

Evaluate the Effectiveness of Providing Credit to the Poor of Vietnam Bank for Social Policies

Hoang Minh Hien Wei Huai An

College of Public Administration, Huazhong University of Science Technology, 1037 Luoyu Road, Hongshan District, Wuhan 430074, P.R.China

Abstract

For more than 17 years of operation, the quality of service to the poor of Vietnam Bank for Social Policies (VBSP) has been continuously improved and shown certain effects on social life, especially on the poor, but limitations do exist, in terms of capital sources, loan duration, human resource training etc. Therefore, this study is designed to assess the program's contribution to improving the production and life of poor households. Research results from 800 questionnaires interviewing poor households and loan officers across Vietnam. At the same time, collect and analyze data on the status of poverty reduction program activities through VBSP's annual reports, in order to find out existing problems and propose solutions to improve the efficiency of the program

Keywords: Vietnam Bank for Social Policies, poor household, loan officer, policy, credit.

DOI: 10.7176/PPAR/9-12-06

Publication date: December 31st 2019

1. Introduction

After more than 20 years of renovation, Vietnam's economy has achieved remarkable results: the average GDP growth rate is approximately 7% / year in the period of 2013-2018. GDP per capita is from 140 USD in 1992 to 3,123 USD in 2018. However, besides these achievements, the development of market economy and regional economic integration has raised many pressing issues, including rich and poverty gap and social stratification. In developing countries in general and in Vietnam in particular, poverty still accounts for a large proportion.

From the viewpoint that if poverty is unresolved, there is no goal achieved. On October 4, 2002, the Prime Minister issued Decision No. 131/TTg to establish the Vietnam Bank for Social Policies on the basis of reorganizing the Bank for the Poor.

Vietnam Bank for Social Policies has an important role in the entire credit system serving poverty reduction. Despite continuous efforts, there are still issues in lending to the Poor such as loan duration is not consistent to each loan purpose, low efficiency in using loan, and poor capital management. Thus, the result is not yet meet with requirements and expectations of the State and the people .

The study is carried out to evaluate the effectiveness of loan implementation to draw out the shortcomings in lending policy for the poor, thereby offering solutions to improve the policy to enable more people to get out of poverty without falling back into poverty again.

2. Overview of the current poverty situation in Vietnam

Vietnam is home to nearly 95 million people. Two thirds of the population (over 60 million) resides in rural areas. Since 1986, various reforms under Doi Moi have stimulated rapid economic growth and development in the country. As a result, Vietnam transformed from one of the poorest countries in the world to a low-middle-income country. According to World Bank data, in 2018, the country's Gross Domestic Product (GDP) was 240.5 billion USD. People's income has increased significantly, so far, in 2018 has exceeded more than 3,000 USD / person. Vietnam has a favorable demographic of the young workforce with about 65% of the population under 35 years old. According to data, by 2021, more than 15 million people between the ages of 10 and 19 will join the labor market.

According to the United Nations Development Program in Vietnam , in 2017 Vietnam's human development index ranked 116 out of 189 countries. Global Finance magazine released the ranking of the richest countries in the world in 2019, in which Vietnam ranked 128 out of 192 countries, the combined poverty index ranks 41 out of 95 countries.

The World Economic Forum 2017 ranked Vietnam's competitiveness 55/137; The World Bank ranks Vietnam's business environment 68th out of 190 countries and territories. Vietnam's sustainable development index in 2017 was 68/157 countries and territories.

In the early 1990s, the Vietnamese government launched the Poverty Alleviation Program with a call from the World Bank . UNDP believes that although Vietnam has achieved sustained economic growth and impressive results in reducing poverty, extreme poverty still exists in some areas.

Until 2018 , according to the above poverty line, Vietnam has about 5 million poor households. However, on the Vietnam National Assembly forum , many delegates said that the reduction in the proportion of poor households does not reflect the fact that the number of poor people in society does not decrease, even increases

due to the impact of inflation and economic downturn. The current national poverty line of Vietnam is composed of households with an average income from 800,000 to 1,000,000 VND / person / month. Even so, many households who have just escaped from poverty are still very likely to fall back into poverty. In the next decade, Vietnam's efforts to integrate into the global economy will create many opportunities for growth, but also pose challenges to the cause of poverty reduction.

