

Ripon College

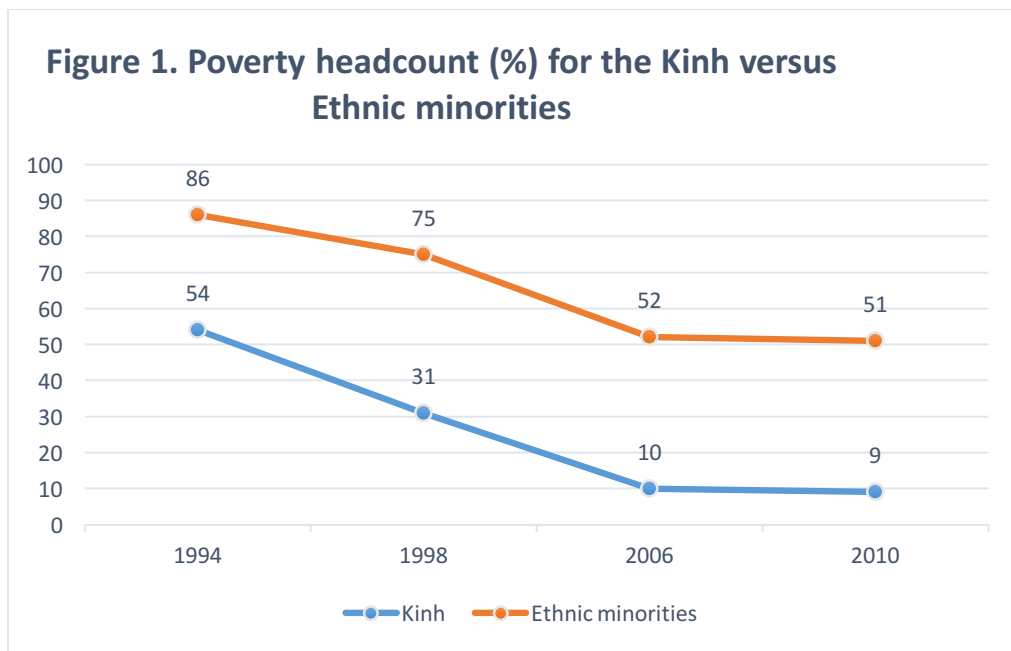
**Is Microfinance a Potential Solution to Extreme Poverty of
Ethnic Minorities Inhabiting the Central Highland of Vietnam?**

Ngan Tran

March 15th 2017

1. Introduction

Since the economic reform "Đổi Mới" in 1986, Vietnam's economy has made remarkable progress, which has increased Vietnam's standard of living significantly. According to Vietnam Household Living Standards Survey data from World Bank Report (2009), before the economic reform, nearly 60 percent of the population was living below the poverty line; by 2006, that figure had dropped to under 20 percent (p. 1). However, the additional wealth has not been shared equally between ethnic groups. As can be seen from figure 1, the ethnic Vietnamese majority, known as the Kinh, have a poverty rate of only 9 percent, while other ethnic groups have a 51 percent poverty rate in 2010. Among the most impoverished are the Degar, also known as Montagnards or Highlanders, the ethnic minorities that inhabit the Central Highlands of Vietnam.



Source: Baulch et al. 2004

In other parts of the world, microfinance has been proven to provide a high potential as a tool for poverty alleviation since its start in Bangladesh in the 1970s. Microfinance programs aim at giving access to financial services to impoverished borrowers that are considered un-creditworthy by traditional banks. Microfinance covers a wide range of services; not just microcredit but also savings, insurance and fund transfers. The loans obtained through microfinance help low-income households acquire necessary capital goods to generate income. Microfinance also provides opportunities of extending education and jobs as well as improving the quality of life. Families that receive microloans are less likely to pull their children out of school for economic reasons. The excess capital can also be used for house renovation, or expenditures around the house including medical services, purchasing of vehicles, etc.¹

The microfinance industry in Vietnam has experienced rapid expansion in recent years. The rate of the number of customers served by microfinance institutions (MFIs) has gone from 1% of total population in 2004 to 21% in 2012, exceeding Asia's average of 18% (Mix Market, 2013). However, the expansion to credit has not reached the ethnic minorities. Ethnic minority groups only accounted for 29.3% of the customers of MFIs surveyed by Nghiem and Laurenceson (2005). This is proportionally small compared to the percentage of households that live below the national poverty line with heads coming from ethnic minorities. Surveys by Baulch et al. reported that the poverty headcount of

