

SOME MEASURES TO DEVELOP FINANCE AND MONEY MARKETS IN THE MEKONG DELTA

by PHẠM KHẮC HUỀ

In the process of economic renovation, the agricultural production in the Mekong Delta has developed spectacularly. In the 1991-1994 period, the agricultural output of this delta has gained a growth rate of 6.4% in comparison with the national average of 4.5%. Market gardening has been developed remarkably.

By many standards, however, the Mekong Delta is still an underdeveloped zone: its staples are agricultural and maricultural products; its starting point is low: per capita income was US\$204 in comparison with the national average of US\$213, the unemployment rate was 10%; the illiteracy rate in working population was 19.2%; the effect of manufacturing industry on the agriculture was limited. Particularly, a shortage of capital has become a great obstacle, a main cause of poverty of 90% of households. State credit organizations could supply nearly 20% of capital needed by farmers. Poor farmers, therefore, had to borrow money from usurers.

In the new period, the agricultural production in the Mekong Delta should be industrialized. In order to achieve this target, besides efforts and activeness of the local people, the government's policies are decisive factors. Of these policies, the fiscal-monetary policy has direct effect. This policy should lead to the formation of well-organized finance and money markets with a view to making the best use of savings and enhancing socio-economic effects of capital brought into use.

Studying the finance and money markets in the Mekong Delta, we discern the following sources of capital:

- Loans supplied by credit organizations: after the Ordinance on Banking, many credit organizations have come into being: credit cooperatives, rural joint stock commercial banks, credit unions, state commercial banks... These organizations constituted the main source of capital in the Mekong Delta, attracted thou-



sands of millions VND from the people and changed them into loans. They, especially state commercial banks, became the reliable source of money to local people and have far-reaching effects on all economic sectors.

However, in the new mechanism, these organizations could only supply short-term loans on security with rather high interest rate (from

2.5% to 3% a month). Of these organizations, the Bank for Agriculture is the organization who has branch in each district and has a great sum of money to lend. But its branches satisfied only a part of capital needed by farmers and couldn't attract much dead money from the people.

Credit unions in rural areas have just been in the first stage of development. Although they could supply

loans of low interest rate but they have only made their appearance in some localities. Twelve rural joint stock banks were established but they were of small scale and didn't have much money to lend so they had to borrow from other banks. Credit

However, many friendly societies have engaged in borrowing, investing and lending money, that is, they violated the Ordinance on Banking and made difficult for the government's management.

lowing feasible measures:

- Encouraging formation of credit unions in all 11 provinces of the delta (this matter in the Ordinance on Banking should be amended) and helping them develop into a national network and cooperate with other credit organizations.

- Developing rural joint banks: a pilot scheme for changing branches of Bank for Agriculture into rural joint stock banks could be carried out with a view to attracting much more dead money from the people. This is also a way to create cooperation between the government and the people, and between businesspersons and farmers.

- Encouraging joint stock banks in cities to open branches in rural areas in order to bring surpluses of capital from cities (especially from HCMC) to the Mekong Delta.

- In the policy of the State Bank, there must be programs to support and encourage the development of agricultural production, such as supplying soft loans to persons who buy, store and export agricultural products or those who import and distribute agricultural materials. The government had better, after careful studies, force all commercial banks to allot a percentage of their credit to projects for rural development.

- Forming nondepository financial institutions (such as insurance fund, finance companies, price support fund, rural development fund...) in the Mekong Delta. This is also a precondition for formation of finance and money markets in the Delta ■

Table 1: Forecast of need for capital in the Mekong Delta (VND billion)

| Industry | 1995-2000 | 2001-2010 |
|---------------|-----------|-----------|
| Manufacturing | 13,917 | 68,856 |
| Construction | 1,736 | 8,810 |
| Agriculture | 16,386 | 37,338 |
| Service | 33,517 | 172,087 |
| Total | 65,556 | 287,091 |

Table 2: Deposits and loans from state commercial banks and joint stock commercial banks in the Mekong Delta (up to Aug.15,1995-VND billion)

| | Total | Clients of Bank for Agriculture branches |
|----------------------------|-----------|--|
| Deposit | 2,711.534 | 1,789.5 |
| Loan | 4,754.757 | |
| Medium-and long-term loans | 275.218 | |
| Household borrowers | | 800,000 |

Table 3: Borrowing and lending of credit unions up to Nov.15,1995 (VND billion).

| Province | Number of credit unions | Borrowing | Lending |
|------------|-------------------------|-----------|---------|
| Long An | 9 | 10.604 | 12.417 |
| Tiền Giang | 5 | 2.183 | 3.052 |
| Trà Vinh | 3 | 0.897 | 0.820 |
| Sóc Trăng | 11 | 16.003 | 31.445 |
| An Giang | 19 | 61.159 | 101.540 |
| Kiên Giang | 24 | 40.220 | 60.611 |
| Minh Hải | 3 | 12.007 | 28.875 |

cooperatives have been reorganized according to the Ordinance on Banking but their business performance was poor and they had difficulty in winning the trust of the people.

- Loans from local and central budgets: this is an important source of loans. In 1995, VND250 billion were supplied by job creating program and hundreds of billions were supplied by funds for struggling against hunger and poverty. These loans were of long term and low interest rate, but the procedure for obtaining these loans were complicated, and these loans could make the people to get into the habit of leaning upon the government for help.

- Loans from hundreds of friendly societies and other public organizations: this source of loans is limited but it can reach every hamlets and compete effectively with usurers.

In short, all said organizations have contributed to diversifying forms of borrowing and lending money in the Mekong Delta, developing production, creating new jobs, improving the living standard, and stimulating social activities in rural areas. However, the finance and money markets in this delta were of small scale, not well-organized and lacked cooperation with one another. Being in the first stage of development, they couldn't attract dead money from the people and couldn't find out the source of long-term capital. These organizations didn't play well their role as a stimulus of the development of money and capital markets in rural areas.

For the time being, in my opinion, a reasonable policy for developing finance and money markets in the Mekong Delta should include the fol-