In rural areas, the rate of poverty reduction is slower than in urban areas but relatively stable. Accordingly, in the period of 1993 - 2004, the rate of poor people decreased from 58.1% (in 1993) to 19.4% (in 2004); In the period of 2011 - 2015, the proportion of the poor decreased from 14.2% (in 2010) to 4.25% (in 2016). According to the new standard: as of 2018 the percentage of poor people has reduced to 6%; The average rate of poor households in poor districts is reduced to below 40%; Poor households in extremely disadvantaged communes, coastal areas and islands, ethnic minority and mountainous areas have decreased by 3% - 4% compared to 2016.

The distribution of poor households among regions and areas is uneven. In 2018, although the national poverty rate dropped to only 6%, the disparity in the number of poor households across regions was very large, particularly the poverty rate in the North accounted for 96.7% (including 25 provinces), the central region 1.7% (19 provinces), the south 1.6 (19 provinces) of the total number of poor households in the country. Chart 1

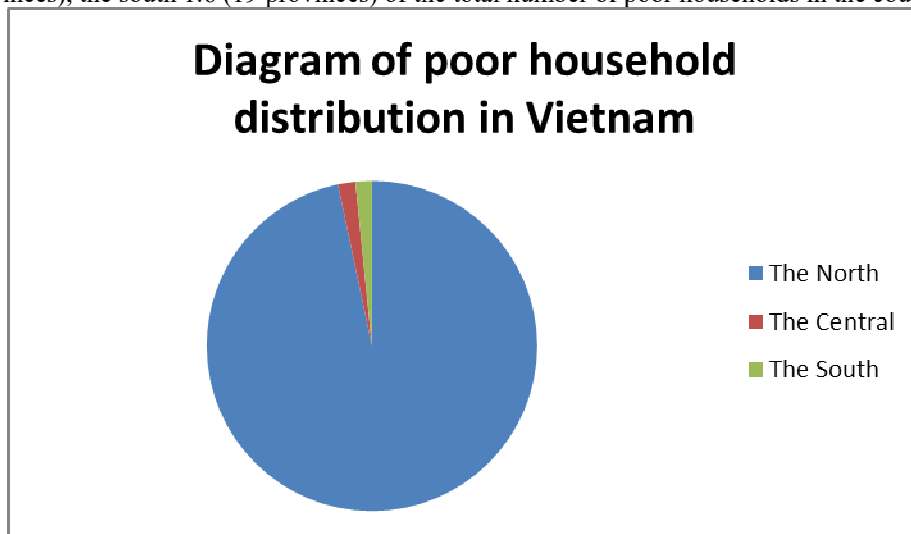


Figure 1: Diagram of poor household distribution in Vietnam

The North has a high rate of poor households because it is home to many ethnic minorities. The average income of ethnic minority households in many places is only 40-50% of the average income in the area; the percentage of ethnic minority population accounts for 14.6% but the rate of poor households accounts for 52.7% of the poor households of the country ... In addition, people suffer many risks in life and production without preventive measures leading to re-falling back into poverty such as natural disasters, epidemics, pests, traffic accidents, labor accidents, unemployment etc.

According to statistics of the Ministry of Labor, War Invalids and Social Affairs, by the end of 2016, the country had 61 districts with a population of 2.4 million people in 20 provinces with a poverty rate of over 50%. The highest incidence of multidimensional poverty was in the Northern Uplands and the Mekong River Delta (9.6%), followed by the Central Highlands (9.4%) (in the South). The rate for the Kinh people is 6.4% compared to 76.2% for H'mong people, 37.5% for Dao and 24% for Khmer. The multidimensional poverty rate in urban areas is 2.1% while that of rural areas is 6.45%.

However, with efforts to reduce poverty, Vietnam has eradicated poverty for tens of millions of people, pushed back and eradicated hunger in the country. Vietnamese people not only have food, clothing and education, but also have enough food, nutrients, warm and nice clothes; essential infrastructure to care for people are getting better and better.

3. The concept

3.1 Concept of poverty

3.1.1 International concept of poverty

Economic and Social Commission for Asia and the Pacific (ESCAP) in 1993 defined: "Poverty is a state of condition where a part of the population lacks basic human needs and is recognized upon local economic development status and social customs and practices".

3.1.2 The concept of poverty and hunger in Vietnam.

Poverty: A part of the population who is unable to meet the basic needs to sustain a life.

Hunger: A part of poor people living on less than minimum income and not enough to ensure physical demand to

sustain a life.

3.2 Concept and role of credit to poor households

3.2.1 Concept of credit to poor households:

Credit for poor households are those credits only for the poor, with working capacity but lack of funds to develop production in a given time, borrowers must repay principal amount and interest; depending on the capital source, lending interest can be favorable to help the poor quickly overcome poverty to integrate into the community.

