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ACCESS TO FINANCE FOR CLIMATE-SMART AGRICULTURE IN VIETNAM'S COFFEE LANDSCAPES

Lessons from SNV's Café-REDD on the demand for and supply of inclusive finance and its role in sustainable development.

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This document outlines emerging best practice approaches from SNV's BMUV-funded landscape projects that SNV has recently deployed, and continues to, in its projects in Viet Nam and other countries.

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1. Executive summary

Despite strong economic growth and diversification of its economy, leading to the emergence of Vietnam as a low-middle-income country, this relative prosperity is found in pockets of industrialisation close to trade hubs, manufacturing centres, and urban areas. In contrast, more rural and remote areas remain economically reliant on the agriculture sector for livelihoods, jobs and growth. Many rural communities face an inter-related confluence of socio-economic challenges - this rural demographic is much more likely to be poor, have a higher concentration of ethic minorities, and have lower access to basic services. On top of this, some of the country's key agricultural production zones have been identified as extremely vulnerable to various impacts of climate change (for example the Mekong Delta and Central Highlands) while others already face perennial exposure to extreme events and disasters (the Central Coast region).

As a result, a broad range of development actors[1] are working to make Vietnam's agriculture sector more sustainable and resilient and to strengthen its contribution to inclusive socio-economic development. These include efforts to ensure that it is resilient to climate change, deforestation free, and contributing to other sustainable development issues in line with the visions of the Vietnamese government and the wishes of consumers and companies in many globalised supply chains.

Transformation and development of the agricultural sector is increasingly market-led. Active participation of the private sector is encouraged and even expected - from individual households up to multi-national corporations. Beyond simply targeting the private sector as beneficiaries, both publicly financed and ODA-financed agricultural development projects increasingly aim to secure additional investment from the private sector. This focus on private investment ensures that the beneficiaries are literally bought into the project, grows the total financial resources contributing towards the immediate results, and embeds the new practices within a much more scalable and sustainable source of finance beyond the lifetime of the project.

Such investment often needs to be enabled through access to a range of financial services, especially credit, which is often an integral part of managing the annual cash flow cycles and longer-term investment needs in agricultural systems across the globe. Despite several financial institutions in Vietnam having a strong mandate and track record in providing finance for people in rural and agricultural communities, there remains a 'market failure' in the provision of agricultural finance. This is evidenced by a large unmet demand for credit products in Vietnam by several groups of stakeholders - base-of pyramid customers, poorer farmers, ethnic minorities, women, and smaller or newer enterprises – bringing an important inclusivity element to this issue. This unmet demand is due to:

1. Limited suitability of available products.
2. Lack of competition and diversification among financial service providers.
3. Historical over reliance on collateral as a risk reduction or screening mechanism.
4. Fundamental high risks and costs of key customer segments.
5. Weak application of risk sharing and cost reduction innovations.

This report describes a framework based on lessons from and reflecting on SNV's global project

1.– Including NGOs, International Institutions, donors, local government and public sector agencies, financial institutions, and even line-Ministries.

portfolio, and refined in this case through the practical experience of SNV and others in Vietnam that development actors can use to identify activities that can enhance access to finance. This framework is focussed on actions and activities, grouped within three categories, that are achievable and realistic within the typical scope and resources of these types of projects and that would directly contribute to the project's primary objectives, as opposed to recommending systemic or regulatory changes in the banking and financial sector.

Table 1: Three categories of activities that can enhance access to finance

Non-financial	Direct provision	Partnerships and engagement
Providing technical assistance to get participants ready for financial services and increase the likelihood of accessing financial services.	Using a project's own resources to provide initial access to financial resources or assets directly to the target beneficiaries, increasing likelihood of access to other finance in the future.	Working with partners who bring in market-based, scalable, and sustainable access to finance or other resources.

To demonstrate and test the relevance of this framework, the report builds on SNV's first-hand experience implementing development projects, and in particular draws on research conducted for the Café-REDD project being implemented by SNV in the Central Highlands of Vietnam. Here, the perception of almost all local stakeholders was that poor farmers, working on often marginal and insecure land, are being trapped in a spiral of debt. In this trap, because they do not have the human or financial capacity to access formal sources of finance, they are forced to use informal and expensive sources of finance to meet their credit needs. This reduces their ability to re-invest in their livelihoods and escape poverty or to increase their resilience to economic and climatic shocks and unfavourable long-term environmental changes such as heat stress, water shortages and soil erosion.

Using the framework, the report shows how the Café-REDD project has contributed to increasing the ability of farmers to access formal and more ethical sources of finance, and it describes some of the activities and partnerships that were delivered later in the project with the specific aim of further enhancing this access to finance. By drawing on the experiences in that project this report demonstrates the utility of the framework and provides a series of recommendations for improving access to finance as a foundation towards improved climate resilient agriculture in Vietnam. The report concludes that:

1. Development actors are likely already contributing towards improved access to finance given that many projects already incorporate some of the types of activities seen in the framework.
2. The framework itself is a useful tool for situational analysis, project design, and retrospective evaluation, as well as a useful communication tool to certain stakeholders such as financial institutions. It can help development actors to manage their work more strategically to improve access to finance.
3. Other activities, such as the Landscape Investment Planning Process and early engagement of financial institutions, are important in assessing feasible entry points and activities that financial institutions would be willing to partner with development projects on.
4. Implementation of the Vietnamese agricultural development plans would benefit strongly from a national-level dialogue on innovation and learning in agricultural finance to support more rapid take-up of new innovations and foster collaborations between actors.

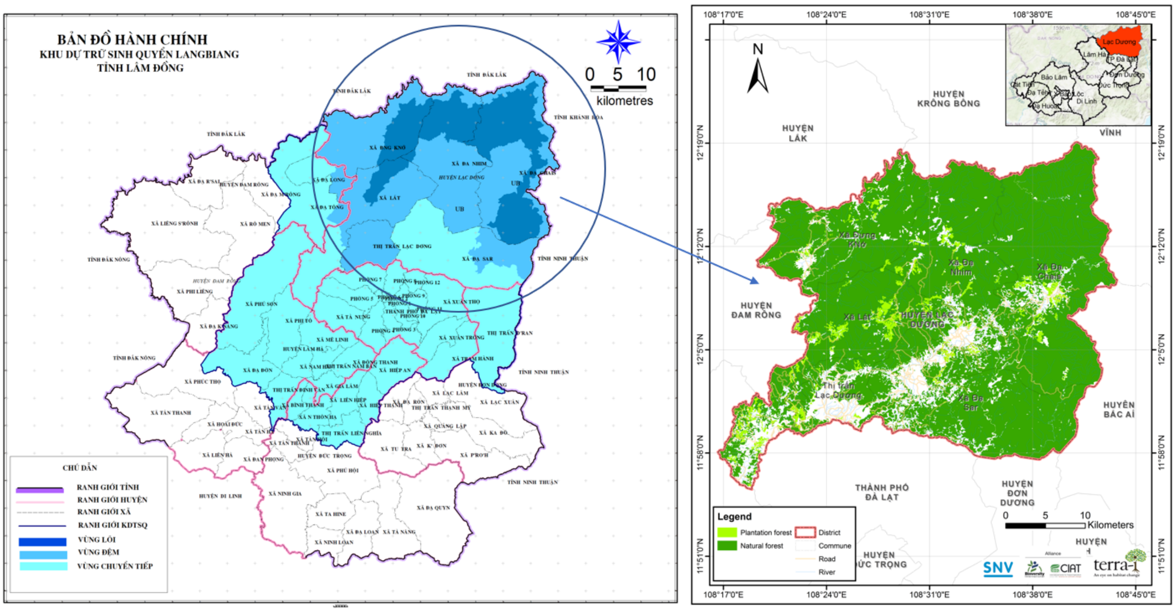
Ultimately, both within the Café-REDD project and beyond, by using these tools SNV has been able to enhance access to finance and secure the long-term outcomes of its work. Through the learning and documentation process, including the process of developing and refining the framework, a lot of best practice has been identified and incorporated many of the activities into future project development and the implementation of several others in Vietnam and beyond.

2. Introduction

2.1. From coffee to credit

SNV has recently been immersed in a landscape and a community where lack of access to finance is a direct risk to the sustainability and scalability of our activities. SNV has been implementing the Café-REDD project in Vietnam's Central Highlands project since 2018 (see Box 1). This project aims to support sustainable development, and reduced forest loss and degradation, in the landscape around the Lang Biang Biosphere Reserve, comprising of Bi Doup Nui Ba National Park and its buffer zone in Lac Duong district. This is an important and iconic forested landscape (Figure 1), but it is under threat from coffee and the agriculture sector more widely - historically, these have contributed to >70% of forest loss.

Figure 1: Map showing the relationship between the Lang Biang Biosphere reserve and Lac Duong district. The map on the left shows the core and buffer zones of the biosphere reserve in dark and medium blue. The map on the left shows the forest cover in Lac Duong district.



Given the predominance of (arabica) coffee farming in the project area, and the unique opportunities to coffee production here, the local government's vision is to maximise the value of coffee to people and the landscape, and to better market it to capture and monetise the value it is creating. This aligns with government forest policy, and the Café-REDD project was originally conceived alongside the country's revised 'National REDD+ Action Plan' (NRAP).[2] In this strategy the promotion of sustainable and deforestation free agriculture in the margins of forest land became an innovative part of REDD+ strategies at both national and provincial level.

2.– National REDD+ Action Plan - Decision 419/QD-TTg dated 5 April 2017.

The project's scope therefore not only includes typical efforts to improve forest protection, enforcement and restoration, but it includes an integrated effort to reduce the negative pressures on forest by supporting sustainable agricultural development and local job creation and livelihoods. The project has done this is number of ways, including:

- Supporting farmers to grow shade-creating fruit trees[3] among the coffee farms, improving the quality and resilience of coffee and creating a second source of income for farmers.
- Helping farmers build strong value-chain connections with companies, including through establishment and development of farmers groups and cooperatives.
- Training the farmers, in collaboration with local coffee companies, on better crop management and harvesting techniques that will improve yields and quality (and price).
- Managing a fund which provided small grants as seed capital to a wide range of other, non-coffee, economic activities in the community.

