

After the collapse of the system of credit unions in 1989-1990, and facing the demand for capital in rural areas, the Prime Minister issued the Decision 390/TTg on July 27, 1993 piloting the new system of People Credit Unions (PCU)

After two years of development of the system, up to January 1996, 557 PCUs have come into being in 41 provinces and cities, five regional credit unions were formed in Hà Tây, An Giang, Bình Định, Hải Hưng and Vĩnh Phú. The

tended to increase fast. The working capital of the system amounted to VNĐ 480,262 million. The capital mobilized locally reached VNĐ294,553 million, representing 62% of the total working capital. The total debit balance amounted to 438,595 million with over 200,000 members receiving loans (that is, around 587 billion were loaned).

After a short period of operation, regional credit unions and the Central Credit Fund have supplied VNĐ56.5 billion to local

well as helpful advisors.

- All local authorities have paid full attention to increasing number of PCUs, attracting new members, creating favorable conditions for formation of PCUs and inspecting carefully before granting licence. Besides new-found PCUs, there were many ones originated from old credit unions established according to the Ordinance on Banking Service.

- Operation of PCUs has won the trust of the people thereby attracting a large sum of dead money.

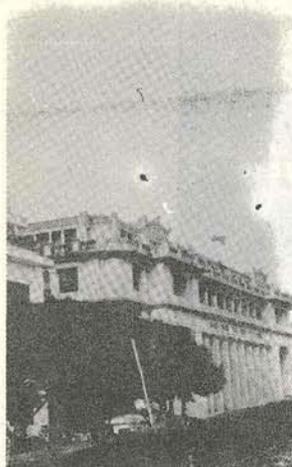
gress has been made. Most PCUs have made a profit, their working capital has become larger and facilities more improved. Many mistakes were made, but after inspections and reorganizations, mistakes were discovered and damage was undone effectively.

- As for the task of managing PCUs, the realization of this pilot scheme has been put directly under the direction of the provincial party committees and governments. Appropriate attention was paid to the task of propagating this scheme. The task of training staff was carried out more actively and successfully: 1,939 managers of PCU took a 15-day training course. Inspection was carried out more regularly. Delegations were sent to foreign countries to make studies of foreign experience. The Vietnam's model of PCU has been appreci-

THE SYSTEM OF PEOPLE

CREDIT UNIONS

ACHIEVEMENTS AND PROBLEMS NEEDED TO BE SOLVED



Central Credit Fund came into operation in August 1995. Thus the system of PCU of three levels was established according to the plan and marked new development of the pilot scheme.

The system of PCUs has attracted 174,399 members with the registered capital of VNĐ54,765 million. Thus, each PCU had a membership of 313 and registered capital of VNĐ98.3 million on average. In its first stage of development, the capital

PCUs. The operation of regional credit unions and the Central Credit Fund has initially won the trust of the people and produced good effect on performance of local PCUs.

We can make the following remarks on the realizations of the pilot scheme in the past two years:

- The pilot scheme for PCUs, in general, has been carried out effectively. Except for some provinces failing to realize the scheme because of natural disasters, most provinces and cities have achieved planned targets. Provincial party committees and local authorities have played well the key role in its direction, and branches of the State Bank have served

Number of PCUs having working capital of over VNĐ1 billion is on the increase, particularly, some of them had working capital of five or seven billion đồngs. This fact showed that it's possible to attract dead money in all localities.

- PCUs not only supplied credit and other banking services to residents, but also encouraged them to save money and help each other in the struggle against poverty and hunger. In localities where PCUs operated well, usury and selling next harvest at low price were reduced.

- Although there were many problems with the ways of managing PCUs, but generally, a lot of pro-

blems were solved.

However, looking back on the realization of this pilot scheme, especially from the beginning of 1995 up to now, we saw the following problems:

- In many provinces and cities, the introduction of this scheme on a larger scale was carried out slowly.

- In operation of PCUs, many regulations were broken: supplying loans to non-members, supplying loans exceeding 10% of own fund, documents of loan supply were unspecified... Many PCUs, driven by the profit motive, have charged a high interest rate regardless of members' common interest.

Other PCUs paid high interest in order to attract capital regardless of the consequences of this deed instead of persuading people to participate in credit unions.

- The propaganda campaign was carried out actively but didn't produced intended results. The task of training and assigning managers was done poorly and unreasonably. Inspections and supervision were carried out with a lot of difficulty although they were done regularly.

- Regional credit unions and the Central Credit Fund didn't play their roles well, they could only supply some capital to PCUs and failed to fulfil other functions such as making a development strategy for the system, supplying services, carrying out safety regulations...

In order to meet requirements of the economic development, especially in agriculture and rural areas, and enhance achievements of the past two years, the program to introduce this pilot scheme on a larger scale must be realized in all provinces and cities in the coming years. "To develop the system actively, safely and effectively" should be considered as the motto. By the end of 1996, we should try our best to establish around 1,000 PCUs and increase this number to 1,700 by the end of 1997. In realizing this program, all measures presented in the Government's guideline must be carried out strictly.

In 1996, according to the governing body of this program, the operation of local PCUs must be enhanced with a view to realizing this program successfully and correctly.

According to the program, in provinces and cities where the pilot scheme hasn't been carried out, local authorities should make preparations and grant licence to qualified PCUs. Credit unions should be established wherever the conditions are favorable. Credit unions of old style (formed according to the Ordinance



on Banking Service) should be encouraged to change into PCU according to the principle of willingness and equality.

Each province, or city, should try to establish, at least, some standard PCUs in town centers.

It's necessary to pay attention to the propaganda campaign in order to inform residents about benefits of PCUs, and this must be carried out continuously. Other tasks (training new staff, carrying out inspection, supervising business operation...) must be also realized more effectively.

The roles of regional credit unions and the Central Credit Fund should be enhanced, and they should operate according to regulations. Regional credit unions could be only formed in localities with suitable conditions.

In the Central Credit Fund, there must be a department looking after the safety of PCU working capital.

The interest rate offered by PCUs should be adjusted correctly with a view to encouraging the mobilization of local dead money, supplying loans of reasonable rate of interest to members and reducing difference in interest rate offered by different PCUs.

The National Assembly had better promulgate Law on PCU, Law on Cooperative in order to provide a legal basis for further development of PCUs.

Inspection and supervision of PCUs, from central to local levels, must be carried out continuously. The realization of the rural financial project in cooperation with Canadian experts should be summed up and pushed ahead with. The Government had better manage to secure the investment of US\$20 million promised by the ADB and attract more foreign capital in order to carry out this program successfully and modernize the system of PCUs ■