¹ There is considerable evidence to support this view. Guirkingner (2008) argued that loans are very important for agriculture production in disadvantaged rural areas where savings are difficult to accumulate. Collins et al. (2009) also believed that having sources of reliable and reasonably-priced financial tools would improve the situation of the poor.

minorities in Northern Uplands other than Tay-Thai-Muong-Nung was 72.4%² and the poverty headcount of the Degar was 73.6% (2006). Although there is a large untapped demand for financial services tailored to the needs of ethnic minorities, only larger schemes of MFIs focus exclusively on this targeted group. The explanation given by MFIs is that there is little use for cash financing due to ethnic minorities' heavy dependency on subsistence agriculture. MFIs also cited high transaction cost due to ethnic minorities' residence in remote mountainous areas as one of the reasons (Nghiem and Laurenceson, 2005).

In an attempt to explain why the Degar have severely lagged behind national standards of living, I have looked at social, political and cultural factors that hinder development. Many aspects of the differential in household income between the Kinh and the Degar cannot be explained by poorer endowments or residence in remote mountainous areas. Kinh living in remote areas are doing relatively well compared to neighboring minorities (World Bank, 2009). Therefore, I find it more convincing to attribute the severe poverty experienced by the Degar to political underrepresentation and social discrimination. The resettlement programs that displaced millions of people after the two wars of the 20th centuries have had severe impacts on the traditional way of living of the Degar. Also, the Degar are still subject to stereotypes that portray them as backward, superstitious and conservative, which have negative consequences on their self-worth and discourage them from voicing their opinions. These stereotypes are also manifested in

² This refers to the Tai-Kadai and Tibeto-Burman groups. Among the ethnic minorities that live in the Northern Uplands, the Tay-Thai-Muong-Nung are doing considerably better than the rest of them. They have a poverty rate of 45.2%, which is only second to the Khmer-Cham's rate of 34.6% (Baulch et. al, 2006).

blaming failings of development in the highlands on alleged defects in the cultures of ethnic minorities.

In this paper, I will argue that the poverty experienced by the Degar is being conditioned by social and political factors, and that microfinance has a potential to alleviate the problem. The paper is structured as follows. The first section provides a background on The Central Highlands and the Degar. The second section explores the consequences of political and social events in the past that still haunts the development of the Degar till today. The third section presents causal factors of poverty to pave the way for an introduction of microfinance as a potential tool to alleviate poverty. The fourth section surveys the current scheme of MFIs in Vietnam and their impact. The last section offers reflections and proposals for the future.

2. Background on Central Highlands and the Degar

The Central Highlands (*Tây Nguyên*) is the region of Vietnam bordering the lower part of Laos and northeastern Cambodia. It contains the provinces of Đắk Lắk, Đắk Nông, Gia Lai, Kon Tum, and Lâm Đồng. The region's total population has reached 5,282,000 in 2009, with the Kinh majority accounting for 64.7%. The local ethnic minorities make up 35.4% of the total population of the region, which indicates a significant decline compared to the figure of 85% in 1954 (General Statistic Office of Vietnam, 2009). The 30 or so Degar tribes in the Highlands speak languages drawn primarily from the Austroasiatic and Austronesian language families. The main tribes, in order of greatest to least population, are the Jarai, Rade, Bahnar, Koho, Mngong, and Stieng. The Degar tribes only account for 3% of the total population of Vietnam, but they along with the ethnic minorities in the

Northern Upland are the ones whose standards of living most severely lag behind the national standard (Dang, 2012).

The native inhabitants of the Central Highlands are the Degar. After the thousand-year-long struggle against the Chinese that ended in 938, Vietnam expanded its territory through the “march to the south”, or *Nam tiến*. In a span of 700 years from the 11th century to the mid-18th century, Vietnam tripled its territory in size and acquired its shape of today. Through *Nam tiến*, Vietnam conquered and invaded the Central Highlands. However, prior to the French rule, the Central Highlands were hardly entered by the Kinh because of their negative perception of the region (Desbarats, 1990). Being isolated by the forested mountains of the region, the Degar did not adopt a lot of the traditions from the Kinh, and hence were considered backward and referred to pejoratively as “mọi” or “savages.” Economic exchange was sporadic and limited in volume, and few settlements took place due to fear of malaria and tribal attacks. After the French successfully transformed the region into a profitable plantation area to grow industrial crops on, the Kinh started to recognize that the Central Highlands were endowed with rich natural resources from the forests and minerals. Also, the region holds crucial geographical importance due to its bordering Laos and Cambodia. These factors resulted in more interests in the Central Highlands, followed by state-sponsored resettlement programs that changed the demographics of the region substantially.