3.2.2 The role of credit to poor households

Among many causes leading to poverty, the major cause is due to lack of funds and business knowledge. Capital, technology, business knowledge is a "key" for poor families to escape poverty. Because of capital shortage, many people are trapped into a circle of usury, selling harvest in advance, pledge their land to ensure daily basic needs thus, poverty and hunger always threaten their lives. On the other hand, due to lack of business knowledge, they keep old methods of production and business without applying new technology to increase productivity, thus, making production less effective. Lack of technical and business knowledge is the major barrier to income and living improvement for poor households. Credit to poor households plays a very important role:

- Motivation to help poor households overcome poverty.
- Creating conditions for poor households to avoid high interest loan, so their economic performance will be improved
- Helping poor households to improve their knowledge to access to the market, to facilitate production and business activities in the market economy
- Contribute directly to the restructuring of agricultural and rural economy and to social labor redistribution
- Providing capital for poor households to contribute to building a new countryside
- Enhance the effectiveness of the Party's committees and authorities in leading and directing the local economy.
- Create a close association between members and their associations and organizations through giving guidance on production techniques, family economic management experience, and economic interests of the organizations through borrowing.

The results of economic development have changed the economic life in rural areas, ensure security, social order and safety, limiting negative aspects, creating a new face in the rural social and economic life.

4. Conditions, principles, credit amount:

4.1. Credit principles.

Poor households borrowing money from VBSP must ensure principles, that is, use loans for the right purpose and repay loan principals and interests on time as agreed.

4.2. Loan conditions:

VBSP provides loans to poor households who fully meet following conditions:

First, the borrower must have a permanent residence registration or long-term temporary registration in the locality where the loan is given;

Secondly, the borrower must be in the list of poor households in the commune (ward, town) according to the poverty line announced by the Ministry of Labor, War Invalids and Social Affairs in each period;

Thirdly, the borrower does not have to mortgage assets and is exempted from the fee for loan procedures but must be a member of a Savings and Credit group, publicly nominated by the group in the list of borrowers requesting for VBSP's loan certified by Communal People's Committee;

Fourth, the head of household or his/her authorized heir must be the representative responsible in all relations with VBSP.

4.3 Loan size

The lending amount for each poor household is determined based on: borrowing demand, equity capital and debt repayment capacity of the borrower. Each household can borrow one or more times but the total outstanding loan does not exceed the maximum loan limit for a poor household as decided and announced by the Prime Minister or the Board of Directors of VBSP in each period.

4.4 Lending interest rate

Lending interest rate of Lending for the Poor Program is a preferential interest rate decided by the Prime Minister for each period, consistent nationwide. Currently, this interest rate is 0.55% per month which can be said to be very preferential for the poor. In addition, at branches with entrusted capital of local governments, domestic and foreign organizations and individuals, under entrustment contracts, there are separate interest rates

for each capital source decided by donors. The overdue debt interest rate is equal to 130% of the loan interest rate.

5. Credit performance of VBSP's Lending to the Poor Program

5.1 Capital for lending to the poor

Lending capital of the Program over years is presented in Table 01 .

Table 01 : Funding for lending to poor households (2010 - 2018)

Year	Total capital (billion VND)	Capital for lending to the poor (billion VND)	Proportion of lending to the poor capital to the total capital (%)
2010	91.897	37.972	41,3
2011	105.490	38.482	36.4
2012	122.260	41.560	33.9
2013	129.210	41.650	32.2
2014	136.450	39.252	28.7
2015	146.462	36.384	24.8
2016	162.466	38.653	23.7
2017	178.675	38.148	21.3
2018	198.791	39.148	19.6

Source : Credit report of VBSP from 2010 to 2018 .

Table 01, the capital source for lending to poor households has increased steadily over the years and always accounts for a high proportion in the total capital of VBSP. However, the ratio of loans to poor households to total funding sources has decreased due to the expansion of lending programs to poor households and other policy beneficiaries assigned by the Government, while the state budget is limited. This difficulty is also consistent with the current operational situation of VBSP. VBSP is implementing many preferential credit programs, the total amount of capital must increase, resulting in decrease in the proportion of the capital of the poor household lending program.

5.2 Loan size:

The maximum lending amount to poor households has been gradually increased by VBSP in accordance with the scale of capital growth, as well as the needs and ability to use loans of poor households. From 2010 to October 2013, the maximum loan amount was VND 15 million / household; from November 2013 to February 2016, the maximum loan amount was VND 30 million / household; from 3/2016 to 2018 year, it was VND 50 million / household and from March 2019, the maximum amount increased to VND 100 million/household.

