

FOR BETTER SUPPLY OF BANK CREDIT TO AGRICULTURE AND RURAL DEVELOPMENT

by NGUYỄN ĐỨC HOÀN

Supplying credit to the agricultural production in the coming years is both a political task for the banking system and a new business strategy for commercial banks because the agriculture sector is a big market that can help reduce risk.

On Aug. 28, 2001, the VCP Cadre Board in the SBV worked out the Program of the Banking System to Carry out the 9th VCP Congress Resolution in which the long-term target for the years 2001-2010 is to increase the supply of credit by 16-20% a year; and the medium-term targets by 2005 are to increase the supply of credit by 22% a year reaching VND450,000 billion by 2005, equaling 60% of the GDP and raise the proportion of credit for investment to 25-30% of total credit supplied. The banking system also set the target of raising the credit supplied to the agriculture to 40% of the total credit supplied.

Thus, the credit supplied to the agriculture will amount to VND180,000 billion by 2005 and 350,000 billion by 2010. These targets are feasible because:

- According to experts, an economic growth rate of 1% requires an increase of 5% in investment. To gain a growth rate of 5% in the agricultural output in the next 10 years, the investment from the banking system should increase by 20% a year.

- In the 10-year period from 1990 to 2000, the bank credit supplied to the agriculture rose by 25-28% a year, so the increase of 20% a year in the credit supplied to the agriculture in the coming years is within reach of the banking system. Up to June 30, 2001, the bank credit supplied to the agriculture sector amounted to VND71,900 billion and it was from the following banks:

- + Bank for Agriculture and Rural Development: VND48,000 billion.
- + Bank for the Poor: VND5,300 billion.
- + Bank for Industry and Commerce: VND3,000 billion.
- + Bank for Investment and Development: VND3,700 billion.
- + Bank for Foreign Trade: VND1,900 billion.

- + Bank for Housing in the Mekong Delta: VND2,000 billion.

- + People's Credit Funds: VND3,000 billion.

- + Joint stock commercial banks: VND5,000 billion.

Of this total credit, ordinary loans represent 66.8%, low-interest loan 4.4% and loans for political purposes 28.8%.

- The supply of credit for agriculture always exceeds the demand, the problem is how to direct loans to their destinations.

- There is competition between banks for customers from the agriculture sector. Regulations on lending have been loosened: a peasant family is allowed to borrow up to VND10 million, a farm owner VND20 million and a shrimp farm owner 50 million without any security.

- The SBV introduced a new mechanism for controlling the base rate, commercial banks could decide appropriate lending rate for loans to peasants and the interest rate was reduced to a record level.

- The banking system adopted many solutions needed for carrying out its action program to supply credit to the agriculture sector:

- (1) Reforming the SBV,
- (2) Perfecting the monetary policy,
- (3) Modernizing payment and information systems of the banking business,
- (4) Reorganizing and beefing up the banking inspection mechanism,
- (5) Developing and perfecting the organization of the SBV,
- (6) Beefing up the system of banking institutions, and
- (7) Integrating into the international banking business.

Thus, problem to solve now is to find out solutions to the supply of credit to the agriculture sector. Before discussing these solutions, we want to present here some arguments:

- In developing the agriculture sector under the market mechanism, government subsidies should be reduced and replaced with bank credit. There will be two classes of credits: ordinary credit and preferential credit. Those two classes should be

separated and supplied by different banking institutions.

- The supply of bank credit should ensure three principles:

- (1) Repayable: loans should be repaid when due and they couldn't be considered as subsidies for the poor.

- (2) For clear purpose: loans should be used for clear purposes.

- (3) Effective: loans should be used with care and efficiency.

Solutions to the supply of bank credit to the agriculture sector are as follows:

1. Separating ordinary from preferential credit

At present, the banking system supplies a wide range of credits: for hunger eradication and poverty alleviation program, for job creation program, student assistance program, afforestation program, etc. Many classes of credits are of low interest rates (cuts of 15-30% in the interest rate on loans supplied to remote and depressed areas, islands, mountainous areas, Khmer minority groups, etc.). They may be supplied by the General Treasury, branches of the Investment Support Fund and many other banking institutions. The supply of these credits should be separated from commercial banks and assigned to a Bank for Political Purposes. This solution, after being approved, was realized too slowly. It could be carried out more quickly by using the Bank for the Poor as the core institution and introducing a pilot scheme to supply these credits to districts whose residents are badly in need of preferential loans.

2. Creating fair competition in rural credit business

The mechanism for setting the base rate should be adjusted with a view to making interest rates on rural credit lower and encouraging all kinds of banking institutions to engage in this business. At present, the interest rate on rural credits is unreasonably high (1-1.2% a month). The central bank had better take measure to deal with this problem because the agricultural production is risky and less profitable.