The first massive resettlement of Kinh took place after the defeat of the French in 1954. The Geneva Accords of 1954 which resulted in the partition of Vietnam at the 17th parallel north, allowed a 300-day period of free movement between the two Vietnams

before the border was sealed. North Vietnamese, especially Catholics, intellectuals, business people, landowners, anti-communist democrats, and members of the middleclass moved south of the Accords-mandated ceasefire line. It was reported that at least 892,876 North Vietnamese were processed through official refugee stations, while journalists estimated that as many as 2 million might have fled (Turner, 1975, pp. 102-103). Within a few years the area was severely deforested as new settlers cleared the forest to plant industrial crops. The second mass exodus took place after the fall of Saigon. The “New Economic Zones program” was implemented by the Vietnamese communist government after national reunification in 1975. Between 1975 and 1980, more than 1 million northerners migrated to the south and central regions of Vietnam. Properties of evicted southerners and central highlanders was confiscated, collectivized and then redistributed to former Viet Cong and members or affiliates of the North Vietnamese communist party. The communist government also attempted to relocate the Degar to the valleys to grow rice and industrial crops, rather than continuing their nomadic life in the highlands through the “Fixed Cultivation and Sedentization Program” (*Định canh định cư*).

3. Repercussion of past events

The population density in the Central Highlands doubled in a span of 10 years from 1979 to 1989 (Rambo et al., 1995, p.xxiv). This massive population increase in the area caused significant disruption to agricultural practices. The soils in the Central Highlands are of inferior quality with poor structure, lower nutrient levels and higher vulnerability to erosion. After a few years of cropping, the fields need to remain fallow for long periods to restore their fertility. Thus the traditional systems of rotational swidden agriculture as

practiced by many ethnic minorities were well adapted to the conditions of the land. In this type of swidden agriculture, “a new field is cleared from the forest, cultivated for one or two years, and then fallowed for ten to twenty years to allow the forest to regenerate before it is again cleared and farmed for a couple of years in an essentially endless cycle” (Rambo et al., 1995, p. xvii). For each cultivated hectare, there must be a reserve of ten to twenty hectares of fallow forest. These fallow areas are not vacant or unused land but instead are an integral part of the general system of rotational swidden agriculture. However, after the resettlement programs took place, Kinh development planners carried out land reforms that took away a lot of these large fallow areas, which are seen as vacant wasteland. Highland minority groups were only entitled to the small area of fields currently under cultivation. The loss of fallow areas forced the swidden farmers to lengthen the period of cultivation of each plot and shorten the fallow period, which destroyed the balance of the farming system and resulted in rapid land deterioration. Rambo et al. (1995) concluded that the current crisis in highland subsistence agriculture was not a result of inherent flaws of swidden agriculture but was instead generated by land reforms introduced by the Kinh who failed to recognize the rational basis of agriculture practices of the Degar.

Besides the massive relocation programs, other events in the twentieth century have also shaped the social and political condition of the Degar. In 1950, the Central Highlands was established as an autonomous region – the Pays Montagnard du Sud – by the French following the classic divide-and-rule strategy (Sagar, 1991). The French tried to unite the disparate minorities in the Central Highlands and create a collective Montagnard identity among them. They also emphasized the difference between the Degar and the Kinh,

and encouraged the Degar's sense of grievance against the Kinh. The Pays Montagnard du Sud was administered directly under Emperor Bao Dai. In 1951, Emperor Bao Dai signed an edict, known as the *status particulier*, to establish special status for the Degar. The edict guaranteed the Degar all the rights of Vietnamese citizens as well as as the right to "free evolution of these programs in the respect of their traditions and of their customs" (Jones et. al, 2002). Montagnard autonomy advocates still cite these documents to promote independence for the Degar.