Uptake of these activities has been very good, with as estimated 75% of farmers in the target area voluntarily participating in different aspects of the programme. However, the costs of adopting these practices were generally shared with, or fully subsidised by, the project, meaning the continued application of such a strategy is uncertain once the project's funding ends. The risk assessment in the original project proposal identified that "longer term sustainability and upscaling of the model is threatened by farmer's lack of capital and/or access to credit to invest in seedlings and improved production methods." The project itself has so far financed the investments in seedlings (coffee and intercrop), equipment and other basic inputs that enable farmers to move towards sustainable coffee production. "However, an important economic risk is that further uptake will not occur as non-beneficiary farmers will not be able to make the necessary investments" – thus preventing 'horizontal scaling' or replication. The proposal identifies as its risk minimisation strategy that: "the project needs to demonstrate that the model can work for local farmers so that others may invest in it. However, the project will also explore options for improving financial access for local farmers, in particular those most vulnerable and currently unable to access credit."

It was in response to these initial concerns, validated during the early stages of project implementation, that the project commissioned some research into the barriers to accessing finance in the belief that the results would also be of value to a broad set of stakeholders. The project also had the opportunity of an extension phase, starting in April 2022, to add implement new activities solely focused on access to finance. These activities learned from the research and SNV's on-the-ground experience, identifying a small number of opportunities where the project could make a meaningful impact on improving access to finance from a number of sources, and secure the sustainability and enhance the potential scalability of the project's approach.

3.– Detailed analysis identified that macadamia and persimmon were suitable for the local agroecological conditions.

Box 1: Coffee-Agroforestry and Forest Enhancement for REDD+ (Café-REDD project)

The project was initiated in November 2018 with the support of the International Climate Initiative (IKI) of the German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). Its aim is the establishment of a public-private-producer partnership (4Ps) for forest landscape conservation and restoration in the Lang Biang Biosphere Reserve.

To achieve its goals, the project has three main implementation components, which deployed together are unique to this landscape, Viet Nam and the coffee sector, but have been successfully used by SNV in other contexts.

- Strengthening public sector capacity for climate smart, sustainable and integrated land use planning and governance, including collaborative management of forests with communities and establishing the 4P partnership.
- Engaging the Private Sector on deforestation-free and inclusive agribusiness models, including developing and improving forest monitoring and commodity traceability systems to prevent deforestation in supply chains in partnership with coffee companies.
- Supporting smallholder farmers, mainly from ethnic minorities, to transition to climate smart, sustainable coffee production techniques (such as coffee agroforestry) leading to improved coffee quality and prices and improved and more resilient yields and livelihoods, whilst also promoting landscape restoration through mixed agroforestry.

In April 2022 a second phase started with the addition of another implementation component specifically focused on finance. This component aimed to leverage finance from different public and private sources through a range of activities, which are further described later in this report. More information and updates from the project can be found at: www.snv.org/project/coffee-agroforestry-and-forest-enhancement-redd-cafe-redd

2.2. Can improving access to finance be a 'co-benefit' of other development projects?

This finance focussed activities only made up a small amount of the total project effort and the barriers to accessing finance are deeply rooted. Making significant advancements against the lack of capital and poor access to finance described above is therefore understandably beyond the agency of many stakeholders concerned primarily with agricultural transformation in Vietnam right now. This is especially the case within the context of relatively small donor funded projects, which have a primary interest in a specific sustainable development challenge such as climate resilience or biodiversity protection, and often in a highly specific location. But the same can also be said to be true of government programmes funded by ministries such as Vietnam's Ministry for Agriculture and Rural Development (MARD) which also oversees forestry and forest protection. Although these projects often pursue a market-based approach, and aim to overcome failures in those value chains, the resources available, and expertise and skills of the implementers, do not allow them to systematically address the nation-wide market failure of unmet demand for finance in the agricultural sector.[4]

This does not mean, however, that financial access cannot be improved at a local or project level even if national-level systemic change is not being targeted. In fact, making inroads on access to finance can even support the specific objectives of a particular project, as identified in the case of Café-REDD. In addition, many of the underlying barriers and solutions are shared between access to finance and agricultural development: the costs associated with physically

4.– There is an excellent report on this topic by the World Bank (2019a) which makes a number of specific, but national-level, observations on the challenges and recommendations. De Brauw et al (2020) also make a number of key recommendations regarding policy changes at national level which would improve the enabling environment for agricultural credit. Vietnam's National Financial Inclusion Strategy also includes a good background on such issues. See the annex for more details.

disaggregated clients or producers, and a lack of digital connectivity or skills, are barriers to both, for example. This means there is a benefit to pursuing the two in synergy and infers that well designed programmes should aim to include such efforts as part of their design.

There is therefore a gap to make evidence-based recommendations as to how relatively localised development projects with finite resources and timeframes can best advance access to finance - typically for smallholder farmers and micro/small enterprises - to scale and sustain their project activities and contribute towards transformation of the sector. These recommendations could identify opportunities to engage stakeholders and make more targeted recommendations than those of more national level analysis (such as World Bank, 2019a) and could be taken forward immediately in the implementation of ongoing projects – whether donor, loan or government funded - as well as in the design of new ones. That is the purpose of this report.

2.3. Learning from Café-REDD

Based on the experience of the Café-REDD this report makes some specific recommendations relevant to the coffee sector in Vietnam's Central Highlands that can also be extrapolated to similar climate-related agricultural and forestry subsectors in Vietnam and abroad. The report is written for stakeholders active in designing or implementing programmes in agricultural development in Vietnam and beyond. This includes:

- Non-governmental organisations working as funders, implementers or convenors of these projects.
- Local governments (such as Provincial and District People's Committees in Vietnam), and their agencies and departments (such as the provincial Department for Agriculture and Rural Development – DARD).
- Donors, international institutions and impact investors engaging with local partners (government and non-government) across Vietnam to design and scope new programmes.
- Financial institutions and agricultural companies building partnerships with these development actors.

In order to frame these recommendations in the most actionable way possible, the report developed a framework[5] which establishes a common language from which different activities can be assessed and organised (see Table 1). The common language can be applied to work with small-holder farmers, as well as formal and informal enterprises including farmer groups, cooperatives, and micro and small enterprises. This framework identifies nine types of activities, group in three components,[6] which are:

1. Non-financial services – the provision of technical assistance to get participants ready for financial services and increase the likelihood of accessing financial services.
2. Direct access – which uses a project's own resources to provide initial access to financial resources, or productive assets, directly to the target beneficiaries, increasing the likelihood of further finance being accessed in the future.
3. Partnerships and engagement – whereby the project works with partners who bring in market-based, scalable, and sustainable access to finance or other resources.

To illustrate and contextualise these activities, Chapter three of this report provides a concise but general background to agricultural finance in Vietnam, including the underlying issues that the Café-REDD project is faced with regarding access to finance. Chapter four describes the specific access to finance challenges in more detail, providing a case study adopted from work conducted by Tran and Ngo (2021) from the Café-REDD project. Chapter five synthesises this and demonstrates how the solutions identified can be categorised according to the framework and describes some of the ongoing activities the Café-REDD project has adopted to enhance access to finance, responding to the case study by Tran and Ngo. Chapter six provides conclusions and recommendations for other projects and the wider community interested to

5.– Adapted from SNV 2022.

6.– A fourth component, "advocacy and influence", is also identified in that framework as critical to improving access to finance, however as discussed above, the context of this paper is about how identifying why and how access to finance may be addressed by projects with a core focus on other development objectives (particularly agricultural in this case).

support access to finance for agricultural development in Vietnam and beyond.

Component		Subcomponent/activities	
Non-financial services	These activities get participants ready, through training and capacity building, for financial services. They create the skills and systems so that farmers farm productively, are more organised, and are more professional and entrepreneurial. It creates both demand for, and capacity to access, financial services in the future.	**1. Better farm and business practices**	Providing training, and ongoing mentoring and coaching, to improve the fundamental performance of the underlying productive activity (whether farm, livelihood, or business) and identifying investment needs and enhancing profitability and ability to repay finance.
		2. Early incorporation of financial training	Integrating training on financial planning and discussion around long-term financing strategies early in the engagement and technical training (i.e. on farming practices through farmer field schools) provided to target group. Includes developing systems such as ledger and cash-flow history, as well as developing finance and investment plans for individuals or enterprises and supporting them to make applications for finance.
		3. Grouping and clustering	Creating scale and aggregating demand for agricultural and financial services, reducing costs and risks for agribusiness and FIs. In some cases, such as in Vietnam, farmer group models can be used for collateral-free lending, further enhancing access.
Direct provision of finance and assets	These activities provide initial access to either financial resources or other assets. They use project resources to either directly supply assets to, or subsidise access to the assets, by the target beneficiaries. Greater access to asset and cash increases the likelihood of future access to commercial finance.	**4. Cash, grants, or assets**	Many different mechanisms can be used (asset transfer, matched grants, cash transfer), often linked to mentoring (TA) and other services to enhance success. Securing premiums certified produce, ecosystem services or carbon payments) could also be considered here. Establishment or clarification of land rights can also be considered in this subcomponent also.
		5. Savings and loans	Entry point activity with low-level financial services. It can be particularly useful for true base-of-pyramid groups and for marginalised communities who may have little prior experience of financial services.
		6. Revolving funds	More sustainable than grants, this is a widely known mechanism that uses a market system approach to build familiarity with financial services but is capitalised by a grant from the financier. Usually, the fund manager is a very localised and community-based institution.
Partnerships and engagement	These activities aim to increase the supply of financial services through partnerships. They use project resources to work with partners who are able to bring in market-based, scalable, and sustainable access to finance or other resources.	**7. Agribusiness partnerships**	Developing stronger producer-company relationships including value-chain models and supporting market development and investment in the value chain to build demand (or the 'pull' factor). Such activities may be focussed on production inputs (seeds, agro-chemicals) and development of contract farming or inclusive value-chain approaches.
		8. Financial institutions	Technical assistance and support directly to MFIs/banks, including development of new products, capacity around agricultural lending, and reducing costs to onboard clients. May include support the FIs to develop financing facilities and/or de-risking mechanisms.
		9. Advocacy	Engagement with policy makers on improving the legal and enabling environment for access to finance, including in relation to topics above such as land rights or collateral.

3. Background to agricultural finance in Vietnam

3.1. The role of finance in agricultural and rural development

In recent years the legal and policy framework of the Vietnamese forest and agriculture sector has rapidly developed. Vietnam's objectives in the agriculture sector are codified by both the original Agricultural Restructuring Plan, and now its successor, the Plan on Restructuring of Agriculture in 2021-2025 period [7]. This can be summarised by the moniker "value not volume" In practice it creates a strong focus on development of "modern", "clean" (meaning without chemical residues), "sustainable" (low carbon and climate adapted) and "hi-tech" (more valuable, more productive) production methods and crops. Stronger value-chain linkages and strengthened farmer groups and co-operatives are routinely identified as part of the platform to achieving this.

