

Up to now, all strategies adopted by Vietnam have given top priority to the agricultural sector and rural development. Although income from this sector increases year by year, 85% of poor families live in rural areas and 79% of them live on agricultural production. One of measures to develop rural areas and agricultural production is to reform the financial policy in order to provide this sector with credits and financial support. General surveys show that in fact this reform has been carried too slowly.

Reports by different ministries on the task of modernizing and developing rural areas agreed on one feature:

Banking authorities have made many efforts to generate new sources of capital and diversify forms of credit supply: various kinds of loans for peasants are supplied through banks for agriculture and for the poor and job promotion funds; interest rates have been reduced, limits on open



ON A SOLUTION TO THE RURAL CREDIT MECHANISM

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credits are raised, etc. Banks have cooperated with local governments and electricity authorities to provide open credit of VND1 million at interest rate of 1% - 1.2% for poor families that want to secure power supply, thereby accelerating the electrification in rural areas. However, certain defects still exist: peasants have to spend a lot of time and energy on getting bank loans and they need more assistance from lending officials because most of them didn't know how to make business plans.

Many supporting programs and new regulations on the supply of rural credit have been made by the Government in recent years to promote the agricultural production and rural development such as:

- The program to support particularly depressed area and minority groups by the Ministry of Labor, War Invalids and Social Affairs;

- The programs to repair damage caused by storms in 1999 and 2000, develop deep-water fishing, stabilize prices of farm products, help residents in flood plains to build houses



on stilts, develop and protect forests in the North.

- The program to change structure of plants and alleviate poverty in the South.

These programs are partly financed by international financial organizations (WB, IDA, etc.) or foreign governments (French, Japanese, etc.) with the Bank for Agriculture and Rural Development, along with some commercial banks acting as suppliers of rural credits.

Besides these programs, a fund for agricultural and rural development - called the Fund for Rural Development - has been also established. The SBV issued Decisions 47/QĐ-NHNN on Feb. 28, 1997 and 62/1999/QĐ-NHNN 21 on Feb. 22, 1999 providing regulations on management and use of this fund. To set regulation on the supply of rural credits, the PM issued Decision 67/1999/QĐ-TTg on March 30, 1999 and the SBV issued Circular 01/2000/TT-NHNN on Feb. 2, 2000. According to these regulations, families in rural areas can get open credits up to VND10 million provided that they produce certificates of the land use right; while families with feasible business plans, cooperative and companies in rural areas can borrow over VND10 million on security.

However, rural residents, as well as cooperatives, private businesses and state companies of small and medium sizes, when getting loans from banks, in fact, meet with two difficulties: credit limit and lending procedures.

According to current regulations, normal peasants can get open credits amounting to VND10 million and farm owners VND20 million. This credit limit is only suitable to crop farming and animal husbandry businesses, not to fish farms in coastal areas where big investment, up to hundreds of millions of VND, are needed. Moreover, no civil service is responsible for certifying the size of farms so their owners could borrow VND20 million from banks.

Cooperatives are potential customers for banks because many of them, after being beefed up and reformed according to the Cooperatives Law, have developed and operated well. Many cooperatives need money to carry out projects to build irrigation systems, electricity lines, roads or supply various services beyond the reach of peasant families but they couldn't get bank loans on security because they had no valuable assets while no cooperative members wanted to used their private assets as a security for bank loans.

As for private businesses, they usually meet with open antipathy to them. Most of them are of medium or small size and unable to give something as a security to banks. When they have feasible business plans, they have to spend a lot of time to have these plans approved by the provincial service of planning and investment, and then, by the provincial people's committee before they could persuade banks to give loans. That is why they usually miss business opportunities when the market is changeable. Privates businesses in rural areas usually suffer discrimination in banks' decision on their supply of credits: when making losses, state companies could enjoy exemption from interest payments or other forms of debt settlement while private businesses could be taken to court and have their assets handed to banks.

As for the security for bank loans, the Government issued Decree 178/1999/NĐ-CP on Dec. 29, 1999 providing regulations on mortgage given to banks by borrowers, guarantee by a third party, guarantee by assets formed by loan capital, and fiduciary loans. These regulations, however, are hard to apply because no civil service is responsible for deciding whether a borrower is eligible to open credit or not; or assessing values of assets mortgaged to banks. In addition, these regulations aren't consistent and clear enough. For example, because of the requirement for a security for bank loans, lending officials tend to insist on security instead of paying full attention to business performance or financial situation of customers. This practice proved ineffective and harmful because when customers fail, banks usually meet with great difficulties in selling mortgaged assets and collecting debts.

As for the supply of loans to peasants with their certificate of land use right as a security, the bank has to assess the value of land, as stipulated in the 1999 Amended Land Law and Decrees 17 and 178/1999/NĐ-CP dated Dec. 29, 1999, based on prices of land fixed by provincial and municipal people's committees. After assessing the land value, the bank usually provide small loans because the fixed prices of land are always lower than the market prices. As for public land leased to peasants who have paid fees for land use for under five years (the most common cases now) and land allocated to peasants without fees for land use to grow crops, aquatic products or produce salt, peasants have no right to have the value of the land assessed. In this case,

these peasants can't secure bank loans.

Generally, from 1997 on, many policies and mechanisms have been adopted to create opportunities to make investment in rural areas. The credit limit rose from VND2 million per peasant family in 1997 to VND10 million in 2000 and to VND20 million as of August 2001. Until recently, the SBV has gathered opinions about the amendments to Decree 178/1999/NĐ-CP dated Dec. 29, 1999 with a view to handling obstacles to the supply of rural credit. Some of suggested amendments are as follows:

- The bank could be allowed to assess the value of land according to the market price without consulting the price list made by provincial governments.

- Borrowers could require a third party that is foreign individual or organization to guarantee repayment of bank loans.

- Banks could do their business or supply all kind of services provided that these services aren't banned by laws. For example, besides eight classes of customers to whom the banks aren't allowed to supply credits, banks could provide loans for anybody without seeking for approval from their superiors.

On Aug. 6, 2001, the SBV agreed to raise the credit limit on loan to farm owners to VND50 million.

Another problem to solve is the cooperation between governmental bodies in facilitating the supply of rural credit. Although the Decree 178/1999/NĐ-CP dated Dec. 29, 1999, Article 39, orders Ministries of Police, Communications and Transport, and of Fisheries to give guidelines on the use of certificates of registered means of transport and of fishing boats as security given to banks, these ministries haven't issued any circular or guideline to their subordinate agencies and offices. And as a result, certain customers couldn't secure bank loans.

Most peasants and companies in rural areas are badly in need of capital. The removal of limits on the maximum lending rate has allowed banks to give more financial support to rural development. New financial mechanisms have encouraged poor peasants to seek for and use banking services. Banking authorities had better give top priority to the removal of regulations on interest rates and loans supplied according to orders from local governments. The rural and agricultural development depends not only on cuts in the interest rate, but also reforms in the banking system and administrative procedures ■