When the French withdrew from Vietnam and recognized the Communist government in 1954, Degar political independence was drastically damaged. In 1958, the Degar launched a movement known as BAJARAKA to unite the tribes and demand autonomy. They organized a political and military force within the Degar communities known by the French acronym, FULRO, or United Front for the Liberation of Oppressed Races (Tucker, 2011). During the Vietnam War, both South Vietnamese and American policy makers saw the Degar as a potential ally to stop Viet Cong activities in the region and prevent the supply line for Viet Cong forces in the south from North Vietnamese through the Ho Chi Minh trail. As a result, the U.S. military, particularly the Special Forces, developed base camps in the area and recruited the Degar. Approximately 40,000 Degar people fought alongside American soldiers. (U.S. Army Audiovisual Center, 1966). After the fall of Saigon in 1975, thousands of Degar fled to Cambodia and attempted to immigrate to the U.S. The U.S. military settled around 2,000 Degar in the United States, primarily in North Carolina. The rest of the the people who had worked with U.S. Special Forces or FULRO were sent to re-education camps. Till today, the Degar are among the most

persecuted of all ethnic minorities because of their parents' or grandparents' involvement in the Vietnam War.

The Degar's religious affiliation also puts them in a disadvantaged situation. French missionaries converted some Degar to the Catholic Church in the nineteenth century, and American missionaries converted more to Protestantism in the 1930s. Of the one million Degar today, close to half are Protestant, and around 200,000 are Roman Catholic. Even though the constitution of Vietnam officially provides for freedom of worship, the government has imposed a range of legislation restricting religious practices (The National Catholic Review of America, 2016). Christian Vietnamese cannot join the police force. Also, they are almost never admitted to the Communist Party, which obstructs their advancement, especially in state-owned enterprises. However, it is worth noting the operation of "Dega Church", which reportedly mixes religious practice with political activism and calls for ethnic minority separatism. These mixed religious practices raised concerns and draw more negative attention from the Communist government, which resulted in more systematic discrimination and exclusion.

The Degar have always been faced with stereotypes that portray them as backward and inferior to the Kinh. They used to be called by derogatory terms like "savages" (mọi). Another term that they are usually referred as is "highlanders" (thượng) which has also developed a negative connotation. The racial discrimination, frustration from restricted freedom of worship, and deprivation of lands fueled massive protests and demonstrations by the Degar in 2001 and 2004. It was reported that some protesters were beaten and

killed during the demonstrations.³ Dozens of others were wounded and arrested. After these incidents, the Communist Party has become more cautious and considered ethnic minorities its top national security priority. Foreign charities and embassies are prevented from working in improving the situation in Central Highlands.

4. Factors of poverty

There are different and sometimes conflicting views on the causes of poverty of ethnic minorities. Baulch et al. (2009) pointed out that many Vietnamese social scientists share a common belief that the persistent poverty of ethnic minorities can be explained by “objective reasons” (isolated villages, poor soils, inadequate water, unfavorable climate), “subjective reason” (low educational levels, population pressure, shortage of capital, slow technical change), and institutional reasons (insufficient government policies, top-down administration). Other social scientists and policy-makers add “backward” socio-political institutions and customs to the list, hence suggest that the solution is for ethnic minorities to assimilate. To support their arguments, they frequently use the evidence of some ethnic groups who assimilate both economically and culturally into the Kinh majority. These minority groups like the Khmer or the Tay seem to be doing well while the Degar and the ethnic minorities that reside in the Northern Uplands are most reluctant to assimilate, and thus largely lag behind the national standard of living. This argument fails to recognize the socio-political differential among minorities. The Degar and the minority groups in the Northern Uplands are the largest ethnic minority groups in terms of population. Also, being isolated by the forested mountains of the region, these minority groups did not adopt a lot

³ Human Rights Watch documented the killings of 10 while Amnesty International documented 8 (ABC Radio Australia News. 2004). It is important to know that foreign reporters and diplomats were banned from the region during the protests.

of the traditions from the Kinh but instead cultivated their own cultures. The situation of the Degar is even more complicated, since they were the original inhabitants of the region, and the French acknowledged their autonomy by establishing the Pays Montagnard du Sud. The loss of land stemming from resettlement programs has already created friction between the Degar and the Kinh, which in turn fueled separatism efforts like the “Dega Church”. As a result, the Degar are among the most devoted to their original way of living instead of assimilating for economic benefits. Also the differential in household income among ethnic groups could be generated by other factors besides willingness to assimilate with the Kinh. One possible explanation is that the minority groups that are doing better financially like the Tay and the Khmer are less physically distinct than the Degar, hence less subject to racial discrimination. Another factor to consider is that these groups weren’t affected by the loss of land due to resettlement programs like the Degar. Further research is required beyond the scope of this essay to address factors that contribute to the income differential.