The agricultural sector is also an important contributor to, and target of, Vietnam's climate change commitments, strategies, and plans. Among others, these include the country's National Climate Change Strategy and net zero emissions target (by 2050), its National Adaptation Plan, and the National Plan for Glasgow Declaration on Forests & Land Use (2023-30) to address deforestation, land use change.[8]

Many follow-on policies, decrees and decisions have been made across several facets of the agricultural and rural economy in order to contribute to implementation of these. The need for a financial architecture to deliver on these ambitions is also clearly recognized, and in the revised Agricultural Restructuring Plan, the Minister also requested the State Bank to "*direct credit institutions to balance capital sources to promptly meet capital needs and facilitate access to bank credit capital for all economic sectors to be able to invest in agriculture and rural areas; especially for enterprises investing in high-tech agricultural projects, organic agriculture, agricultural mechanization development and agricultural product processing industry.*"

Precisely what these capital needs are can be hard to say, however. With the private sector consisting of individuals with less than one hectare of land, to foreign multi-nationals with global procurement and trading footprints, there is a wide range

7.– Prime Minister Decision No. 255/QD-TTg 2021, dated February 15, 2021.

8.– NCCS - Decision No. 896/QD-TTg. NAP – Decision No. 1055/QĐ-TTg, and Glasgow Declaration plan – Decision No. 993/QĐ-TTg.

Table 2: Indicative demand for credit from typical target beneficiaries of agricultural development projects in Vietnam *(Source: author).*

Target group	Activity	Amount (VND)	Amount (USD)
Smallholder farmers	Annual working capital loans (6-9 months) for better, climate-smart inputs and adoption of best management practices by farmers. (per ha per yr)	20 -50m	900 - 2,200
	Medium-long term (3-8 years) investment loans to fund new 'technology' including adoption of agro-forestry systems, water saving irrigation technology, or small green-house for diversification into horticulture, mushrooms etc. (per ha)	10- 80m	400 - 3,500
	Medium-long term (4-8 years) investment and / or working capital loans for the shift to long rotation plantation timber. (per ha)	10 - 20m	400 - 900
MSMEs and cooperatives	Seasonal working capital (1-3 months) for co-operatives to grow their ability to buy from members. (per member).	20 - 100m	900 - 4,500
	Working capital (6-9 months) for on-lending/credit by purchasing and or input and equipment supply companies to suppliers and or clients in value-chain finance models. (per member).	20-50m	900 - 2,200
	Short-term (1-3 years) investment capital for basic processing and storage capacity.	100-300m	4,400 – 13,000

3.2. The status of financial inclusion

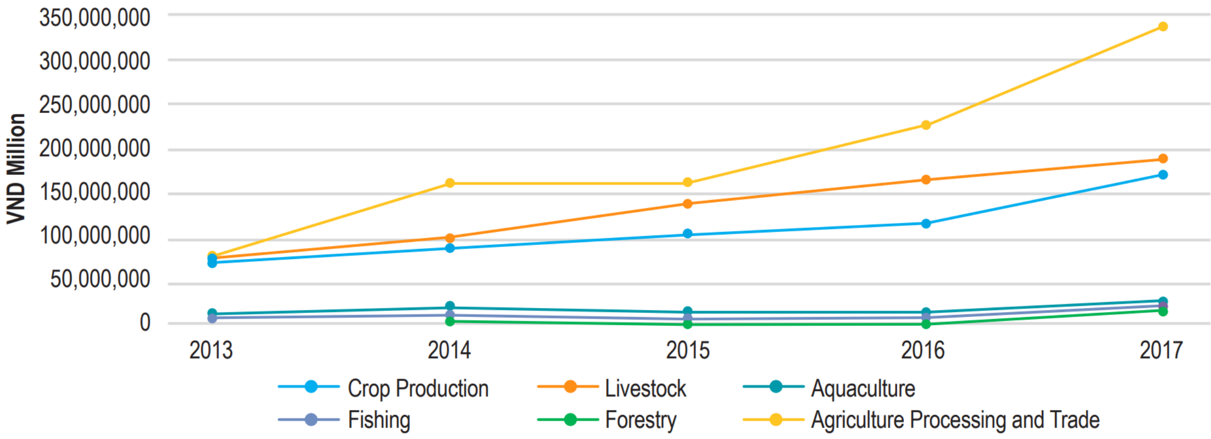
In Vietnam, financial inclusion has been increasing, albeit from an extremely low base, over the last decade, especially regarding the basic financial services – those of payments and savings. In 2011 only 21.4 percent of those older than 15 years had an account at a financial institution in 2011, to 30 percent in 2017 (World Bank, 2019a based on 2017 FINDEX data). This will likely have increased significantly further in the last 5 years since the last FINDEX report, in parallel with the use of digital financial services, which appears to be increasingly rapidly from an almost non-existent base only five years ago.

Access to both physical and digital services is, however, highly unequal. For rural adults the percentage having an account at a financial institution in 2017 was only 24.6 percent. And people in rural areas, especially ethnic minorities, are lagging behind in the adoption of digital financial services as well as mobile phone usage, with most payments made using cash (World Bank, 2019a). Only 2.3 percent of rural adults have mobile banking accounts, lower than the already very low national average of 3.5 percent (World Bank, 2019a). [9] These figures are far behind its regional peers - 68.7 percent of rural adults in other middle- and low-income East Asia Pacific countries had banks accounts – and create an additional barrier to agricultural development in Vietnam.

Although account penetration in Vietnam is "far from satisfactory" (World Bank, 2019a), the statistics on obtaining credit are considered

9.– Note however that World Bank 2019a reports that *"digital finance is taking root, with 23 percent of those aged 15 or over reporting to have made or received a digital payment in the last year."*

Figure 2: Lending to agriculture split by sub-sector. *(Source: World Bank 2019a based on SBV data in 2017).*



"encouraging". The government's endeavours to support access to loans, especially to the bottom of pyramid groups such as farmers and rural populations through state banks such as the Vietnam Bank for Agriculture and Rural Development (Agribank) and the Vietnam Bank for Social Policies (VBSP), contribute to a relatively high level of obtaining credit. There is a total of 800 trillion VND (over 35 billion USD) in outstanding bank loans to agriculture, forestry and fisheries (8% of national total [10]) which is concentrated in agri-processing, livestock and crop production (Figure 2).

The most important banks[11] at the rural and agricultural level are the Vietnam Bank for Agriculture and Rural Development (VBARD, or 'Agribank') and the Vietnam Bank for Social and Policy (VBSP). This is because these banks have branches at the district level and often transaction points at commune level, as well as strong partnerships with the socio-political membership organisations (Women Union, Farmer Association, Veteran Association and Youth Union) and local authorities who provide the human resources for its credit delivery and act as agents for the banks, identifying and monitoring clients. Most commercial banks, and certainly most foreign banks, are physically located in the big cities. One exception to this rule is Lien Viet Bank which merged with the Post Office Bank a decade ago, inheriting its large branch network, and is discussed further below.

3.3. The paradox of ubiquitous rural finance and persistent unmet demand

Despite these sources of finance there is a paradox in Vietnamese rural finance in that access to finance is both ubiquitous and limited at the same time. Lending to agriculture has not grown since 2016, and the share of outstanding loans to agriculture has dropped from 18% to 8% during the same timeframe[12], indicating that access to credit has stalled among rural and agricultural populations. While, as described above, there are a number of financial providers and products available, there is widespread evidence that some segments cannot access finance when they need it, and on terms that suit them. For example:

- Nationwide, only 2% of producer cooperatives can access financing from commercial banks (Pham et al, 2019).
- Agribusinesses have the highest percentage of firms identifying access to finance as

10.– As of end October 2021. Source sbv.gov.vn

11.– Although there are four licenced microfinance institutions in Vietnam, and a growing number of non-bank financial institutes and new digitally powered entrants, these typically have limited operational footprints, and, for example, none are operational in Lac Duong district.

12.– Based on comparison between data form 2016 in De Brauw et al, 2020 and latest SBV data from 2021.

a major constraint compared to firms in other sectors, such as manufacturing or service (Tran and Ngo, 2021 analysis World Bank Enterprise Survey 2015).

- In the Central Highland 51.1 percent of households report an unmet demand for credit (de Brauw et al, 2020), 68 percent higher than the population average (30.5%).
- SMEs, in particular micro and small enterprises, have difficulty accessing finance in Vietnam. Although SMEs contribute 40 percent of GDP between 2012 and 2017 outstanding loans to SMEs accounted for only 22-25 percent of total outstanding loans.[13]
- In the forestry sector there is unmet demand for long-term loans especially amongst logging and nursery SMEs (Held at al, 2019). Land titles are the most common form of collateral, and these are highly constrained for small and micro enterprises.
- There is a limited supply of diversified and sophisticated financial products and services, such as value chain financing, leasing, warehouse finance, receivables and contracts, insurance, and guarantees, to fulfil the demands of farmers and agribusinesses contributing, and adjusting, to Vietnam's agricultural transformation (World Bank, 2019a and de Brauw et al, 2020).

The picture among rural communities is therefore of this: due to their relative poverty, most have an existing 'policy loan' from VBSP, but, due to the inflexibility of these loans, any further or more complex financial needs are typically met by informal finance.[14] Due to collateral requirements that are strictly imposed, taking out more than one formal loan is not an option for most people.[15] Informal loans account for 53 percent of all second loans and over 70 percent of all third loans (de Brauw, et al, 2020). This existing supply of finance mainly concentrates on poverty reduction and financial inclusion through relatively simple credit offerings that usually target the low-income population, although demand still exists and is unmet. And it is clear that, despite or even because of this, the financial sector has not propelled the acceleration of the agricultural transformation process in Vietnam (World Bank 2019a).

3.4. Barriers in the provision of and access to financial services

The inability of the financial service providers to meet the demand is because the products and distribution channels are not attuned to the needs of agricultural development. Typical products and their rates and conditions are described in Table 7 in the annex. The financial services available have not developed as fast as the transformation in the agricultural economy has demanded of it (Brauw et al, 2020), in part because of the dominance of public financial institutions and social protection schemes, and heavy regulation, constraining innovation and new entrants.

With particular consideration of rural and agricultural communities, as well as agri MSMEs (especially the micro and small ones), the specific barriers to provision and access to finance for agricultural transformation, creating the paradox described above, are:

1. The limited suitability of available products, especially the policy loans from VBSP.

Overall, the design of the products offered are not flexible in terms or too targeted to be suited to the diversity of agricultural segments. As a result, they cannot be utilized in order to engineer a transition at farm level or a transformation at the sector or landscape level. Although VBSP is the largest source of rural and agricultural finance, not all farmers can access VBSP loans - they are only available to households classified as poor and very poor. Of the farmers who can, most have probably already taken a loan. These require little investment planning or understanding of the implications of doing so, preventing the finance

13.– https://english.vov.vn/economy/sme-development-in-vietnam-358262.vov

14.– And, according to a survey conducted by Bialus et al, 2022, these informal sources are less frequently available to women.