However, the maximum loan amount of VND 100 million is still not enough for households raising cattle for breeding, taking meat or milk, planting industrial crops, perennial fruit trees, and aquatic rearing and fishing and handicraft production, thus, poor households find it hard to promote the efficiency of using borrowing capital to rise out of poverty sustainably. That is one of the reasons leading to the re-poor situation and the bank faces many difficulties in recovering debts on due.

5.3. Interest rate

The difference in the interest rate regulated by VBSP compared to commercial banks is that the current lending rate for poor households is 0.55% / month and is agreed on a national scale, regardless of short, medium or long-term loan.

The lending interest rate for poor households is also changed from time to time. The statistics of changes in lending rates are shown in Table 02 below:

Table 02 : Change in interest rates of The Lending to the Poor Program by period

Unit: % / month

Interest rates applied for poor households	01/6/2010 - 31/12/2013	01/01/2014 – 30/6/2018	From 01/7/2018 to the present
The communal areas III, extremely disadvantaged communes	0.6	0.65	0.55
Other communes	0.65		

Source: Vietnam Bank for Social Policies, 2018

As above shows, the lending interest rate for poor households has been increased gradually over time . With the current lending interest rates, it has helped poor households in difficult times, reducing input costs, low production costs and higher incomes. But the disadvantage of low interest rates is that every year, the state budget has to spend a large amount to subsidize the interest rate differences for VBSP. On the other hand, with

such lending interest rates, it may make the poor to be more dependable and passive. In the context of economic inflation and increasing deposit interest rates of commercial bank, it may cause the state of using capital for wrong purposes.

5.4 Lending method

VBSP's credit programs (including Lending to the Poor Program) are implemented through entrusting some stages of the lending process (called partial entrusted lending) under entrustment contracts.

The entrustment of loans through mass organizations has great meanings: VBSP is proactive in managing the State's capital and assets; implementing the principle of "socialization of banking activities", in order to mobilize the synergy of the whole society, contributing to the implementation of the National Target Program on poverty reduction and employment; socio-political organizations have more opportunities to approach the people regularly, contributing to strengthening the grassroots political system, contributing to socio-political stability; and reducing social management costs.

5.5. Results of the Lending to the Poor Program (2010 - 2018)

In 2010, total outstanding loans are VND 37.972 billion. As of 31/12/2018 The program has a total outstanding loan of VND 39,148 billion, with 1,52 million active borrowing households and outstanding loans growing continuously over the years.

With the above statistic, the average annual loan growth rate of the Lending to the Poor Program at VBSP is 18.8%. Lending growth and debt collection of the Program grew steadily over the years.

As of December 31, 2018, the total 17-year lending reached VND 155.126 billion, debt collection was VND 122.228 billion, with 14,265 billion turns of households borrowing loans, contributing to help the poor households partially solve difficulties in capital for production, business and dealing with essential needs for housing, electricity, lighting, clean water and schooling expenses for children attending secondary schools.

By the end of 2018, the number of active borrowing poor households is more than 4,737 million households, on average, each poor household can get a loan of VND 25,8 million. After 17 years of operation of VBSP, the total number of households escaping from the poverty line was 4,534,695 households.

The quality of lending to poor households is shown in many aspects, VBSP offers loans to poor households with low interest rates and no collaterals, thus, the risk of lending is very high due to the financial capacity of the poor, unfavorable business conditions. However, due to strict implementation of lending mechanisms, the quality of lending to poor households of VBSP is guaranteed. Quality of lending to poor households is shown in Table 03 below:

Table 03: Credit quality of the Lending to the Poor Program

Unit : Billion VND

Item Year	Total loan outstanding	Debt on due	Overdue debt	Frozen debt	Debt on due over Total loan outstandings	(Overdue + Frozen debt)/Total loan outstandings
	(1)	(2)	(3)	(4)	(5) =(2):(1)	(6)= (3+4):(1)
2010	37.972	36.680	856	436	96,6	3,4
2011	38.482	37.258	790	434	96,8	3,2
2012	41.560	40.271	949	340	96,9	3,1
2013	41.650	40.567	735	348	97,4	2,6
2014	39.252	38.309	653	290	97,6	2,4
2015	36.384	35.583	431	370	97,8	2,4
2016	38.653	37.957	302	394	98,2	1,8
2017	38.148	37.499	331	318	98,3	1,7
2018	39.148	38.521	515	112	98,4	1,6

Source: Annual credit report of VBSP

Table 03 shows that the quality of lending activities for the poor household program has been increasingly improved, reflected in the following indicators: Due debts increased over the years and accounted for an increasing proportion of total outstanding loans. In 2010, the due debt was 96.6%, and 2018 was 98.4% of the total loan outstanding. Overdue and frozen debt despite increasing over the years but not increasing significantly. The total size of annual outstanding loans grew rapidly, which is the reason for the ratio of overdue and frozen debts decreased from 34% at the end of 2010 to 1.6% at the end of 2018.