The view of minority cultures as backward are held by many Vietnamese policy-makers who advocate cultural conformity. The tendency to devalue indigenous knowledge is reinforced by the Marxist model of unilinear cultural evolution, which results in blaming failings of development in the highlands on alleged shortcomings in the cultures of ethnic minorities (Rambo et al., 1995). On the one hand, there is interest in maintaining and developing cultural identity, particularly dances, folklore and traditional dresses. On the other hand, development policies for the highlands are designed based on Kinh values. The standard textbooks tend to emphasize Kinh culture and history. Policies to expand education have led to a rapid increase in enrollment rates for ethnic minority children. However,

Vietnamese remains the dominant language taught in schools, and most textbooks donated to ethnic minorities through charity efforts are in Vietnamese. Jamieson (1996) argues that when policies are built upon prejudice and majority ethnocentrism, they can lead to greater marginalization.

Several researches attempting to explain the income discrepancy among ethnic groups cited lack of endowments as one of the causal factors of poverty. The Country Social Analysis (CSA) conducted by the World Bank (2009) concludes that there are six specific “pillars” of disadvantage that explain why minorities remain poorer, two of which are lack of productive lands and lack of capital. Kinh people tend to have higher value lands, which allow them to grow industrial crops while minorities continue to be dependent on low-value staple crops and traditional agriculture. Ethnic minorities are more likely to be poorly endowed with capital. This fact is reflected by their lack of access to financial services and lower receipts of remittances. Imai et al. (2011) and Tran et al. (2014) hold a similar view; they also identify land holding and location as important determinants of poverty.

However, the CSA report (2009) also called to attention to the fact that even though there are important differences in assets between the Kinh and minorities, assets alone can not explain minority poverty. By decomposing a set of expenditure regressions, Baulch et al. (2004) found that even if minority households had the same endowments as Kinh households, the gap in per capita expenditures would only shrink by one third. Besides the two factors of endowment mentioned in previous paragraph, two of the remaining four “pillars” of minority disadvantages identified by the CSA report are lower levels of

education and less social mobility. They argued that minorities are faced with many barriers that hinder them from reaching their potential. Ethnic minorities have less access to quality education than the Kinh. They live in remote areas, which makes it more difficult to travel to schools. Dropout rates remain higher for minorities (30% compared to 16% of the Kinh surveyed) (World Bank, 2009). Young children of minorities have little to no exposure to Vietnamese before they arrive at primary school, which puts them in a disadvantageous position when starting school. Most teachers in minority areas are Kinh, and few of them have the ability to communicate in local languages or provide bilingual education. Also, minorities report higher burdens for sending children to schools. The most common reason for dropping out of school by children is failing to pay school fees, particularly for informal charges for supplies, which are not usually covered under government educational subsidies. They also express hesitation to send kids to school because of the foregone physical labor that would otherwise contribute to household income. The other barrier that prevents minorities from fully reaching their potential is a lack of mobility and less experience of a wider world. Only 18 percent of ethnic minorities surveyed in the CSA report had ever ventured outside of their home province (2009). Many ethnic minorities cannot read, write or even speak the Vietnamese language, which limits their access to information or their ability to communicate with the Kinh majority.

Van de Walle and Gunewardena (2001) argued that there are deeper structural differences in the returns to endowments that explain income differential between the Kinh and ethnic minorities. They applied the Oaxaca-Blinder decomposition of wage inequality into two components: one due to differences in socio-economic characteristics and the other due to structural factors of differences in the returns to these characteristics.

Their finding is that about one-half of the expenditure inequality between the ethnic majorities and minorities is explained by socio-economic components and another half by structural components. Socio-economic characteristics include factors mentioned above such as endowments, access to education, access to financial services, etc. Structural factors can be current discrimination, past discrimination or historical processes. As discussed in earlier sections of the paper, multiple events, especially those that took place in the 20th century, have resulted in catastrophic repercussions like loss of land or political persecution. Past and current discrimination can have negative economic consequences. Because of discrimination, ethnic minorities would have more difficulty getting a job than another equivalently qualified individual. Also, discrimination would discourage ethnic minorities from engaging in trading activities or other off-farm activities involving interactions with the Kinh. Depletion of these potential alternatives to generate income makes it harder for ethnic minorities to escape persistent poverty.