15.– These collateral requirements are not required by law, although they have become normalised due to the Vietnamese banking regulations and the capital structure of the banks, which combine to incentivise conservative lending.

being used productively to transform the lives of families and to achieve societal goals such as climate mitigation and adaptation. In addition, the products VBSP offer are very limited, and are not suited to a lot of the demand identified in Table 2. There is also a high administration cost, on the part of the applicant, associated with VBSP loans, and they typically require in-person visits to an office, despite the facilitation by Vietnam's membership organisations and local government.

2. The lack of competition and diversification among financial service providers.

Outside of VBSP, a lack of competition in agricultural and rural sector lending has reduced the diversity of products and financial service providers available to customers. Annual and shorter term-loans are theoretically the speciality of other commercial banks and microfinance providers. Although there are nearly 100 registered banks in Vietnam, in addition to other credit providing institutions,[16] few provide services to, or have a branch network in, agricultural and rural communities or consider them a key client base. Agribank typically targets a wealthier segment of farmers with good collateral and business plans, and these loans are not available to poorer farmers. Vietnam's microfinance institutions ("MFIs" - including those managed and owned by the membership organisations) have a proven track record at delivering last-mile service but face regulatory restrictions in their ability to raise capital, constraining their ability to grow. Lastly, there is limited participation by other commercial banks due to a variety of reasons, including high transaction costs, low margins,[17] as well as some structural issues in the country's financial architecture (de Brauw et al, 2020). These policies and practices unintentionally result in the reduced provision of financial products to the smaller and poorer farmers the policies intend to serve.

3. Over reliance on collateral as a risk reduction or screening mechanism.

Meeting the collateral requirements is a major challenge for smallholders who want to participate in agricultural value chains. Although not required by law, collateral requirements have become a normalised part of lending in Vietnam, and farmers nearly always rely on their "red book" as collateral, and are required to physically deposit their land use certificates with VBSP for example (to prevent collateral being used on several loans). This is a severe problem in 'frontier' areas and the most rural and marginalised communities, where land use is still unclear and many households do not have a red book.[18] As a result of these issues, the Government has aimed to liberalise loan collateral requirements over time[19], although in practice this is only really achieved via formation of loan groups (facilitated by membership organisations such as the Famers Union) and ultimately there is an important role of collateral in reducing the risk of an investment, something that the banks ca not entirely avoid.

4. Fundamental high risks and costs of key target segments.

Agricultural activity and lending to smallholder farmers and agri-SMEs does contain real risks. This leads to financial institutions usually lending to low-risk actors or projects or avoiding operating in the sector entirely. Aside from their red books, farmers, cooperatives and micro and small enterprises are likely to have few assets to use as collateral. Many cooperatives, especially newer ones, have no or low amounts of paid-in-share capital from cooperative members, or accumulated cash, and cannot meet bank requirements. The farmers and businesses usually have low levels of income diversification, exposing them to market and production risks. Farmers and staff in cooperatives or SMEs might have relatively poor basic financial management skills or poor accounting and other managements systems. They therefore also lack

16.– The National Financial Inclusion Strategy lists 98 banks (4 state owned commercial banks, 2 policy banks, 31 joint-stock commercial banks, 1 cooperative bank, 9 foreign-owned banks, 2 joint-venture bank, and 49 foreign banks) in addition to 26 non-bank credit institutions, 1,183 people's credit funds and the 4 licensed microfinance institutions. Bur for example, according to Banking Magazine, as of August 2019, only 27 of these banks operated in Lam Dong province where the Café-REDD project is situated.

17.– Suppressed by a rate cap on agricultural lending, as well as the existence of state subsidized rural credit such as from VBSP normalising low interest rates.

18.– The baseline study for the Café-REDD project found that households with coffee land in Da Nhim and Da Chais communes in Lac Duong district, Lam Dong province, have only been granted a red book for less than 45% of the total area of their land.

19.– Regulations such as Decree 55/2015/ND-CP, which is amended in 2018 by Decree 116/2018/ND-CP, introduces several credit policies for agricultural and rural development, the most consequential of which is the promotion of uncollateralized lending. They pave the way for both enterprises and individuals to access commercial loans with no collateral or new forms of collateral which were previously not accepted by the banks.

the ability to make effective or convincing investment plans to present to banks, further increasing risks.

5. Weak adoption of innovations for risk sharing and cost reduction.

These risks and costs are exacerbated by a lack of factors that could contribute to risk sharing or mitigation and cost reduction among the target audience. This might include strong cooperatives, value chain finance, and digital tools including "fintech". Many areas of the country, including the Central Highlands and other areas with high proportions of ethnic minorities, have historically formed fewer cooperatives. As a result, many farmer groups and cooperatives are newly established and still have limited operational and administrative functions or assets. Value chain finance structures could theoretically reduce some of the risks with a 3rd party involved in the transaction, typically validating (if not formally guaranteeing) the market for produce, or the quality of the inputs (and such reducing the risk that investment doesn't generate returns), but these are rare in Vietnam. Digital tools, including both marketplaces and fintech, can reduce many of the costs associated with smaller, physically remote clients such as agricultural and rural communities. However, poorer communities are less likely to have the capacity to easily adopt them and an unclear regulatory environment around fintech somewhat suppresses innovation. Businesses that have invested in fintech have typically focused on urban and more wealthy segments, and harnessing fintech for societal and public goods requires engagement in the power of fintech by the public sector at the national level - something which has yet to be achieved.

3.5. Intersectionality and lack of inclusion in access to financial services

The unmet demand and the barriers faced in access to finance described do not evenly apply to all parts of the population, or even rural population. Groups facing equality and inclusion challenges, such as women, ethnic minorities, and business owned by them, face even higher barriers to access finance. In Vietnam's case, these are neither regulatory nor is their evidence of discrimination on behalf of the lenders. Instead, it is due to overlapping characteristics of these more marginalized and vulnerable groups – intersectionality – that combine to make access to finance even hard (ADB 2023, GREAT 2022). Examples of this include:

- On average lower levels of education, financial literacy and prior access to financial services mean that women and ethnic minorities are less likely to have the knowledge of and capacity to identify and apply for suitable sources of finance.
- Lower levels of assets, such as household income and wealth, or assets in their name (in particular land titles) means that women and ethnic minorities are less likely to meet the collateral requirements set by lenders.
- Marginalized or vulnerable groups are more likely to own smaller, rather than larger, enterprises, and to be more conservative in their applications for finance when they do make them (Bialus et al, 2022), therefore making them less attractive and more costly clients for lenders to serve.
- There is evidence from across Vietnam that when targeted financial support is available (for specific geographies or subsectors) the uptake from women-owned SMEs is often lower than expected, largely due to uncertainty, complicated procedures, low awareness, and self-selection bias (ADB, 2023).

4. Case study - farmers and enterprises working in the Arabica coffee value chain

4.1. The localised context of agricultural production and access to finance

The Café-REDD project has been implemented by SNV in Lac Duong district, Lam Dong province, since 2018. This district, at over 1,500 meters above sea level, and home to a National Park and UNESCO Man and Biosphere Reserve, has some unique features to its agriculture. These include its the suitability to growing temperate vegetables, flowers and mushrooms, and most relevant for this project, being one of the few Arabica, rather than Robusta, suitable areas in Vietnam.

The project has implemented a number of activities aimed at improving the farming practices of households in the district and strengthening the value chains in order to embed and sustain these practices. It has directly support over 3,355 farmers in the district through, among other things, the provision of seedlings, training the farmers in better practices, formation of farmer groups, and supporting development of alternative non-farm and non-forest livelihoods in the communities. The objective of such activities was to allow farmers to rejuvenate coffee farms and introduce multi-purpose tree species[20] and improve the quality of their coffee and their marketing power. This results in diversifying their incomes and creating both economic and climatic resilience. Across the landscape it reduces deforestation and deforestation by increasing incomes from stabilised land use practices in the buffer zones surrounding the forests.

During the early years of implementation, it was noticed that farmers do not have enough capital or access to finance to invest in seedlings and improve their production methods. This will inevitably harm the long-term sustainability and ongoing uptake of the farming practices promoted by the project. These local experiences correlate with the general patterns of barriers identified in 3.4. The general assumption in areas with similar socio-economic, as well as agro-ecological, conditions is that although there are some good products and policy loans available, the accessibility of these by farmers is still limited for various reasons and that lack of capital is one of the biggest difficulties in raising the standards of production. This occurs at several points along the coffee value chain - in addition to individual farmers facing constraints to access finance, the collective groups and cooperatives that exist in the areas have not yet accessed loans, and enterprises report a general lack of credit, constraining investment in processing activities.

In these supply chains the households typically do not have direct access to buyers, and transportation is difficult, so they rely on traders who are often the local shopkeepers. These shops also provide informal financial services, giving all manner of household goods and foodstuffs, or simply cash, on credit to households in lieu of repayment at the coffee harvest. This is typically at a high rate, with non-transparent rates or terms,

20.– In these areas macadamia and persimmon were found to be suitable, although it varies widely depending on the agroecological conditions.

and the farmers are in a vulnerable position due to their reliance on the same people for their livelihoods. Worse than this is that, with the fluctuating prices of coffee, in many years farmers do not earn enough to cover household expenses and reinvest in maintaining production, let alone improving it. As a result, many farming households in the community have accumulated debt gradually over the years.

This pattern has been described by many stakeholders as a "hamster wheel". Such borrowing from local shops with high interest rates and unfair trading practices makes poor farmers more indebted, dependent on the shops, and limited in their ability to buy and sell products. Poor farmers often sell their produce right after the harvest when the price is at its lowest to pay off debt. The households become stuck repaying debts that were unlikely to have ever been used for productive purposes. By not having access to proper investment capital, and dependent on the business of the shops, they are trapped in a cycle of low productivity and quality. This then stops them from participating in stronger, more inclusive, value chain relationships with other traders or companies who may support their agri-business development, should such inclusive value chains exist. In addition, we see from first hand experience that the perceived inability to encourage farmers to join such value chains, due to their entrapment in the 'hamster wheel', discourages inclusive and responsible-minded companies from making these investments.