6. Some proposed solutions to increase loan efficiency:

6.1 Improve capacity on business and production knowledge and capital use and management knowledge for borrowers.

Training courses on plantation and husbandry techniques should be conducted before or immediately after

disbursement so that borrowers can gain knowledge to apply in production and business activities, limiting risks to borrowing households.

In addition to the initial training, it is necessary to strengthen re-training in the process of using capital for production and business of borrowers. The training contents should not only focus on production and business techniques but also pay attention to how to make capital planning, knowledge of risk forecasting, and accounting production and business results. The ability to manage and use the loan will directly affect the effectiveness of the capital. Having human force and capital but lack of management ability, it is difficult for the capital to be profitable.

In addition, commune authorities and mass organizations' officials need to explain and propagate more about the preferential credit policy in general, credit for the poor in particular so that borrowers understand deeply and fully about the Program incentives and the responsibilities of the borrower, from which the borrower will be more responsible for borrowing, especially in using capital and repaying principal and interest to the Bank, avoiding the situation where borrowers understand mistakenly that the loan is a kind of Government's welfare for the poor, thus, creating a motive for dependence.

6.2 Improve capacity, role and responsibility of Savings and Credit Group's Board of Management

SCGs are considered as an extension arm of VBSP, the Management Board of SCGs plays an important role in reviewing and selecting borrowers as well as inspecting and urging borrowers to use loans for the right purposes, effectively, as well as urge borrowers to pay interest and principal on time. The SCG's Management Board is also the organizer of the group activities for members to share their experiences and knowledge on how to use capital effectively for production and business.

Through group meetings, members can share experiences to better use capital, at the same time, help the group managers to easily collect loan interest and strengthen the cohesion among members and between members and group managers.

6.3. Capacity building for VBSP staff

VBSP staff are required to regularly update and foster their knowledge to improve their professional competence. This is the responsibility of each VBSP staff to meet the development strategy and mission requirements of the whole system. Moreover, in addition to performing professional tasks, it is also required to communicate with such coordinating units as local authorities, mass organizations etc. In order to successfully complete the tasks, VBSP staff must be good at professional skills and relationships with the community, especially with borrowers who are vulnerable in the society.

6.4. Mechanism of creating capital sources for the Lending to the Poor Program

At present, the capital to meet the lending needs in general of VBSP and the Lending to the Poor Program in particular is very difficult, it is necessary to have the support of ministries, localities to provide funding to meet the needs of poor and near poor households. Although VBSP has tried to use revolving capital, but due to the impact of the economic recession, the real value of money has decreased significantly, the average loan level is still low compared to the needs of poor households. At the same time, near poor households and households just escaped from poverty also need capital to develop production to avoid falling back into poverty.

Poverty reduction is considered as a long-term activity, contributing to economic development, social stability, thus, need to have enough capital to operate, with the motto "State, Business and People Work Together", it is necessary to develop policies to encourage domestic and foreign organizations and individuals to make financial contributions to lending to poor households.

Taking advantage of the support of ministries to gain access to low interest rate, long-term loans, entrusted capital, donated capital from organizations and individuals domestic and abroad, creating a stable and long-term capital source for the Program.

6.5. For Government and Ministries

- Promptly supplement the capital source for the Lending to the Poor Program to meet investment needs of the borrowing household, ensuring a maximum loan amount of VND 100,000,000 / household:

+ Research to promulgate appropriate policies and mechanisms to encourage financial institutions, credit institutions, economic groups etc, to contribute to the policy credit capital, through buying VBSP's bonds guaranteed by the Government, entrusted for investment in policy lending, non-refundable capital contribution to create a revolving loan fund. Thus, the poor can escape poverty sustainably.

+ Strengthen propaganda, expand cooperation, create conditions for VBSP to receive preferential capital from domestic and abroad, ODA ...

- Develop mechanisms to ensure the effectiveness of participation, coordination and accountability of relevant organizations in implementing the Lending to the Poor Program assigned by the Government to VBSP.

