

- Since the promulgation of the Ordinance on Banking, the banking system has made good progress in its renovation. However, up to 1995, 85% of loans supplied to the economy came from state commercial banks. In the Mekong Delta, the region producing 50% of national food output, the best part of capital employed was supplied by branches of the Bank for Agriculture (BA), other credit organizations could supply only a very small amount of loans.

Integrating itself into the market mechanism, BA has paid a lot of attention to securing supply of capital and ways of attracting deposits, but its deposits were small compared with dead money held by the public, and in its way of doing business, there was the habit of leaning upon the Government for help.

In the Mekong Delta, dead money has been mobilized more effectively by selling certificates of deposit of high interest rate. In seven provinces in the delta, BA mobilized VND534.8 billion in 1994 and VND954 billion in the first half of 1995 from the public.

Regarding the employment of capital, the total debit balance up to the end of 1994 was VND10,752 billion (including delinquency). Around 5,766 billion of which (62.7%) were supplied to 5 million private family businesses (among some 12 million family businesses in the delta).

- After the complete collapse of the system of credit cooperatives, many new ones had been licenced according to the Ordinance on Banking but they couldn't win the trust of the people and attract dead money from them. They are in need of good staff, appropriate regulations and active cooperation between themselves.

- After the Ordinance on Banking was promulgated, over 20 rural joint stock commercial banks (RJSCBs) were established all over the country. Some of them have operated effectively in the Mekong Delta (Cờ Đỏ, Thành Thắng, Nhơn Ái, Cháu Thành, Sóng Kiên, Kiên Long). It's right to encourage the establishment of the RJSCB because this model of credit organization is appropriate to the Mekong delta.

- As for credit unions, there was a pilot scheme to establish credit unions in 14 provinces (five of them are in the Mekong Delta) according to the Decision No 390/TTg decreed by the Prime Minister. In carrying out this scheme, many problems have arisen: slow realization, bad propaganda campaign, poor facilities, shortage of well-trained personnel, etc.

In short, in the Mekong Delta, BA has almost held a monopoly in supplying loans, other kinds of credit organizations have just been established or in the pilot stage. So, it's necessary to form an efficient system of credit organizations in order to mobilize dead money from the people and supply capital needed for the agricultural development in the Mekong Delta.

I. ESTABLISHING AND PERFECTING CREDIT ORGANIZATIONS IN RURAL AREAS

1. Renovating organization and operation of BA branches

- Organization: it's necessary to make the system of BA branches free

organizations with a view to making the best use of its source of capital and helping other credit organizations develop correctly.

2. Establishing RJSCBs in the Mekong Delta

- The Government can encourage the establishment of RJSCBs in the delta by buying 40% of shares issued and not being in control of their operation. RJSCBs can supply loans to farmers and reduce financial burden on the Government.

- Local BA branches can provide RJSCBs with technical and professional advice, and by doing so BA branches can inspect the operation of RJSCBs.

TO FORM AN EFFICIENT SYSTEM OF CREDIT ORGANIZATIONS IN THE MEKONG DELTA

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from middle management and change it into commercial banks of 2-level management. It's not necessary to open branches of BA in localities where there are well-run RJSCBs. Each branch of BA should have well-trained personnel and the ability to compete with other credit organizations.

- The structure of credit supplied of BA: the main target will be to supply medium- and long-term loans, and have short-term loans supplied by other credit organizations.

- Foreign relations: BA should expand its foreign relations in order to attract foreign capital which could be turned into long-term and medium-term loans.

- Investment in other businesses: BA can establish trading companies with its long-term capital or invest in other businesses or credit

- RJSCBs can attract investments from investors living inside and outside the delta because of their profits and privileges granted by the Government.

- Regulations on the operation of RJSCBs can be adjusted with a view to making the best use of active effects produced by these banks.

3. Adjusting the system of credit cooperatives

The model of Canadian Desjardins credit cooperatives shows that there must be the close cooperation between credit cooperatives for their survival and development.

In the Mekong Delta, old credit cooperatives could be transformed into credit unions or JSCBs. In other provinces outside the delta, they could be dissolved and a pilot scheme to form credit unions could be carried out.

This measure is a way to integrate credit cooperatives into credit unions.

4. Perfecting the system of credit unions

- It's necessary to increase number of credit unions in provinces carrying out the pilot scheme, except for Cần Thơ where only RJSCBs are allowed to be established.

- Because of economic conditions in the Mekong Delta, the face value of founders' shares and ordinary shares issued there should be higher than in other provinces.

- At the first stage, the organization of credit unions should be a 2-level system (without the provincial level) in order to help them operate more effectively.

5. Establishing financial leasing companies

We had better carry out the governmental decree no 64-CP promulgating the provisional regulations on the organization and operation of leasing companies in Vietnam as soon as possible. These companies operating in rural areas could help with industrializing the rural economy.