The district authority is concerned about the unaffordability of the debt burden while simultaneously wishing to increase access to more inclusive and ethical sources of debt that simultaneously aim to protect consumers from over indebtedness. Such improved sources of debt could be used by farmers productively to raise standards of living in the community. The root problems of the farmers also include lack of collateral, lack of business plans, lack of financial management skills, undiversified sources of incomes, poor production techniques, and small production scale, resulting in inefficiencies – all of which make them unattractive clients for the other, cheaper, sources of debt that do exist. For the smallholder farmers to escape this hamster wheel the related stakeholders need to cooperate to help farmers solve completely these root problems. Therefore, the project conducted research in 2021 to identify the risks and opportunities associated with improved access to finance for farmers.[21] The ambition was to use the results to help groups of farmers, cooperatives and MSMEs gain better access to financial resources in the future. A second survey was conducted in 2023 as part of the project's later activities and the results of this data are also used to support the evidence.[22] Data collected in 2018 as part of the baseline survey also contained some relevant information.

4.2. Existing demand and supply of financial services in the local communities

Understanding household expenses and costs

The project's original baseline study found that households spend the most on agricultural production, daily groceries, and material goods.[23] Within agricultural production, fertilizer was the highest individual item - commonly accounting for 20-25% of total annual household spending. Labour cost is very high for some households - up to 48% of annual spending for some individual families - although because of these costs most just rely on their own family labour. Almost no households systematically plan or record their cash flow (6%).

A relative comparison of the total revenues and total operating expenditures of every household showed that in 2018 only 46% of the households had a positive cash flow – i.e. that they are saving money. The remaining 54% did not earn enough for their annual household or agricultural production

21.– This chapter is primarily edited and summarised from a report produced for SNV by Tran Thi Thuy Tien and Ngo Thi Thanh Van (2021). It was conducted using a mix of desk-based research and interviews with farmers, farmer groups, cooperatives, MSMEs, government agencies and representatives, financial institutions and agricultural businesses.

22.– Unpublished, conducted in August-September 2023 by Viet ED Consulting.

23.– In that baseline survey, a sample of 352 households were surveyed, corresponding to 21% of the total households in the 10 villages surveyed.

expenses, creating a drain on their savings, or increasing indebtedness. In 2018, with particularly low coffee price, many households reported an increasing reliance on the informal lenders. This unstoppable accumulation of debt year after year is typically cleared through selling land, which is the final safety net for rural populations - a vicious cycle that the local government is concerned to put a stop to for both social and environmental reasons.

Existing borrowing practices

Most households (78.7%) reported borrowing money from one or more sources. The needs are higher at certain times of the year, such as during the planting season, Christmas, New Year, or when they face one-off events such as weddings and funerals, sicknesses.

Table 3: the percentage of households borrowing money from none, one or more sources.

Sources of lending	% of HHs
0	21.9%
1	66.5%
2	10.5%
3	1.1%
1 or more	78.7%

The most important financial source is the Vietnam Bank for Social Policies (VBSP). The 2021 survey showed that 53% of the households borrowed directly from this bank. Mass associations (accounting for 19%) such as the Women's Association also as an intermediary for people to borrow also from the VBSP, so the real number borrowing from VBSP is likely over 70%. The 2023 survey found 81% had loans from VBSP. This bank is generally considered favourable because it has the lowest (government subsidized) interest rates and simple paper procedures that do not require collateral, but instead require approval from local associations (e.g. Women's Union) and the Commune Peoples Committee.[24] However, the beneficiaries are limited to only those classified as 'poor' or 'near poor' households and other beneficiaries as pre-determined in the government and VBSP policies (hence often being referred to as 'policy loans').[25]

Very few respondents had loans from commercial banks – 2.3% and 1% in the 2021 and 2023 surveys respectively. The participants identified that the weaknesses of borrowing money from banks are that the application and approval process takes a long time (sometimes weeks or months), does not meet the seasonal demand for production (i.e. policy loans are for a fixed 5 years), or is complicated with difficult procedures (although Vietnam's literacy and numeracy rates are high, they are lowest among rural, ethnic minority, and older segments of the population, as found in areas such as this). For example, commercial banks require collateral, in the form of the land use certificate.[26] However, as uncovered by the baseline survey, most households in the Café-REDD project areas do not have this for some or all their land. [27]

Compared to banks, borrowing money from traders and local shop owners is always a much easier choice. In the target villages, the majority of households are, or have in the past, borrowed money or materials from local traders or shop owners, although this is not always reflected in the survey results. [28] Borrowing from this source has many advantages such as speedy procedures, flexible amounts depending on borrowers' needs, and available any time throughout a year. The only condition is that the lender must know the borrowers. The weakness of this loan is high interest

24.– The lowest and most local level of the four levels of government.

25.– According to Decree No. 78/2002 / ND-CP on credit for the poor and social beneficiaries, subjects entitled to loans from Policy Bank include poor and near-poor households, disadvantaged people, pupils and students; etc.

26.– This includes the Vietnam Bank for Agricultural and Rural Development (VBARD, or agribank), the only 100% state-owned commercial bank in Vietnam . Agribank is the largest credit provider for farmers and agricultural enterprises nationwide representing around 56% of the rural financial markets in Vietnam. It is both a profit making commercial bank while also implementing some preferential policies on behalf of the government. Outside these specific products, it functions like a commercial bank with similar rates and requirements, albeit with a large rural branch network.

27.– 83% of residential land and pond areas have been granted a red book, however issuance for households' production land accounts for only 49%. there is a high degree of variability between the villages.

28.– Reasons for the discrepancy between the two studies and variability in similar studies could include the timing of the survey – the need for flexible loans is greatest in Sept-January, The2021 survey and focus groups were conducted in July, which may lead to an underestimation of the amount of lending that occurs throughout the year. The 2023 survey was in September –within the peak lending time are immediately before and during the harvest season, in September and October, before cash flow is highest. Other factors could include unwillingness to disclose informal loans and reliance on collectors/shops, that 'loans' are taken as credit on inputs and household goods and not as cash so not considered loans by the respondents, or that perceived wisdom and discourse in the villages over the prevalence of such loans is overstated.

rates which can be to up to 3-4% per month, or 50% APR (compared to 6-12% for other source, see Table 7). Despite such high interest rates, many households still depend on this source to meet their urgent needs. The borrowers can either repay in cash at an agreed rate or sell their produce (in this case, typically coffee) to the lender after harvest. The sales price for creditors is often lower than the market price, adding another penalty of between one and three percent borrowers. [29] After a borrower repays the full amount owed to the lender they can sell the rest of the product to others if they want. Typically they refrain from doing because they still need a loan for next season and seek to maintain a positive relationship. Unpaid debts will be carried over to the following year, and after many years, if the borrower cannot repay the debt, they need to sell or transfer their land. In difficult production conditions, along with miss-spending of borrowed cash, the likelihood of having to transfer or sell land to lenders increases.

Table 4: Sources of finance for loans by households in the project area showing comparison between two similar surveys.

Source of finance	Tien and Van (2021)	Viet ED (2023)
Traders	11.4%	60%
Shop owners/ local traders	0.9%	
Enterprise	0.3%	n/a
VBSP	52.8%	81%
Woman Union	19.0%	
Commercial banks	2.3%	1%
Relatives (non-/low interest)	1.1%	n/a
Other sources	3.1%	n/a

The ongoing investment and financial needs of farmers and enterprises

The research identified three different segments requiring finance in the project areas - households or individual farmers, farmer groups or 'common interest groups' and MSMEs – findings which had a high degree of similarity to the indicative or general nationwide demand described in Table 2.

Households and farmers

- This segment requires short-term and regular annual investment for taking care of coffee trees, with investment spent on activities such as fertilizers, pesticides, hiring workers for weeding, pruning branches. These expenses typically occur 2-3 times per year (ideally 3-4 times according to acknowledged best practice), and cost VND 10-20 million each time depending on the precise expenses, farm size, etc.

- Less commonly, this segment may require long-term investment for coffee planting or replanting, or crop switching to horticultural activities such as flowers, artichokes and vegetables which are increasingly common in Lac Duong and other neighbouring districts (on account of the temperate climate). This is a big amount of investment but occurs irregularly (once every 10 years or more). It costs about VND 200-250 million for improving the soil and planting new coffee per hectare, depending on type of coffee and production infrastructure being introduced.

- In addition, many households have proposed to the researchers that they would like smaller loans to invest smaller amounts in livestock, growing vegetables, or intercropping with fruit trees as shade trees for their coffee farm to increase their income. These proposed investment costs varied, but costs averaged about VND 30-50 million and were distinguished from the above in that they are smaller loans, intended specifically to increase household income.

- In addition, farmers also have irregular (consumptive) capital needs for emergency cases such as illness, as well as more predictable one-off payments such as children's education. The required amount for these loans is not big - about 5-10 million each time.

Although the 2023 survey found that 81% of households had a VBSP loan, and 60% had a loan from the shops, a further 45% reported an unmet demand for credit, of which 40% wanted less than

29.– The discount forced upon farmers may be about 200 to 400 VND lower per kg for coffee cherries, compared to a typical buying price of 15,000 – 17,000 VND in the 2022/23 harvest season. In the 2018-2021 seasons during a global price slump the prices was less than half than this, increasing the impact of the penalty.

100 million VND, 35% between 100 and 500 million VND; and 25% more than 500 million VND.

Farmers groups / 'common interest groups'

- This segment requires long-term investment in the purchase of equipment and machinery, including construction of infrastructure (such as factories, offices, machinery, and equipment, working facilities) and investment in post-harvest technology (such as coffee processing machines, coffee harvesting machines, etc.).
- They also require working capital to buy seeds and other agricultural inputs, and to buy produce from members for processing, as well as to design, print, label packaging and conduct marketing and sales activities.

Micro, small and medium sized enterprises (MSMEs)

MSMEs are an extremely important factor in the coffee supply chain and they cooperate with farmers, either individually or through collective groups, to support and monitor farming techniques and purchase the produce. Local companies reported in the interviews that they have difficulties in securing investment or credit to purchase machinery and equipment to process high-quality coffee and to promote products. In addition, with the difficulty in accessing capital at the present, these companies also play a small role of providing informal financial services to farmers, such as buying seeds and input materials for farmers or giving farmers an advance in cash (i.e. variations on agricultural value chain finance). The companies use loans mainly in investment of fixed assets and working capital. In addition, companies are always willing to give guarantee to farmers to loan capital from formal/semi-formal financial service providers or/and are willing to act as financial intermediaries between financial service provider to farmers.

