

CREDIT FOR THE POOR

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The ultimate objective of the socialism is social equality. Under the centrally planned economy in Vietnam, all priorities were given to the public sector, private assets were nationalized and laborers, including workers and peasants became the predominant class in the society and the owners, theoretically, of all public assets in forms of state-run companies, state farms and cooperatives. Experience from that period, however, shows that the subsidized economy met with a lot of difficulties because peasants wanted to have the right to decide on their business and sell products as they wish instead of working in office hours in cooperatives or state farms. As for state-owned factories, they could only operate well when they are mechanized fully and of large size. In small size ones, on the other hand, it seemed that the state couldn't run them as effectively as private businesspersons did. That was why the Lenin's New Economy Policy was adopted: land was granted to peasants and small factories to private persons. The state recognized different classes in the society and rights to own capital goods and real estate, hire workers and leave assets to children.

The state controls large-size state-run companies and the State Bank of Vietnam, and regulates the economy through macroeconomic policies and annual plans for production or industrialization and modernization. In such conditions, the uneven distribution of wealth is inevitable. In other words, in the subsidized economy, everybody was poor, especially badly paid wage earners. Since the economic reform, those who know how to do business have become richer. Civil servants and workers enjoyed better living conditions but they aren't rich enough to have the living standard consistent with their education and skills.

That is the reason for policies to deal with poverty and supply credit to the poor aiming at bridging the gap between the rich and the poor.

1. Definition of the poor

According to the Ministry of Labor, War Invalids and Social Affairs, there are two sets of criteria for identifying the poor. According to the Set I, the poor include those who earn only VND135,000 a month in cities; 90,000 in rural areas and 75,000 in mountainous areas, while the Set II fixes these income levels at VND150,000; 100,000 and 80,000 respectively. If the Set I is applied, the proportion of poor citizens in 2001 is 22% of the



population as compared with 25% if the Set II is applied.

In HCMC where the living standard is higher, the poverty line is fixed since 1997 at VND250,000 a month for residents in the inner city and 200,000 for those who live in suburbs.

2. Funds for credit for the poor

a. Fund at ward level: A survey conducted recently in Ward 14 of Bình Thành District (HCMC) shows that the Credit Fund for the Poor run by the ward authorities in 2001 has VND200 million from various sources: district government, the SBV and voluntary contributions from local residents every year. Poor families that want to get credit from the Fund should produce a feasible business project (small family business, small vendor business, handicraft but no farming because there is no farming land in this ward). In addition, the borrower has to meet other criteria: freedom from social vices, and hard working habits. The credit limit is VND3 million. The Fund has lent all of money it has at an interest rate of 0.6% per month, lower than the base rates of most banks. In Ward 14, a vice-chairperson of the people committee takes charge of this fund and earns a small payment from interest collected. All debts were collected when due, there is no bad debt or defaulter in this ward.

b. CEP Fund: This fund is capitalized by the HCMC Board for Hunger Eradication and Poverty Alleviation. From its establishment (Nov. 2, 1991) to 2000, its capital rose to VND32 billion, and 12.5 billion of which has been lent. In these years, the fund has lent a total of VND333 billion to 169,468 borrowers. All loans are long-term and fiduciary ones. Ms. Nguyễn Thị Hoàng Vân, Director, said that many poor families have been better off due to loans from the Fund. For example, Ms. Đàm Thị Thành of Đa Phước Commune, Bình Chánh District got three loans varying from VND700,000 to VND2 million since 1997 to keep chicken, and now she has repay all debts and is getting rich. Mr. Trần Hữu Thành of Ward 5, Gò Vấp District has opened an embroidery shop and bought a tricycle with three loans from the Fund, the total income of his family is some VND80,000 per day now.

c. Credit Fund for Peasants: Capital of the Fund has amounted to VND287.5 billion including VND164.5 billion from the state and 123 billion from philanthropists. The HCMC Credit Fund for Peasants

holds capital on trust from the Association of Peasants, secures soft loans and manages contributions from philanthropists. Ms. Nguyễn Thị Bé, Bình Chánh District has lent VND50 million to the Fund and then turned it into a donation. Different HCMC governmental agencies (Service of Labor, War Invalids and Social Affairs; Land Registration, etc.) deposited over VND100 million each. Over 9,000 individuals and organizations, from home and abroad, have given donations to the Fund. In 2000, the Fund raised over VND3 billion. The money is used for providing loans to 4,238 borrowers. The total credit supplied reached some VND9 billion in 2000. The Fund planned to raise VND3 billion more in 2001. This target is moderate as compared with the target of VND20 billion set by its Hà Nội counterpart.

These funds have helped with limiting usury (with interest rate of 5-10% a month) and turning borrowers into self-employed laborers: Mr. Lê Văn Môi in Xuân Thới Sơn Commune has borrowed VND2.5 million to raise cows. Mr. Trần Văn A in Nhị Bình Commune, Hóc Môn District used loans from the fund to keep ducks. Twenty members of the Gò Vấp Ornament Tree Cooperative got loans from the Fund and made a total profit of VND176 million from 168,000 vases of ornament tree.

3. Opinions about credit fund for the poor

In Vietnam with a per capita GDP of some US\$400, there is no scheme to provide the old and the unemployed with pensions or benefits. The poor and the old have to depend on relatives, children or neighbors. And now they could enhance their living standard by getting financial support and technical assistance from these funds provided that they are hard working enough. Some foreign observers thought that this practice seemed more effective than the social security schemes in Western countries. They also observed that in districts where soft loans were supplied to the poor, the unemployment rate and social vices were reduced.

Statistics about these funds, however, reveal the following problems:

- The Credit Fund for Peasants is small (VND287.5 billion). In HCMC, only 4,238 families got loans from the Fund. According to the Ministry of Labor, War Invalids and Social Affairs, from 22% to 25% of the population, that is, from 15 to 18 million citizens, are poor. If borrowers are rationed to a loan of VND3 million,

then only 100,000 families can get help from the Fund.

- A loan of VND3 million isn't enough for a peasant to expand or mechanize his farming business that involves too many risks (fluctuations in prices of farm products, bad weather, natural disasters, etc.). It can only turn a jobless laborer into a street vendor or small trader while this group usually disappears in developed countries where residents usually get jobs in factories or offices. In other words, these funds for the poor have unintentionally encouraged small-scale production and business which isn't suitable to the industrialization and modernization program.

- Because of regulations set by these funds, borrowers tend to pay installments for the first loan when due in order to get a new loan (usually a bigger one), therefore repayment when the debt is due doesn't mean that the poverty is reduced.

- The interest rate of 0.6% is still high as compared with the rate adopted by banks in foreign countries, or the rate offered by the SBV to rice trading companies or projects to develop deep-water fishing.

- Although their capital is small, most funds couldn't turn all of their money into loans. The main cause of this situation is the fact that most poor people are reluctant to borrow money from the state, or they couldn't work out a feasible business plan. That is why stronger measures should be taken to deal with the poverty.

The following are our suggestions about this matter.

- Strengthening credit funds for the poor by carrying out various programs: calling for help from international organizations and foreign governments; increasing the money supply; mobilizing all companies to contribute to the funds.

- Lowering the interest rate on loans for the poor, to 0.2% or 0.3% if possible, because the funds are formed with the state subsidies and contributions from philanthropists.

- Linking operations of the funds with the industrialization and modernization program and projects to produce exports, build houses for low-income earners, change the agricultural structure and structure of industry.

In short, the funds could engage in major job creation programs, especially the industrialization and modernization program, instead of increasing the army of street vendors and small traders ■