The mechanism for dealing with the credit risk introduced by the SBV

should offer equal treatment to all banking institutions supplying rural credit when borrowers fail to repay debts because of force majeure. The SBV had better adopt a new mechanism that allows banking institutions to supply credits right after natural disasters to victims and the Government had better reduce company profit tax on banking institutions supplying rural credits.

3. Faster issue of the land use certificate

To peasants, the land use certificate could be used as a security when borrowing from banks and it is a basis for banks to supply more loans to peasants. At present, only a small number of peasants has secured this certificate, therefore most of peasants find it difficult to secure bank loan beyond the credit limit.

4. Reforming the procedures for securing rural credit

To secure a bank loan, a peasant has to get some 10 seals and signatures on his application. This procedure costs a lot of time and energy of peasants and lending officials as well. The procedures should be simplified and inspection should be considered as the main measure to prevent credit risk.

5. Amendments to the Laws on State Bank of Vietnam and of Banking Institutions

The laws should be amended with a view to offering more business autonomy to banking institutions. They could be allowed to decide on their staff, procedures for supplying fiduciary loans or expansion of their service network, etc. As for state-owned commercial banks, they also need new regulations on decision making process, salary scale, financial control and cooperation with other banks.

6. Mechanism for handling credits supplied to national programs

Because state-owned commercial banks, especially the Bank for Agriculture and Rural Development, are required to supply credits to many national programs (deep-sea fishing, aid for areas damaged by natural disasters, low-interest loans for depressed areas, building of houses on stilts in the Mekong Delta, development of sugar industry, etc.), the SBV had better grant more capital to these banks or use loans from the WB to increase the working capital

for the Bank for Agriculture and Rural Development.

7. Promotion of export of processed farm products

In Vietnam where 80% of the population live on the agriculture, the domestic market couldn't be seen as the target one. The agricultural production should be oriented towards foreign markets. In recent years, Vietnam has become an important supplier of farm products in the world market. Export of farm products has helped improve the trade balance and the banking system has contributed a lot to this success. Most farm products exported by Vietnam, however, aren't well processed. Because prices of farm products are changeable while most Vietnamese farm products are of poor quality. Production and export of farm products in Vietnam become a risky business for both peasants, exporters and commercial banks, their creditors. Various measures could be taken to deal with this problem and promote the export of Vietnamese farm products:

- Developing the export-oriented agriculture based on natural conditions of each province, instead of concentrating too much on certain plants or animals, in order to produce a wide range of farm products for export.

- Developing the agro-industry based on both foreign and domestic investment on condition that import of all equipment and technologies should be well under control.

- Enhancing the role of the Government in expanding the export market for farm products (launching marketing campaigns through Vietnamese embassies in foreign countries, financing local companies taking part in international trade fairs, supplying business information, protecting the domestic market for farm products before being forced to open it to foreign competition as required by bilateral and multilateral trade agreements, etc.).

- Reforming the public sector with a view to making state-owned companies strong enough to take part in major development projects in rural areas.

- Orienting sources of capital from international financial institutions or foreign governments towards development projects in rural areas, especially social and economic infrastructure projects.

8. More credit for the poor

In Vietnam, there is a bank specializing in providing the poor with financial support. It's the Bank for the Poor. After five years of operation, the Bank has supplied some VND10,000 billion to millions of poor families. At present, some two millions of poor families owe over VND5,300 billion to the Bank. This is a meaningful achievement.

Recent economic development and effort by the banking system have started to change the face of the society as a whole and rural areas in particular, but the poverty is still widespread:

- Poverty in rural areas seems more serious when the general living standard and personal income are improved to a certain extent.

- Many families in rural areas after escaping the poverty could fall into it again when meeting with some risks: bad harvests, natural disasters, illness in the family, etc.

To deal more effectively with the poverty in rural areas, the Government should:

- + make the best use of foreign aid, especially sources of credit,

- + provide the Bank for the Poor with more capital with a view to increasing the average loan for a poor family from VND2 to 4 or 5 million,

- + enhance the role of local governments and civic organizations in channeling credits to poor families and helping them use these credits more effectively,

- + combine the supply of credit to poor families with agricultural extension programs,

- + encourage small scale financial institutions to develop their services in rural areas, and

- + write off debts for families suffering from force majeure and offering preferential credits directly to peasants instead of using such intermediaries as trading or manufacturing companies.

Foreign experience shows that one of the best ways to deal with the poverty is to help the poor get access to the formal financial service. That is why the Government and banking system should take all possible measures to extend more credits to the poor.

In the market economy, the supply of credit tends to exceed the demand, most banks can supply enough credit when customers meet their requirements. Commercial banks had better pay fuller attention to the agriculture sector and peasants and help them to use formal credits effectively to develop their production and export of farm products. ■