4.3. Problems, barriers and solutions to accessing finance

Based on this background, and the example of the studies conducted for Café-REDD as well as the SNV team's experience after over five years working in the community, an emerging theory of change for tackling access to finance can be developed (see Table 5). Although it is specific to the context of in which the Café-REDD project is working, we believe it can be a useful starting point for similar agricultural development projects.

A theory of change identifies the underlying problems, the barriers to solving those problems, and the solutions that need to be implemented to remove the barriers and resolve the problems. It can also be seen from this table that the solutions identified can be easily categorised according to the three components and nine subcomponents of the framework described in Table 1. Although in this instance identified solutions did not correspond to every subcomponent, it shows that the subcomponents themselves from a 'menu' of activity options from which the suitable project activities should be selected. This demonstrates the relevance of such a framework for analysing and then planning how to incorporate similar activities into the design and implementation of other agricultural development projects.[30]

30.– Although in this context you can see that none of the recommended solutions mapped onto component 5 (savings and loans) or 6 (revolving funds), these are activities that have been conducted in the district in the past buy other actors.

Table 5: Indicative theory of change for improving access to finance for climate-smart agriculture in Lac Duong district, Lam Dong - matching proposed solutions to the framework.

<table>
<tr><th>Problems →</th><th>Barriers →</th><th>Solutions →</th><th>Component →</th><th>Sub component</th></tr>
<tr>
<td rowspan="8">• Rural and agricultural clients (farmers, MSMEs, collection groups) report an unmet demand for capital.
• Existing products are not suitable for clients or the required investments in development.
• High administrative costs for clients and financial institutions in rural areas leads to low profitability and reduced competition amongst Fis for the rural segments, reducing innovation and new product development.
• Over reliance on collateral as risk reducing mechanism which many target clients do not have, especially enterprises.
• Real risks for FIs and their clients associated with the poorest consumer segment, agricultural lending and new business models.
• Weak penetration of financial sector innovations, that may reduce costs and risks, into the rural and agricultural lending market.</td>
<td rowspan="8">• Farmers and MSMEs lack awareness of financial products or grant programmes, their eligibility criteria and application processes.
• Financial institutions lack internal capacity to conduct detailed assessments of agricultural practices and agribusinesses.
• There is a high cost and risk to FIs to aggregate farmers in order to create a new market.
• Many FIs, especially Vietnam's MFIs or quasi-MFIs such as Women's Development funds, are capital constrained and cannot grow quickly.
• Implementation of decree 55 regarding collateral-free lending is slow, despite reported success in many places.
• Several credit needs are long term which strains the balance sheets of FIs and makes them less affordable.
• There is no national-level discourse or long-term policy framework creating urgency or momentum for innovation in the rural finance market.</td>
<td>Improve practices of farmers and local enterprises.</td>
<td rowspan="4">Non-financial

Providing technical assistance to get participants ready for financial services and increase the likelihood of accessing financial services.</td>
<td>1 – Better farm and business practices</td>
</tr>
<tr><td>Develop financial literacy of farmers, CIGs, coops and MSMEs.</td><td>2 – Early incorporation of financial training</td></tr>
<tr><td>Support farmers and business to identify and apply for loans or existing public grant programmes.</td><td rowspan="2">3 - Grouping and clustering</td></tr>
<tr><td>Form and strengthen collective interest groups and cooperatives.</td></tr>
<tr><td>Support to improve land use rights for poorest farmers</td><td>Direct provision

Using a project's own resources to provide initial access to financial resources directly to the target beneficiaries, increasingly likelihood of access to other finance in the future.</td><td>4 – Cash, grants or assets</td></tr>
<tr><td>Catalyse and support public-private-producer platforms to develop value-chain linkages.</td><td rowspan="3">Partnerships and engagement

Working with partners who bring in market-based, scalable, and sustainable access to finance or other resources.</td><td>7 – Agribusiness partnerships</td></tr>
<tr><td>Increase capacity of FIs on the agri sector and support development of new products, including facilitating the entry of new FIs to the market if required.</td><td>8 - Financial institutions</td></tr>
<tr><td>Support industry uptake of innovative solutions to reduce costs or lending, enhance uptake, and share risks.</td><td>9 - Advocacy</td></tr>
</table>

4.4. Lessons learned and next steps for Café-REDD

With this full local context in mind, tough decisions need to be made on where to focus resources and effort, which are invariably limited. In April 2022 a 24 month extension was granted to the Café-REDD project, with the purpose to consolidate project approaches and ensure strong legacy and sustainability of project approaches and systems. The SNV team had identified three new, integrated, aspects to strengthen the long-term project impact: leveraging finance, development of the inter-crop value-chains, and women's economic empowerment (see box 2 regarding the women's economic empowerment activities).

Building on the research on access to finance by Tran and Ngo (2021) the Café-REDD team developed plans for five additional activities to increase access to finance and leverage additional finance towards project's objectives (Figure 3). These include activities supporting different types of stakeholders and targeting access to different types of finance, including both public programmes, philanthropic or donor grants, and commercial finance.

Figure 3: Access to finance activities included in the Café-REDD extension phase.

1. Landscape Investment Plan

The development of the integrated "climate-smart landscape investment plan" for the district was designed to be a foundation for the other activities, to mobilise the stakeholders in the public-private-producer partnership and give some more purpose to this PPP platform.

Following a process developed by the 1000 Landscape for One Billion people partnership (see annex 7.3) the plan led the stakeholders to jointly identify priority activities related to accessing further finance. The process of developing the Landscape Investment Plan was highly informative for all stakeholders and proved critical in identifying feasible and high priority activities as well as facilitating stakeholder engagement and buy-in to these activities. Many of which reflected the findings of Tien and Van (2021) and the activities proposed by SNV as part of the project's extension phase. These identified priorities included:

- Enhanced cooperation with banks to increase access to finance for agricultural households and enterprises in the agricultural sector, tourism and artisanal or processing industries.
- Increased, and better coordinated, amounts of "catalytic capital" for small enterprises and co-operatives operating in synergistic economic activities, and improved provision of business development services to help these enterprises grow.
- Maintained coordination and increased effectiveness of existing support to coffee farmers and industry provided by private, public and NGO actors.
- Coordinate and sustain philanthropic donations for landscape restoration and contributions towards delivering Vietnam's 1 Billion trees programme..
- Enhancing or enabling these and other activities through the establishment of a new non-governmental fund.

2. A new livelihood and forest protection fund

The development of a new livelihood and forest protection fund was intended to be a highly innovative blended finance vehicle to raise and transparently and strategically manage finance for contributions of various third parties (for example international donors, philanthropists, domestic government budget from different departments and agencies, and commercial finance from banks) towards different activities in the district that contribute towards the strategic objectives for the landscape. SNV has supported the scoping and feasibility analysis for this fund, and supported all stakeholders to develop a mutual understanding of the fund's potential operational mechanism, objectives and outlining an action plan to fully establish it.

3. Small business incubator

The small business incubator built on a previous project activity, the "off-forest livelihoods investment fund" which supported very small community-based enterprises. The new incubator was designed to focus on growing more established enterprises in both the coffee and intercrop value chains, enhancing job creation and market access. The incubator model would provide a combination of technical training and support and grants to build capacity of those enterprises to grow and scale, as well as directly mobilise further co-investment from other investors and lenders into those enterprises.

Following a multi-stage competitive application and selection process involving local stakeholders in reviewing of the applications, five companies were selected with operations in the coffee, mushroom, macadamia, persimmon, and agro-tourism sectors. These companies were each seeking support for investments in processing equipment and marketing activities in order to enhance their value addition and product offerings, and subsequently expand their customer base.

4. Partnerships with banks to enhance provision of credit to target groups

The project has signed agreements with two banks - Lien Viet Post Bank and Agribank - to enhance the provision of credit to different sub-segments within the project's target audiences. Building on the project's relationship with and data collection on the farmers in the district, the project has credit scored and conducted the banks' Know Your Customer and due diligence processes on 375 farmers (of which 62% were women) with the aim of 'graduating' some of the project's direct beneficiaries into long-term agricultural finance relationships with these two banks, in geographic areas that they were not previously lending to.[31]

31.– For more information on the role of and best practice in credit scoring in agricultural lending in Southeast Asia see Caire, 2018.

5. Supporting access to finance for cooperatives and farmer groups

Lastly, the project is providing training and support to the different farmer groups and cooperatives we have worked with to access other existing financial resources, including (disparate, and uncoordinated) public funds as well as commercial finance, where applicable, in order to strengthen and professionalise the cooperative and farmer group and give them a platform for continued future growth. The project has supported 14 enterprises over a prolonged period of time (between one and five years).

Box 2: Women's economic empowerment and access to finance in the Café-REDD project

Research, and practical experience, in Vietnam has shown that where targeted financial support is available for women and women-owned enterprises, the uptake from these target groups is often lower than expected, largely due to uncertainty, complicated procedures, low awareness, and self-selection bias (ADB, 2023).

In the extension phase, enhancing capacity and confidence of women to participate in different aspects of the project - from landscape governance mechanisms to economic empowerment of women in project-relevant product value-chains – became a specific objective of the project.

These included:

- Conducting training sessions for thirteen women-led enterprises on market trends, business strategy, marketing and sales strategies, and finance and fundraising.
- Supporting four women-led enterprises with catalytic grants though the project's incubator fund and five women's community groups through the 'Off Forest Livelihood Fund'.
- Linking women farmers to formal finance channels through the credit scoring and KYC consultation and data collection - 62% of the farmers credit scored and supported to apply for bank loans were women.

4.5. Contributions of the Cafe-REDD+ project to increasing Access to Finance

While the long-term outcome of access to finance will need to be measured after the project ends, with the inclusion of these five additional activities described above, the full efforts of the project towards increasing access are detailed in Table 6.

It can also be seen from this table that some gaps exist. The project did not have resources, ability, or agency to implement all the solutions identified in the theory of change, and options had to be prioritised. With hindsight, however, some activities that were not selected could either have been addressed by the project itself (such as integration of financial training to farmers early in the project) or through partnerships with other organisations (such partnerships with organisations that deliver village saving and loans association models (VSLAs) in order to more practically build the financial skills of the farmers and households). Using the framework to plan, monitor and reflect, can therefore help project adaptively manage their resources and efforts by illustrating the contributions of each activity to different components that collectively enhance access to finance.