Imai et al. (2011) pointed out that minority households are not only poorer but also more vulnerable to various shocks than Kinh households. Vulnerability of households to poverty is defined as the ex-ante risk that a household will, if currently non-poor, fall below the poverty line, or if currently poor, will remain in poverty (Chaudhuri et. al, 2002). The difference in vulnerability between ethnic majority groups and minority groups is much higher than the difference in poverty, which implies that ethnic minorities are much more vulnerable to various shocks (e.g., sudden weather changes or illness of household members). This finding indicates that government policies designed to improve household incomes may be inefficient in reducing poverty among ethnic minorities in the long run.

More attention should be given to the social safety net or insurance to protect the vulnerable ethnic minorities from shocks.

5. Microfinance as a potential tool to alleviate poverty

After looking at factors that contribute to the chronic poverty experienced by the Degar, microfinance appears to be a potential tool to alleviate poverty. Access to affordable credit will help expand agricultural production and diversify economic activities. Loans obtained from MFIs are not exclusive to production or investment purposes but can also be used for expenditures around the house. They will help ease the economic burdens of sending children to schools, which has the potential to increase school retention. This is particularly important since education has been proven to generate a high return in terms of poverty reduction. Lastly, given that a majority of the Degar are involved in the agricultural sector, microcredit is crucial for protecting the Degar from external shocks like natural disasters or unfavorable weather resulting in poor crop yields.

In fact, most ethnic minorities report a pressing need for credits. When the CSA survey asked respondents to identify the most prominent constraint in agricultural development, credit was the most chosen factor; it was far more important for ethnic minority groups. 81% of members of ethnic minorities see capital as a major constraint to agriculture, compared to 52 percent of the Kinh (World Bank, 2009). Although there is a large untapped demand for financial services tailored to the needs of ethnic minorities, surveys of existing microfinance institutions show limited focus on them. According to the CSA survey, 20 percent of Kinh had never taken out a loan, compared to 32 percent of ethnic minorities (2009). Another survey by Nghiem and Laurenceson reported that only

larger MFI schemes focus exclusively on ethnic minority groups. Since their demand for credit is not met by the formal sector, minorities resort to the informal sector and hence are more vulnerable to predatory lending. The private moneylenders usually offer loans with very high interest rates (10 percent or more per month) for short periods of time. These short-term high-interest loans are most common among Khmer in the Mekong Delta and the Degar in Central Highlands (World Bank, 2009). These loans can be highly detrimental. For example, when coffee prices dropped in the year 2000, many Rhade farmers could not repay their loans. In some cases, the lenders took the Rhade land, which had been used as collateral. Some Rhade families had to sell the lands to pay the debts, leading to increasing landlessness among the Rhade.

When credit is available, the most common place for minorities to obtain loans is the state-owned Bank for Social Policy (VBSP). For Kinh people, the most popular source is the state-owned Bank for Agriculture and Rural Development (VBARD). VBSP offers preferential credit for ethnic minorities. Ethnic borrowers pay an interest rate that is subsidized by the government which is lower than the commercial interest rate. Do and Nguyen (2015) looked at credit access in the Northern upland of Vietnam and reported that loan size varies significantly among different credit sources, as well as ethnicities. Ethnic minorities obtain considerably smaller loans in comparison with the Kinh for all credit sources. This could partly be explained by the fact that preferential loans for minorities mostly come from VBSP which has a credit limit policy. Also, credit from VBARD has higher interest rates and requirements for collateral (usually land use certificates), and thus is more frequently utilized by wealthier Kinh households.

Do and Nguyen raised concerns about the limited impact of credit, especially given the small size of the loans. They cited arguments made by economists that attempted to assess the impact of microfinance work done in Thailand and sub-saharan Africa. In a quasi-experiment conducted in Northeast Thailand in 1995-1996 that is designed to account for self-selection and endogenous program placement, Coleman (1999) found insignificant impacts of microloans on physical assets, savings, production, sales, productive expenses, labor time, and most measures of expenditure on health care and education. He also concluded that small loans serve primarily as consumption loans, especially when they are too small to invest productively because of economies of scale. Another attempt by Hermes and Lensink (2011) surveyed some small microfinance schemes in Asia and concluded that small loans have a higher probability of harming the poorest households, and that credit intervention by itself seems to have no significant impact.