- Consider adjusting the time period for collecting records to handle debts at risk to timely assist borrowers in difficult times, help them restore production soon to improve economic and living standards.

6.6 For Bank staff.

- Further strengthening training and coaching activities for mass organizations' officials and SCGs' managers to equip them with the necessary knowledge and skills to well perform the entrusted tasks for the Bank.
- Regularly watch over the area to master the operation of SCGs as well as the borrowing households to supervise and encourage the borrowers to use capital effectively and pay debts and interests on time.
- Regularly self-training on professional skills, limiting errors in the implementation of the Lending to the Poor Program in particular and the lending programs of VBSP in general.

6.7 For Borrower.

- Efforts should be made to self-study and enhance their own capabilities, especially knowledge of household economic management and cultivation and husbandry techniques, to effectively manage and use loans.
- Fully participate in the group meetings: loan review meeting, regular, irregular group activities, promoting the spirit of solidarity and mutual affection in the community to create collective strength.
- Be fully aware of the responsibilities when receiving loans, pay more attention to the loan so as to have plan and responsibility for repaying the principal and interest in due terms as agreed with the Bank.
- Must take responsibility for keeping and managing the Loan book, not leave it to the leader or mass organizations' officials to keep the loan book.
- Actively participate in saving deposits, accumulating capital to facilitate repayment of principal, and at the same time have more capital contributed so that the loan program can be extended to many other poor households.

REFERENCES

1. Le Van An, Hoang Thi Sen and Nguyen Thi My Trinh (2003). Access to resources for the development of Ktu women in Hong Ha commune, A Luoi district, Thua Thien Hue province. Community based natural resource management project.
2. Ngo The Chi and Nguyen Trong Co (2009). Curriculum on corporate finance. Finance Publishing House, Hanoi.
3. Nguyen Thi My and Phan Duc Dung (2009). Business operation analysis. Statistical Publishing House, Hanoi.
4. VBSP. March 2018. Report of results of the implementation of credit programs in 2018.
5. VBSP. August 2018. Summary of VBSP data.
6. Dang Ngoc Quang (2009). The role and impact of micro-credit in groups with rural women along the Da River. <http://www.rdscvn.org>
7. Aghion BA and Moduch J., 2005. Microfinance Beyond Group Lending. University College London.
8. Barslund, M. & Tarp, F. (2008). Formal and Informal Rural Credit in Four Provinces of Vietnam Journal of Development Studies, 44: 4,485 - 503.
9. Christen RP, Lyman TR and Rosenberg R., 2003. Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance. Consultative Group to Assist the Poor, World Bank, http://www.cgap.org/docs/Guideline_RegSup.pdf.
10. European Commission, 2000. Micro finance: Methodological considerations, December 2000, p.5.
11. SRD, 2006. International Strategy for Disaster Reduction. http://www.eird.org/eng/revista/n11_2005/art3.htm.
12. McCarty, A. (2001). Microfinance in Vietnam: A Survey of Schemes and Issues. DFID & State Bank of Vietnam
13. Mawa, B., 2008. Impact of Microfinance: Towards Achieving Poverty Alleviation? Pakistan Journal of Social Sciences 5 (9): 876-882, 2008.
14. Phuong, NTT, 2006. Factors Influencing Access to Credit of Households in Rural Areas of Vietnam. Department of Urban and Rural Development. Master Thesis. Department of Rural and Urban Development. Swedish University of Agricultural Sciences.
15. Putzeys R., 2002. Microfinance in Vietnam: Three case Studies. Belgian Technical Cooperation Project. [teway.com/section/faq#Q2](http://www.teway.com/section/faq#Q2).
16. Rosenberg R., 2010. Does Microcredit Really help Poor people? Focus Note. No. 59, January 2010.
17. The Microfinance Gateway, 2008. Frequently Asked Questions. <http://www.microfinancega>
18. Thuy, DT, 2005. Experience in handing over the micro-finance program in Northwestern mountainous areas in Vietnam Microfinance Working Group: Vietnam Micro-Finance Bulletin, March 2005, Issue 6.
19. Tuan, VV, 2006. Roles of Microfinance in Poverty Reduction in Mekong Delta. Master Thesis. Department of Rural and Urban Development. Swedish University of Agricultural Sciences.

-
20. Zaman, H., 1999. Assessing the Poverty and Vulnerability Impact of Micro-credit in Bangladesh: A case study of BRAC. DECVP, World Bank.