Table 6: How Café-REDD has and will support access to finance to various project activities

Component	Subcomponent	Project activities
Non-financial services	Better farmers and business practices	• Trained >2,000 farmers through farmer field school and study tours. • Provided training, advisory and support services to 14 businesses and the Lac Duong Enterprise Association over multiple years.
	Early incorporation of financial training	• Included in the support and training to enterprises of the incubator.
	Grouping and clustering	• Development of > 30 farmer groups and cooperatives.
Direct provision to finance and assets	Cash, grants or assets	• Provided 182,630 free intercrop trees (111,571 macadamia and 71,059 persimmon) and 498,000 new and improved coffee seedlings, to a total of 3,000 households. • Distribute subsidised or free fertiliser to these same households. • Provide subsidised or free specialised coffee equipment to farmer groups and cooperatives. • Awarded a total of €80,000 in grants to five enterprises who successfully joined our incubator and €40,000 in smaller grants to 9 village or community-led enterprises in our "off forest livelihood investment fund". • Partnered with Him Lam Maca Ltd. To secure additional grants for macadamia planting.
	Savings and loans	• N/A
	Revolving funds	• Established revolving funds for farmers groups to purchase fertilisers.
Partnerships and engagement	Agribusiness partnerships	• Developing strong farmer-company relationships and value chain models (in coffee, the inter-crop value chains -macadamia and persimmon, and in other locally important produce such as vegetables, medicinal plants and mushrooms. veggies/ mushroom sectors). • Conducting joint marketing events with companies to strengthen market for Lac Duong coffee. • Organized the "Trade Connection" sessions to promote products from the district to e-commerce Platform (Viet Harvest) and connecting MSMEs to other trade events.
	Financial institutions	• Partnered with two banks to credit score 375 farmers and directly support the banks to market products to suitable households. • Supported cooperatives, enterprises and farmers to access other public funds and grants.
	Advocacy and influence	• Conducted a webinar on "opportunities to enhance access to finance for farmers and agriculture enterprises in Vietnam". • This paper and further planned events.

5. Conclusions and recommendations

Although this report has primarily focussed on coffee, the underlying problems, barriers and solutions have a high degree of commonality across many different agricultural, aquaculture and forestry subsectors in Vietnam. For example in both rice production and inland aquaculture the role of farmer organisations has, like in the Café-REDD context, been identified as critical for the scaling and maintenance of access to finance.[32] In forestry the combination of the lack of assets owned by MSMEs that could be used as collateral, and an over-reliance on such collateral as a risk-reduction measure by finance providers, has been identified as a barrier to the development of the Vietnamese timber industry.[33] And both these issues- farmer organisations and collateral - are widely recognised in the wider literature and practice as common issues in other sub-sectors and in other countries beyond Vietnam.

As documented above, the process of undertaking the research and applying the findings retrospectively to the framework, and reflecting on the lessons and experience, led to a number of recommendations that the project itself was able to incorporate into later stages. For these reasons we believe that both the solutions implement and the application of the framework as an analytical tool are likely applicable in other upland agricultural contexts in Vietnam, and potentially a wider national or international context. Understanding how these problems can be solved by all development actors, or identifying where and how they are already being resolved un-beknown, can help make a critical advancement in how achieving better access to finance is integrated into the design and implementation of projects, with the objective of strengthening their long-term impacts.

The same process has also led to a number of general recommendations which we believe are useful to a wide variety of stakeholders who have the mandate to, or would benefit from, more broadly supporting access to finance within their activities in order to ultimately advance agricultural development and climate resilience in contexts similar to that of our project. These stakeholders include government and public research agencies, NGOs and international organisations, the private and financial sectors, and donors.

5.1. The framework is a useful tool for analysis, communication and strategic planning

The range of identified barriers can make the task of supporting agricultural households or enterprises to access finance an insurmountable one. Or certainly one that is beyond the agency of an agricultural project alone. Financial service providers believe that farmers or agricultural enterprises are not ready, nor sufficiently low-risk or profitable, to be clients. In many projects, organisations like SNV attempt to work around or ignore these constraints, especially given the role of national-level regulatory and financial sector governance, something beyond the scope of such projects and institutions, in influencing the decision making and capital allocation of these financial institutions.

However, the extent to which the gap between farmers and enterprises and financial institutions is being bridged is being under looked. Many agricultural development actors and projects are likely already contributing towards improved access to finance. Their projects typically provide skills, training and often initial financial support or access to assets to support livelihoods creation for their participants. They often train staff at enterprises,

32.– Vuong, 2015 and Tietze and Villareal 2003, respectively.

33.– World Bank, 2019b, Gromko et al, 2017a and 2017b.

improving their business models and operational skills. They aggregate farmers within farmer groups and link them in value chain models designed to reduce market risks. All these activities directly address the core reasons why farmers or enterprises were previously unattractive to financial institutions, but development actors have not been able to describe or demonstrate the contributions of their project towards increasing access to finance.

By using the framework described in this report as a tool for analysis, communication and partnership building, these activities can then be more strategically woven together with the activities of other actors, or new project activities, to more systematically improve access to finance. Organisations like SNV do not need to deliver activities against all components of the framework – instead some of the activities may not need addressing in a given context, and some can be delivered by other stakeholders and by pursuing a partnership approach where needed. It is by combining these different tools and strategies, some of which are very typical of agricultural development projects, that access to finance can be unlocked.

5.2. Early engagement of financial institutions allows identification of suitable entry points

In the Café-REDD project it was identified that the banks needed to be more formally partnered with in order to resolve some of the finance gaps in the landscape. This is because in Vietnam, especially in rural areas, the banks are the predominant provider of (formal) debt and the most suitable collaborators for access to finance. The banks were engaged only in the second phase of the project although, with the extension phase, the project had the opportunity to re-orientate some resources towards these partnerships. Preferably engagement of financial institutions is conducted early to facilitate deep understanding of their potential entry points and for managing project activities and resources around these possible partnerships.

While this engagement may include banks and formal financial institutions, it may also include other providers of commercial and non-commercial finance. In the Vietnamese context different government managed investment funds and grant facilities are an important source of finance for early-stage enterprises. Facilitating and coordinating access to these government managed funds and grant programmes was identified by Café-REDD as a big opportunity to have impact. From the perspective of the enterprise such catalytic finance is very important, especially among the smallest enterprises or cooperatives. From the perspective of the fund managers, it gives them access to wider networks of impactful recipients who they may not have previously reached out to, or who may not have had the capacity to adequately apply for the funding.

Other types of financial services provider may also be relevant in different context or geographies. While microfinance institutions are not as widespread or prevalent as they are in, say, Cambodia or India, in some parts of the country Vietnam's four MFIs do have strong footprints. This includes TYM in the north of the country and also the microfinance activities of the Vietnam Women's Union's Women's Development Funds in the 11 provinces where they have a presence.

Mapping out these financial institutions, based on the different financial access needs and opportunities of the target groups in a particular project area, and then engaging with them to identify who to partner and collaborate with should be done early so as to maximise the possible contributions of the project towards facilitating access to such financial services.

5.3. National level collaboration is required to scale innovative practice in agricultural finance

In general, neither the report, nor the framework itself, focus on systemic change or advocacy for policy change within the country's banking or finance sector. Such activities occupy just one of nine potential sub-categories of the framework. They are more relevant for only the largest, longest projects with the broadest scope. Instead, the framework and the approach taken within the SNV projects is to work within the constraints and opportunities of the existing financial ecosystem in Vietnam, providing focus and clarity for development actors who wish to enhance access to finance now.

Having said this there would be strong benefits from a cross-project, national level collaboration on innovation and learning in agricultural finance. This should involve different development partners, government agencies and institutions (such as IPSARD) and of course the financial institutes themselves. The objectives should include lessons learned from pilots and innovations and faster dissemination of best practice, as well as coordination with the national Government on potential policy and regulatory changes that would unlock greater access to finance.

This is greatly needed because, despite a few good pilots and case studies - themselves not well documented - there is a low speed of assimilation of new innovations and technologies into mainstream rural and agricultural lending in Vietnam. This can even be seen within the same institutions, with innovations deployed in one district by a bank not being deployed in neighbouring districts where the same innovation would be beneficial.

Several innovations have been implemented and 'piloted' to varying degrees to reduce risks and avoid over-reliance on collateral. The issue with these is that they are not widely available yet, despite excellent feedback. Adoption of the innovations is very variable, with little national, regional or provincial-level strategy being demonstrated by the banks. Three areas of innovation that could be fostered are agricultural value chain financing, fintech and use of digital applications in finance and credit guarantee schemes, described in 7.4 below, but there are several 'low-tech' innovations with wide applicability yet limited footprint, such as the agricultural credit card and mobile bank pilot projects tested by Agribank in some districts.

SNV has sought to contribute towards this innovation agenda in the future by including activities to promote such collaboration in various new or recently commenced projects in Vietnam, such as the VN ADAPT project.[34] These contributions include facilitating dialogue between public sector, private sector and FIs for policy engagement and conducting a review of best practice in value chain finance in Vietnam. Widespread collaboration on these and other activities by financial institutions, development institutions and government would enable more rapid learning from, and roll out of, existing successful innovations.

34.– www.snv.org/project/viet-nam-nature-based-solutions-for-adaptation-in-agriculture

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7. Annexes

7.1. Vietnam's National Financial Inclusion Strategy

Although this report does not specifically tackle policy solutions, it is important to note that the activities being recommended, and the principle of enhancing access to finance generally, are highly supported by Vietnamese Government policy. Therefore, any progress towards these, either directly or indirectly by a project, would likely be well supported. The Government's National Financial Inclusion Strategy (Decision No. 149/QD-TTg, 2020) is the most relevant policy in this regard, and in contains the following relevant objectives:

- Development of a greater variety of providers, distribution channels and financial products and services.
- Promotion of the application of digital technology and enhancing innovations in designing and distribution of financial services and products in a "simple, convenient, friendly, lower-cost, demand-based and affordable manner to all people and enterprises, especially SMEs, rural, remote, low-income and vulnerable people".
- Creation of a legal framework that promotes fair competition, encourages innovation and create favourable conditions for the development of such diversified financial services, product providers and delivery channels.
- Developing sound, effective and sustainable operations of microfinance organizations and programs that aim to serve the poor, low-income people, and micro enterprises, with a broad range of flexible and appropriate products.
- Improving the financial knowledge of people and enterprises to ensure that they can attain appropriate knowledge and skills to choose and using financial services and products.

7.2. Summary of existing rural finance products In Vietnam

Table 7: Summary of credit products and their key terms of the most relevant agricultural and rural finance providers

Financial service provider	Typical or most common credit product	Typical size (VND)	Interest (annual % / APR, as of May 2022)	Key terms and covenants
VBSP	5 year loan	100	6-7%	Must be poor or near poor. Requires land title (red book).[35]
Commercial banks	Working capital and 1-2 year investment loans, some innovation specifically for agriculture.	>50m for individuals >2bn for coops or MSMEs	10-12%	Nearly always requires collateral assets, often several multiples of the loan value. Burdensome and slow approval processes.
MFIs	Typically 6-24 months	10-20m for individuals Up to 1-2bn for coops	5-10%	Monthly repayments and/or some compulsory savings. Often using group model. No/low collateral.
Informal lenders	N/a - flexible cash on demand	Up to 50m	42-60%	Very few. Highly flexible, easy to access. Repayment at harvest time.