6. Establishing joint venture banks and branches of foreign banks

These banks could attract foreign capital (from international financial institutions, foreign governments, NGOs and foreign private persons).

7. Establishing branches of municipal commercial banks

These branches will transfer capital surpluses in cities to the Mekong Delta.

What mentioned above is an outline of a system of credit organizations in the Mekong Delta which can mobilize and supply capital needed for the development of rural economy.

II. ENHANCING THE ABILITY TO MOBILIZE CAPITAL

1. System of BA branches

By improving ways of mobilizing capital, BA branches in the Mekong Delta could mobilize over VND150 billion in the first half of 1995. Mobilizing around VND1,650 billion from 11 provinces of the delta is within their reach.

2. RJSCBs

If 55 RJSCBs with the minimum authorized capital of VND1 billion each are allowed to be established in 11 provinces of the delta, they can mobilize around VND1,100 billion.

3. Credit unions

In each district, if five credit unions with the minimum authorized capital of VND100 million each are

licensed, the system of credit unions can mobilize around VND1,000 billion.

4. Other source of capital outside the delta

Besides sources of capital from the delta, there are capital from governmental target programs, foreign aid, international organizations... These sources of capital is very abundant and they can supply long-term loans of low interest rate.

Thus, the system of credit organizations in the Mekong Delta can mobilize around VND5,000 billion. So the government should take measures to encourage the formation of this system and make the best use of these sources of capital, then the system of credit organizations can supply a sum of money bigger the said figure.

III. SUPPORTING POLICIES AND MEASURES

1. Government's policies

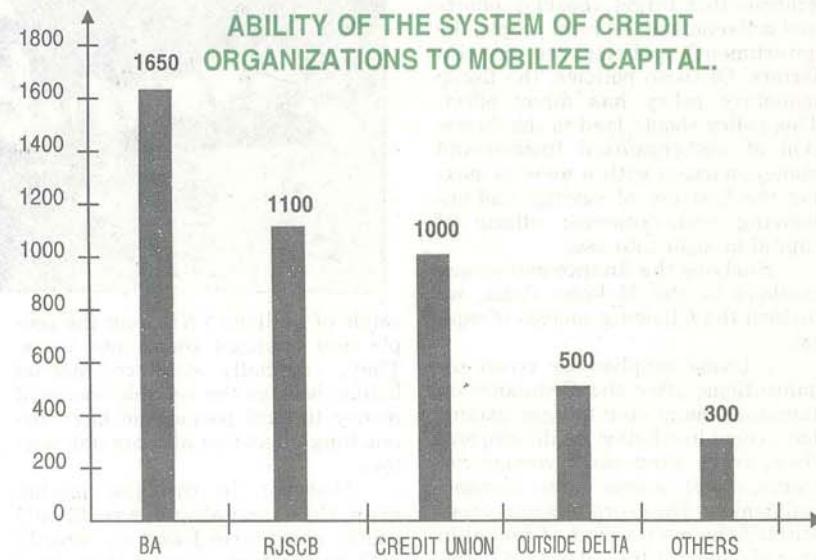
a. Tax reduction

The present corporate income tax of 45% levied on rural credit organizations is too high, with the result that small after-tax dividends will discourage the development of these organizations in rural areas. So we suggest that this tax rate could be reduced to 25%.

b. Formation of funds

- Risk redemption reserve fund: 20% of profits will be set aside to form this fund.

- Capital redemption reserve fund: a percentage of profits equivalent to the inflation rate will be set aside to form this fund. If the percentage is higher than the inflation rate publicized by the Government by the year's end, the difference will be put



into the authorized capital.

2. Supporting measures taken by the State Bank and Bank for Agriculture

- Allowing rural credit organizations to mobilize capital by various ways such as issuing certificates of deposit, bonds, credit bills...

- Giving professional advice and training courses to personnel of rural credit organizations.

- Buying shares issued by non-state credit organizations in order to help and force these organizations to develop in right direction.

- Equitizing BA branches in order to form the source of long- and medium-term loans.

3. Insurance policy for deposits and credits of rural credit organizations

Insurance service could be supplied by insurance companies or by the insurance fund formed by members of the system of credit organizations. Both credits and deposits will be insured. Borrowers will pay a part of premium and the rest will be paid by credit organizations.

4. Making the best use of foreign capital

This will be a source of medium- and long-term loans, and the Government has to make plan to employ this source effectively.

In short, credit organizations in the Mekong Delta at present can only supply a part of capital demanded by farmers, so there must be a plan to form an efficient system of credit organizations of different kinds with the participation of all economic sectors in order to develop the agricultural production in the Mekong Delta.