Besides state-owned schemes, NGO schemes have also gained momentum in recent years. McCarty (2011) reported a rapid expansion of the microfinance industry, especially those sponsored by NGOs. The average waiting time for loan approval at non-governmental MFIs is a couple of days, and there is no physical collateral required, which make these schemes better able to serve the poor because they are more flexible than formal banking institutions. However, due to the specific characteristics of Vietnam as a communist country, the ability of non-government operators to be involved in the microfinance sector is limited. Nghiem and Laurenceson (2005), when conducting surveys and interviews with different stakeholders of MFIs in Vietnam to find their biggest concerns surrounding their operations, reported that most MFIs listed government as the number one problem. 93% of

MFIs were concerned about the extension of state-owned banks' subsidized credit. Interest rates offered by state-owned commercial banks are 0.7-0.8% while interest rates offered by MFIs is 1.28%. This becomes problematic when interest rate didn't reflect market equilibrium, but instead was arbitrarily low because of government subsidy. Interest rates offered by state-owned banks are more appealing to clients, especially the poor, but state-owned banks are less likely to provide services tailored to ethnic minorities because of reasons mentioned above, i.e. collateral requirement, credit limit policy, longer administrative time.

The second major constraint, raised by 82% of MFIs, is the regulatory framework surrounding MFIs. There was a decree released in March 2005 regarding the organization and operations of microfinance institutions in Vietnam, which set out a minimum legal capital requirement. For MFIs that accept voluntary deposits, the minimum legal capital is VND 5 billion (\$320,000), compared to the minimum requirement of \$60,000 - \$100,000 internationally. Nghiem and Laurenceson draw two possible scenarios for microfinance in Vietnam. The first scenario is that donors will cease donating to programs that fail to reach financial self-sufficiency, or some MFIS will be forced to close down for failing to reach minimum capital requirements. The second scenario is that MFIs will have to switch to more commercial objectives to survive, and will therefore diverge from their focus on poverty alleviation.

Despite its potential to alleviate poverty, the microfinance industry in Vietnam is faced with several constraints that limit its impact. State-owned schemes offer subsidized interest rates, but restrict the size of loans that minorities can obtain. Small loans may

show no substantial impact, and may result in more harm than benefit.⁴ NGO schemes are more flexible in their loan approval, but struggle to compete with the arbitrarily low interest rate set by the government. The legal framework surrounding MFIs also pose a major threat to small NGO schemes that can't meet the minimum legal capital requirements. Unless the government loosens its regulations, microfinance may lose some of its appeal as a potential tool for poverty reduction.

6. Reflections and proposals

Even though the microfinance industry has seen rapid expansion in recent years, a disproportionately small amount of attention have been paid to ethnic minorities. Also, very few studies have been done to assess the impact of credit on the wellbeing of ethnic minorities exclusively. Most of the papers of this nature are surveys of existing schemes which draw conclusions from qualitative evidence. If quantitative data is available, more studies that use econometric models to analyze data should be conducted to provide a better picture of the impacts of microfinance on minorities. Also, it is important to keep in mind that each ethnic minority is faced with distinct obstacles, even though they tend to share common experiences. Expanding upon one model of successful microfinance work into another minority should be done with caution.

Another problem is that some of the issues discussed in this paper are matters of considerable sensitivity. This paper does not attempt to undermine the improvements on ethnic minorities' standard of living that development polices have achieved in recent years. The government has made minority development a high priority and has paid a great

⁴ This view is shared among critics of microfinance. See Hermes & Lenskink (2011).

deal of attention to minority issues. However, alleviating poverty in minority communities in Vietnam is not as simple as solving an economic equation; it is rather a project with broad social and cultural dimensions (World Bank, 2009). There seems to be no consensus on the conduct of policies that will produce better development outcomes for ethnic minorities. This reflects the fact that policy-makers hold different and often contradictory views and opinions regarding minorities' situation. It seems clear that more national dialogues to address such issues should be held. Also, it is necessary to find effective ways to include ethnic minorities in the process of development planning. The best way to minimize the inevitable social problems and conflicts is honest and open acknowledgment of the difficulties that must be overcome.

References

- ABC Radio Australia News. (April 29, 2014). Vietnam Warned to Rethink Policy Towards Minorities. Retrieved from https://web.archive.org/web/20040818113346/http://www.abc.net.au/ra/newstories/RANewsStories_1098009.htm
- Baulch, B., Chuyen, T. T. K., Haughton, D., & Haughton, J. (2004). *Ethnic minority development in Vietnam: A socioeconomic perspective*. World Bank Publications.
- Chaudhuri, S., Jalan, J., & Suryahadi, A. (2002). *Assessing household vulnerability to poverty from cross-sectional data: A methodology and estimates from Indonesia*. Columbia University. Discussion Paper
- Coleman, B. E. (1999). The impact of group lending in Northeast Thailand. *Journal of development economics*, 60(1), 105-141.
- Collins, D., Morduch, J., Rutherford, S., & Ruthven, O. (2009). *Portfolios of the poor: how the world's poor live on \$2 a day*. Princeton, NJ: Princeton University Press.
- Dang, H. S. (2012) Vietnam: A widening poverty gap for ethnic minorities. *Indigenous Peoples, Poverty and Development*. World Bank.

