters, price fluctuation of agricultural products and so on. As a result, the three household groups involved in various non-agricultural activities as a possible way to diversify income sources to cope with risks and shocks. Four out of fifteen non-agricultural activities that are masonry, tailoring, hired labor and small business dominate in the study site. The study indicated that the income from non-agricultural activities significantly contributes to total household’s income. The proportion of the income from non-agricultural activities accounted for 74.0%, 65.0% and 69.2% compared to total household’s income of the “non-poor”, “moderate” and “poor” household groups, respectively. The participation level of the three household groups in non-agricultural activities depends on household’s capability.

In Huong Phong, nearly 87% of 90 households surveyed were in need of credit to meet their various purposes. The evidence showed that the percentage rate of the “non-poor” household group accessible to Vietnam Bank for Agriculture and Rural Development (VBARD) is 50% much higher than the “moderate” and “poor” household groups of nearly 14% and 15%, respectively. Moreover, the proportion of the “non-poor” household group accessible to Vietnam Bank for Social Policies (VBSP) is almost twofold than that of the “moderate” and “poor” household groups. This means that the “non-poor” household group has more opportunities to access to credits from formal financial institutions compared to the “moderate” and “poor” household groups. In order to solve the growing demands for credits, local people have to access to credit from informal financial institutions such as “buy on credit” schemes, local moneylenders or relatives. The results revealed that the “moderate” household group who “buy on credit” accounts for the highest rate (53.3%) among the three household groups. However, informal financial providers charge much higher lending rate compared to formal financial providers. This makes the “moderate” household group poorer and more vulnerable. The study presented that small business is one of the non-agricultural activities, which could generate household’s income, needs credits for development and expansion.

Under the JICA project called “Enhancing Community Resilience and Livelihood Security to Cope with Natural Disasters in Central Vietnam”, the “micro-credit” activity in Huong Phong commune started operating in August 2008 to offer the small loans for 9 poor women borrowers into small business. The results showed that the income comparison of 9 households taking the credits dramatically improved at minimum 40% and maximum 233% from loan utilization. 100% of borrowers could return loan principle and interest rate on schedule. The reasons are that appropriate loan size and interest rate as well as a good loan repayment method. Furthermore, the lending scheme of the “micro-credit” activity could attain financial viability when it has been run by Women’s Union.

## 4. CONCLUSIONS

Local people have difficult access to credit because formal institutions require physical collateral and informal institutions require too high interest rate. In this case, “micro-credit” is effective for the poor. The Women’s Union learnt how to manage the “micro-credit” activity. The Women’s Union newly fosters sense of responsibility to support vulnerable households.