35.– These figures are national/general. In Lac Duong district where most of the people borrow from VBSP we found the average loan size is smaller - from VND 20 to VND 50 million. Interest is paid in instalments, principal is paid at the end of the term (5 years), and a small number of borrowers pay back the principle in instalments when they have incomes. To facilitate the payment when due, VBSP mobilizes monthly savings, averaging VND 200,000 per month per person.

7.3. Creating a Landscape Investment Plan

As described in 5.2, the Café-REDD project developed a Landscape Investment Plan as a keystone activity in a set of new activities designed around leveraging finance. The activity was envisaged to be a foundation for the other activities - to mobilise the stakeholders in the public-private-producer partnership and give some legitimacy to activities that had already been identified as highly relevant, but also to identify others that might also be feasible and impactful.

The process of creating this Landscape Investment Plan was indeed highly informative for all stakeholders and proved critical in refining the collective understanding on the finance needs and gaps among the target landscape, people and enterprises, and for identifying some high priority activities and areas for collaboration and resource allocation. The Plan identifies how to mobilize public and private finance for different sustainable land use activities in the district, and it has been designed so that it can be a resource and guide for different actors. The investment plan complements and supports the implementation of the existing provincial and district socio-economic and green growth plans, by, first, engaging a wider-group of stakeholders and partners in the contents of these provincial and district green growth plans (in particular the private sector, including finance industry) and secondly, identifying finance sources and gaps that stakeholders can collectively work together on to mobilise to achieve the district's vision.

SNV is a member of the 1000 Landscape for One Billion people (1000L[36]) partnership, which, through various services, aims to provide the tools, finance and connections that Landscape Partnerships across the world (such as the one supported by Café-REDD in Lac Duong district) need to achieve their visions. 1000L has developed a Landscape Finance Framework (see Figure 4: the Integrated Landscape Finance Framework by 1000L that SNV used to develop the Landscape Finance Plan for the Café-REDD project area.), building on a number of earlier tools created and tested by its partners to guide the design and implementation of activities to advance private, public and community-led investments and activities in landscape-scale transformation strategies. SNV has used this Framework to work with the stakeholders in Lac Duong to collectively deliver the Investment Plan, and strongly recommend the use of such a tool by other actors, early in the project design or implementation process.

Figure 4: The Integrated Landscape Finance Framework by 1000L that SNV used to develop the Landscape Finance Plan for the Café-REDD project area.

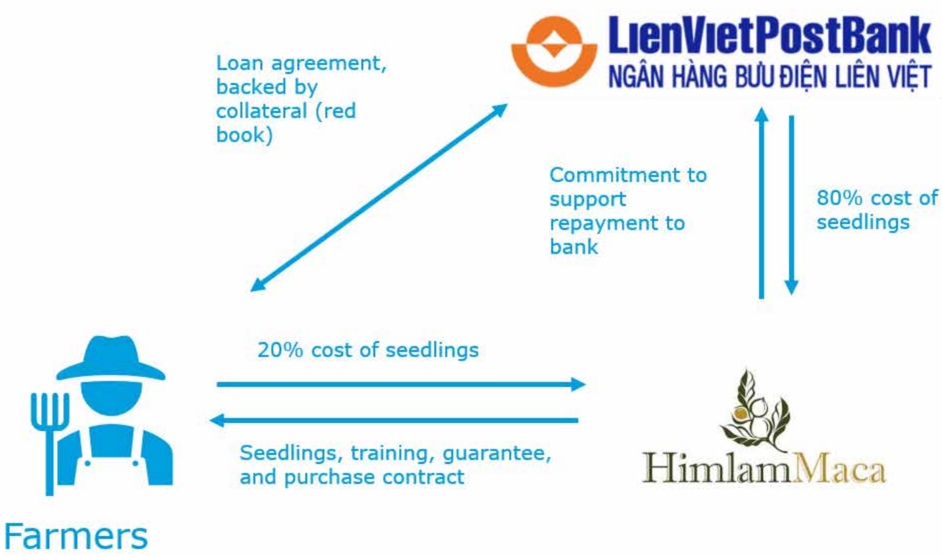
36.– https://landscapes.global/

Use of this tool and the creation of the Landscape Investment Plan led to widespread agreement on the key priorities, which included providing (or co-ordinating access to) catalytic capital for early-stage or small enterprises in the landscape, and the need for formalised partnerships with the financial institutions (in this case - banks) to cooperate on improving access by smallholder farmers to banking products.

7.4. Innovations in agricultural financing in Vietnam

Box 3: Lien Viet Post Bank and Him Lam Maca's value chain finance collaboration

Lien Viet Post Bank and Him Lam Maca (HLM) share similar shareholders, which led to the origination of the partnership. It is a form of combined input credit with a strong yield and purchase guarantee protection also, from the same company.
Under the collaboration, farmers can borrow up to 80% of seedling costs. This is paid by the bank to Him Lam Maca who supply the seedlings to farmers, guarantee them by replacing those that fail to establish, and provide technical assistance to the farmers on nurturing and tending them in the first years. Repayments are in one bullet, yet flexible and linked to yield. However, farmers usually repay in first full harvest (at year 4), but protection is there in case of poor yields.



- **Agricultural Value Chain Financing**. There is little written evidence on the extent of value chain finance in Vietnam, but based on experience and anecdotal information, value chain finance does not seem that prevalent in Vietnam.[37] Where it does exist, it is usually found in well organized high-value agricultural produce chains (high-value fruits and vegetables, high-quality rice) at relatively small scales. Case studies of these can be found in Brauw et al (2020) and Pham et al (2019) and the example of Him Lam Maca's partnership with Lien Viet Post Bank to provide a loan to smallholder farmers for planting macadamia seedlings is documented in Box 3. Similar partnerships to these whereby a financial institution forms a three-party relationship with the company and the farmers is preferable to situation whereby the finance is provided by the company themselves because: for the

37.– World Bank 2019a and Brauw et al, 2020. This finding corresponds with the author's own experience also, and our perception of the opinion of other experts in the field.

farmer it reduces dependency on the company and serves the purpose of building their relationship with the financial institution, and for the company it reduces their own liabilities and means that they do not have to pay for the cost of finance.

- **Fintech and use of digital applications in finance.** Vietnam lags significantly behind in the use of digital financial services, especially among rural populations. As Tran and Ngo (2021) found in their study in Lam Dong, that while a number of digital financial service providers are present (such as Momo wallet, Viettel wallet, Vinapay, QR Pay, and some lenders applying such as FE Credit) these digital technology services are mainly adopted and targeted to populations in cities and urban areas, and they have not been popular in rural areas, especially mountainous areas such as Lac Duong. This is primarily because users are required to have devices such as computers, smartphones and stable internet infrastructure, which is less likely to be the case in the more rural communities. The companies seem in little hurry to solve this and expand services and products to communities that are less likely to be creditworthy or profitable. This may be slowly changing, and we know from Lac Duong that the district has a strategy to collaborate with VBSP and Agribank to ensure all households have a digital bank account. Nguyen and Pham (2020) provide a good description of the impact of digitalising VBSP's services and promoting access to mobile banking in three provinces.

- **Credit guarantee schemes.** These aim to absorb part of the default risk of the borrower, and by providing this level of comfort, incentivise financial institutions to increase credit supply to credit-constrained firms and farmers. Globally, there are numerous such guarantee systems for SMEs, including some focused on agriculture that have been instrumental in promoting credit, particularly to smaller agribusiness SMEs and smallholder farmers (World Bank, 2019a and Benni, 2021). Though these have existed in Vietnam at both national and provincial level, they have not achieved expected results, largely due to design flaws, operating and financial issues (World Bank, 2019a)[38]. Despite these failures, well-functioning (partial) credit guarantees could still have a significant impact on the amount of credit available to rural and agricultural communities and serve to strengthen competition in the market and diversify suppliers. Therefore, there is reason to revisit such mechanisms and improve their design and implementation modalities. Such guarantees can also be established at a micro-level - an example of an innovative project-scale credit guarantee scheme implemented under the DfAT-funded GREAT programme in partnership with Lien Viet Post Bank is provided in Box 4.

38.– VDB's prior national level SME guarantee scheme, established in 2009, covered 100% of losses (too high according to agreed best practice) and charged fees of 0.5% to the guaranteed party, not the guarantor (too low). Such terms can easily lead to moral hazard from financial institutions by overlooking risk management of guaranteed loans. According to World Bank 2019a: "*Disputes between VDB and commercial banks arose on the contingency of payment when loans become overdue. The guarantee facility was discontinued after a few severe disputes.*" The provincial-level guarantees tend to be underfunded and non-operational, and their portfolios are also overexposed to risks in specific commodities/sectors.

Box 4: Lien Viet Post Bank and Viet ED's credit guarantee under the GREAT project

Lien Viet Post Bank and Viet ED Centre collaborated to implement a pilot lending programme among ramie producers in Son La province, northwest Viet Nam. The lending was delivered in partnership with an offtaking company, HTM Drago and was part of the AusAID-funded GREAT project. It included a (100%) credit guarantee to incentivise the bank to take the risk in lending to these farmers. Initial client selection and referral was conducted by the offtaker, and Viet ED supported these farmers with training in both production and financial literacy, and for bank staff on gender issues in agri-financing. The partnership was successful in finding an adaptive solution to overcome structural barriers and meet SBV's regulations and requirements for the loan to be transferred directly to the borrower through a bank account, as well as following the cash flow design of a value chain loan. The case study therefore provides learning and an innovation that can be scaled by other actors. To create the lending programme Viet ED developed and executed legal agreements/MoUs for:

- Project cooperation MoU (between all the partners).
- Pilot lending cooperation MoU between lead firm and the Bank
- Credit guarantee agreement between Bank/FIs and VietED.

In addition to finding a structure that met the SBV regulations, the top three success factors cited were:

1. A careful feasibility assessment to select a sector with high cash flow predictability and high return on investment for producers.
2. A well-designed product with a tri-party agreement (Bank – Business - Borrower) and simplified procedures that reduced the burden and time for paperwork.
3. The guarantee fund that shared the potential risk with LVPB to pilot a new loan product.

Source: GREAT, 2022

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