

Up to now, rural residents constitute some 80% of the population of Vietnam, and Vietnam's main export staples are still agricultural products (rice, coffee, rubber, cashew nut and seafood), so agricultural production still attracts a lot of bank investment. At present, besides the system of Banks for Agriculture and Rural Development (BARD), there are 30 rural commercial banks, some 1,000 rural credit funds and many other credit organizations that supply credits to rural residents, but the leading role is played by the system of BARD.

In 1997, the system of BARD loaned over VNĐ12,000 billion to farmers: farmers of grade 1 got 4.19 million on average, and those of grade 2: 17.18 million. In other words, about 4.18 million were loaned to a farmer. At the end of 1997, total outstanding loans for



## PROBLEMS WITH SUPPLY OF LOANS TO FARMERS

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production reached 13,000 billion, or 61.9% of the total and increasing by 6.3% in comparison with 1996: 93.8% of the total debt were owed by farmers of grade 1 (each farmer owed 3.56 million on average) and 6.2% by farmers of grade 2 (each farmer owed 11.59 million on average). Around 3.3 million farmers (representing 27.5% of farmer families of the country) were debtors of the system of BARD.

In the structure of bank investment, long- and medium-term investment represented 27.4%. Proportion of long- and medium-term investment in production families increased steadily and reached 23.37% of total loan to production families at the end of 1997.

Farmer families in the Mekong Delta were main borrowers: total loan supplied to this region reached VNĐ 3,548 billion in 1997 increasing by 14.3% while total loan to the Eastern South Vietnam were 1,715 billion increasing by 19.2%, to coastal provinces of Central Vietnam: 1,412 billion, increasing by 15.5%. But in the former 4<sup>th</sup> region and the Hồng Delta, the total loan supplied decreased last year, however, not all provinces in these regions borrowed less last year, remarkable increases in total loan supplied could be seen in Hải Dương (20.0%), Quảng Nam (30.01%), Cần Thơ (41.25%), Thủ Đức (22.7%) and Bến Tre (7.55%).

Although more loans were supplied, the demand of rural areas for capital hasn't been satisfied and there are many problems with the supply of loans to farmers.





Document of the highest authority dealing with procedures for supplying credit to farmers is the Directive 1700/NHN-03 signed by the BARD Governor on Nov. 14, 1996 on mortgage and guarantee procedures. However, certain regulations set up by this directive are too complicated and make it difficult for farmers to secure bank loans. This is the main cause that limits the supply of credit and operation of BARD branches.

The average loan supplied to a farmer family was VNĐ3.73 million, however this average varied over regions, from 9.26 million in Central Highlands (the highest level) to 6.45 million in Eastern South Vietnam and 5.65 million in coastal provinces of Central Vietnam. This situation requires flexible policies and measures appropriate to each region to increase the supply of credit, make banking procedures simple and preserve banks' capital funds.

The task of granting certificate of land use right was carried out slowly, only 42.3% of certificates are granted up to now. This situation has preventing many farmers from getting bank loans by mortgaging these certificates. Although the Article 367 of the Civil Code allows guarantees by public organizations and governmental bodies to banks, the government hasn't issued guidelines on this procedure with the result that banks refuse to grant fiduciary loans.

Banks also met with a lot of difficulties in selling mortgaged assets because of lack of help from related bodies (courts, police and ushers). In many provinces and cities, auction company under the Decree 86/CP of the Government hasn't been formed, therefore banks couldn't sell assets mortgaged to them in order to retrieve their investment. That is why the percentage of bad loans was high in many banks.

The quality of notary public services were poor. According to the Decree 31/CP, only notaries public and district People's Committees are authorized to certify documents, but farmers living in rural areas, especially remote ones, found it difficult to have their title deeds certified before they could use them as security to get loans from bank. This situation also causes bad effects on banking business and no measures have been taken to clarify responsi-

bility of notaries for this problem.

To borrow 5 million or more from banks, farmers had to complete too many documents, especially ones needed for mortgage agreements. This fact prevents banks from expanding their operation because farmers who could borrow 5 million or more represent only 24% of debtors but the better part of total loan is supplied to them.

Banks in certain provinces supplied loans through representatives of local residents and failed to complete required procedures and make necessary enquiries about customers, therefore they suffered high proportion of overdue debts. Many banking services, such as supplying direct and indirect loans to customers; wholesale and retail banking, loaning according to investment projects; supplying fiduciary loans; sup-



plying loans through mobile banks, etc. haven't been proved by experiments, therefore the quality of banking service wasn't improved.

In rural areas, bank loans are needed not only for production, but also for personal spending and infrastructure building. Moreover, recent development of large-scale farms, of agro-industries and mechanization of agricultural production in rural areas require big investment but not all farmers have something to mortgage to the bank.

Lending officials (most of them are working in rural areas) haven't been trained in both banking services and credit policies, so many mistakes have been made and most

lending officials tend to require customers to fulfil too many unnecessary procedures or supply too many documents.

At present, some 98% of loans are supplied directly to farmers with the result that the workload becomes too heavy for the army of lending officials. An official usually has to take care of 450-500 customers. In certain banks, this number mounts to 600, or even 700. That is why they can't make credit enquiries about their customers or do follow-ups as required in following months. All of above-mentioned problems have helped to raise the proportion of bad and overdue loans (this proportion reached an alarming mark of 7.0% in 1997.)

In many BARD branches, because there are too many customers, outstanding loans are big and the road network is very poor, many lending officials who are afraid of burden of responsibility, of banking regulators and decreases in their salaries when the proportion of overdue debt rises have decided to tighten up on supply of loan. Meanwhile, agricultural production depends a lot on natural conditions and can be damaged by natural disasters and there are no policies to provide insurance against damage caused to crop and animal farming. In Vietnam, the storm Linda caused bad effects on life of millions of farmers in the Mekong Delta (the damage was estimated at about VNĐ5,000 billion). Some 3,000 fishing boats were lost or wrecked and it will take years to rebuild this fleet. The shortage of bank loan to rural areas and changes in

lending rate have led to unfair competition and corruption. In addition, loan quality is also affected by social evils, such as gambling, smuggling and commercial fraud.

Many local governments tend to think that the banking system is responsible for supplying loan to farmers and they take no measures to help farmers get loans from banks and help banks retrieve debts when due.

Problems arising from the supply of loans to farmers have become more serious and require strong measures to help the banking system play well its role in the economic development. ■