

Financial Measures to Encourage Economic Growth and Alleviate Poverty in Gia Lai

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1. Gia Lai, a province in the North of Western Highlands, gained a growth rate of 11.5% in the years 2001-05 and reduced the proportion of the poor from 22.4% to 10% (according to the old criteria) in the same period but the proportion of the poor among ethnic groups was still high. The average personal income in Gia Lai is US\$324 a year although local authorities have tried their best to create some 20,000 new jobs a year. Most people in remote districts have no chance to enjoy benefits brought about by the economic growth, such as power and water supply, bank loans, education and health care services.

The structure of industry has changed positively but the agriculture still accounts for 48% of the gross products. Export from Gia Lai is still small. Labor productivity and crop yield is low. Technical advances were not applied to agricultural production. The situation in districts of ethnic group is even worse.

The infrastructure has been improved but at a very low speed. Natural resources in Gia Lai (land, water, forest, and minerals, etc.) are not allocated and exploited effectively. Ethnic groups represent 48% of the provincial population and their low living standards and poverty are great obstacles to the economic growth and poverty alleviation program. Low level of education and skills, and obsolete ways of farming have become problems that require long-term programs.

2. Use of financial instruments and policies in the past

The Gia Lai financial policy has been applied properly and it has helped establish a favorable climate for mobilization of capital and allocation of resources. The National Budget Law, tax laws and other regulations on the public finance have been implemented uniformly, thereby encouraging the economic growth and poverty alleviation. Many private banking institutions have come into being in various towns and helped mobilize large sums of idle money needed for economic development. Insurance business by both state-owned and private companies has started to develop creating a busy market for potential sources of savings.

Local authorities, by implementing financial policies and employing necessary instruments, have helped achieve many encouraging results:

- Gross investment is on the increase, from VND1,726 billion in 2001 to 4,190 in 2005. The public investment accounted for 70% of this figure, private companies some 10% and the rest from the public.

- Besides the grant-in-aid, the central government also supplies capital needed for national programs carried in Gia Lai, such as Programs 168 and 135; Program to build small irrigation systems; and Program to plant five million hectares of forest, etc. This subsidy rose from VND866,722 billion in 2005 to 984,750 billion in 2006 and 1,248,680 billion in 2007. This source of finance allowed Gia Lai to build infrastructure and improve results of plans to develop the economy and alleviate the poverty.

- Provincial budget income rose stably, from VND279 billion in 2001 to 800 billion in 2005 while budget expenditures rose from VND780 billion in 2001 to 2,111 billion in 2005. Of the provincial public expenditure, investment in development projects represented some 32% while regular expenditures reduced by some 15% a year because local authorities tried their best to save money for development projects.

- The supply of capital from banks has increased strongly, from VND786.5 billion in 2000 to 2,389.4 billion in 2005. Total bank lending volume rose from VND3,371 billion in 2001 to 3,689 billion in 2002; 4,837 billion in 2003; 6,378 billion in 2004; and 8,265 billion in 2005.) This source of finance is playing an increasingly important role in the economic development in Gia Lai.

- The insurance business has started to develop in recent years, thereby creating a new source of finance. State-owned insurance agencies supply some non-profit services (medical and social insurance for example) and attract more and more buyers and premiums. Commercial insurance is introduced to all districts, and sales of non-life insurance policies rise by some 20% a year. In the market for life insurance policy, competition become increasingly keen and more and more idle money is turned into investments.

In short, the implementation of financial policies and measures in the past few years has helped alleviate the poverty and encourage the economic growth in recent years. This task, however, also reveals many shortcomings. Some of them are as follows:

+ The implementation of financial policies lacks transparency and fail to regulate effectively all economic activities according to the market mechanism, especially in generating new sources of finance from the public and introducing measures appropriate to conditions in Gia Lai.

+ Financial instruments in use produced limited results and failed to serve the plan to alleviate the poverty.

Expenditures from local budget are distributed among too many fields. Public investment, although big, didn't contribute much to the economic growth while private investment failed to reach its full potential.

Banking services are monotonous. Interest rate didn't reflect the cost of mobilizing capital and supplying loans. Most banks didn't pay full attention to the supply of loans to remote areas to help local people develop their businesses and banks are limited themselves in providing small loans to the poor within the poverty alleviation program. In other words, the banking service failed to play an active role in the economic growth.

+ The insurance business focused mainly on clients who are forced to buy insurance and failed to attract voluntary buyers. Development of the commercial insurance service is fast it is still at a low level, which led to unfair competition among private insurance companies, high fees and costs, small sizes of contracts and unbalanced market for this service.

3. How to perfect financial measures to promote the economic growth and alleviate the poverty

a. Financial measures should aim at making the best use of local comparative advantages (natural resources and conditions) and attracting investment from outside. Priority must be paid to programs in rural areas where the proportion of the poor is high. In other words, local authority had better allocate more financial sources to social problems rather than development projects. To help the provincial government to achieve this aim, the central government should supply more grants-in-aid needed for infrastructure projects in Gia Lai. In addition, all measures must be taken to increase the gross investment by two to three times as compared with the one achieved in the years 2001-05 to change the structure of industry in a positive manner.

b. Sources of finance for the economic growth and poverty alleviation must be diversified by (1) expanding the network of banking institutions in the provinces; (2) exploiting sources of capital from financial institutions; (3) developing the finance market by privatizing state-owned companies and

encouraging private businesses to develop into joint stock companies; and (4) asking for permission to issue provincial bonds.

c. Tasks of controlling and using sources of finance must be beefed up. Public investment must be concentrated in the infrastructure, especially in remote areas, villages of ethnic groups, and border regions where the poverty is widespread. Structure of budget expenditures must be revised regularly with a view to increasing funds for social problems. Necessary measures must be taken to encourage the private sector to produce exports and raw materials. State-owned commercial banks should pay more attention to rural areas, small and medium concerns and specialized farms.

d. Socioeconomic development programs approved by the central government for Gia Lai must be carried out quicker. Most notable are programs to plant and protect forests, resettle nomadic groups, redistribute local residents, give price support to goods and services included in related programs, and ensure low-interest loans from Bank for Agriculture and Rural Development and Bank for Social Policies to remote and distressed areas populated by ethnic groups. In addition, programs to develop education, health care and cultural services must be accelerated.

e. Control over local budget income and expenditures must be delegated partly to local authorities along with corresponding responsibilities in order to encourage local authority become more proactive in their tasks. Structure of public expenditures must be adjusted to local conditions. ■