Desbarats, J. (1990). Repression in the Socialist Republic of Vietnam: Executions and Population Relocation. *The Vietnam Debate. A Fresh Look at the Arguments*, 193-201.

Do, X. L., Nguyen, T.L.A. (2015). Credit Access in the Northern Mountainous Region of Vietnam: Do Ethnic Minorities Matter? *International Journal of Economics and Finance*, 7(6), 166-178.

General Statistic Office of Vietnam. (2009). Data on population and unemployment. Available at: <https://gso.gov.vn/Default.en.aspx?tabid=766>

Guirkinger, C. (2008). Understanding the coexistence of formal and informal credit markets in Piura, Peru. *World development*, 36(8), 1436-1452.

Hermes, N., & Lensink, R. (2011). Microfinance: its impact, outreach, and sustainability. *World development*, 39(6), 875-881.

Imai, K.S., Gaiha R. & Kang, W. (2011) Poverty, Inequality and Ethnic Minorities in Vietnam. *International Review of Applied Economics*, 25(3).

Jamieson, N. L., Cuc, L. T., & Rambo, A. T. (1998). *The development crisis in Vietnam's mountains*. Honolulu, HI: East-West Center.

Jones, S., Saunders, J., & Smart, M. (Eds.). (2002). *Repression of Montagnards: Conflicts Over Land and Religion in Vietnam's Central Highlands*. Human Rights Watch.

Justino, P., & Litchfield, J. (2003). Poverty dynamics in rural Vietnam: winners and losers during reform. *Poverty Research Unit at Sussex Working Paper*, 10.

McCarty, A. (2001). *Microfinance in Vietnam: A survey of schemes and issues*. Hanoi, Vietnam: Department for International Development (DFID) and the State Bank of Vietnam (SBVN).

Mix Market. (2013). Data of Microfinance in Vietnam. Available at: www.mixmarket.org.

Nghiem, H. S., & Laurenceson, J. (2005). *The nature of NGO microfinance in Vietnam and stakeholders' perceptions of effectiveness*. East Asia Economic Research Group. Discussion paper (3).

Nguyen, T., Nguyen, P., Tran, M. T., Le, D. T., & Nguyen, T. T. H. (2011). Poverty Reduction in Vietnam: Achievement and Challenges.

Rambo, A. T., Reed, R. R., Cuc, L. T., & DiGregorio, M. R. (1995). *The challenges of highland development in Vietnam*. Honolulu, HI: East-West Center.

Resse, T.J., Glendon, M.A. (Feb 29, 2016). Report from Vietnam: The Struggle Between Government and Religion. *The National Catholic Review of America*. Retrieved from

<https://web.archive.org/web/20160222224204/http://americamagazine.org/issue/report-vietnam>

Sagar, D. J. (1991). *Major Political Events in Indo-China 1945-1990*. Facts on file.

Tran, T. G., Wang, G., & Yan, D. (2014). Evaluation the Factors Leading to Poverty Issue in Central Highlands of Vietnam. *Modern Economy*, (5) 432-442.

Tucker, S. (Ed.). (2011). *The Encyclopedia of the Vietnam War: A Political, Social, and Military History*. Santa Barbara, CA: ABC-CLIO.

Turner, R.F. (1975). *Vietnamese Communism: Its Origins and Development*. Stanford, CA: Hoover Institution Press.

U.S. Army Audiovisual Center. (1966). *Big Picture: Operation Montagnard*. Retrieved from <https://archive.org/details/gov.archives.arc.1174345>

Van de Walle, D., & Gunewardena, D. (2001). Sources of ethnic inequality in Viet Nam. *Journal of Development Economics*, 65(1), 177-207.

Van Rooyen, C., Stewart, R., & De Wet, T. (2012). The impact of microfinance in sub-Saharan Africa: a systematic review of the evidence. *World Development*, 40(11), 2249-2262.

World Bank. (2009). *Country social analysis: Ethnicity and Development in Vietnam*.