

**COOPERATION WITH FARMERS' UNION IN
ESTABLISHING BORROWING-SAVING GROUPS
AN EFFECTIVE LENDING METHOD TO
FARMING HOUSEHOLDS OF
VIETNAM BANK FOR AGRICULTURE AND
RURAL DEVELOPMENT**

Dr. Do Tat Ngoc

Chairman of Board of Directors

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APRACA's Vice - Chairman

I. Introduction

Credit for farming households in Vietnam actually commenced since 1991, after "Doi Moi" - the transition of economic administration mechanism from administrative subsidies to socialist oriented market economy. However, it has continuously developed considerably, the outstanding loans has reached VND 130,000 billion, accounting for 25% of bank outstanding loans for the whole economy. The average outstanding loans for every producing household is 11.27 million VND (equivalent to USD 700) and poor household is 5 million VND (equivalent to USD 310)

More than 12 million out of 13 million farming households (92.3%) have relations with official Credit institutions like Social Policy Bank, People's Credit Fund, Housing Bank of Mekong Delta, etc. in which Vietnam Bank for Agriculture and Rural Development (VBARD) plays an important role with 84.6% total outstanding loans (110,000 billion VND/130,000 billion VND.)

Besides the incredible increase in total loans and outstanding loans, the efficiency in this activity also represents in a number of aspects:

First, Diversify loan recipients

Apart from loans for production and business, VBARD also grants loans for consumption with an outstanding loan amount of VND 20,500 billion by the end of 2006; for labor exports without mortgage at VND20 million, making an outstanding loan of VND 875 billion; for purchasing cars and motorbikes with asset guarantee with an outstanding loan amount of VND 1,560 billion; for trade village restoration and development with an outstanding loan amount of VND13,891 billion, etc.

Second, Increase non-mortgage loan level and simplify lending documents and procedures

VBARD recommended and received approval from the government to increase non-mortgage loan level up to VND10 million for farming households, VND30 million for goods manufacturing households and farms, VND50 million for fishery breeding and husbandry households attacked by epidemic. The borrowing documents are simplified so that borrowing and production

proposal are required in a page only. Production household benefited trust – backed loans are provided with reusable borrowing books

Third, Make favorable conditions for farming households in borrowing

VBARD has developed its network, with 1,470 branches and almost 600 transaction offices, and 700 mobile car-banks. Thus, borrowers even in remote areas can get access to the bank more easily.

Forth, Debt collection rate (both principal and interest) is extremely high (over 98%), higher than other clients.

Fifth, For the purpose of lending to agricultural development and investment in poverty reduction, Bank for the Poor was established in 1995 as a part of VBARD and was changed to Social Policy Bank in 2003 under government's approval, operating with a not-for-profit objective, granting loans to poor households with favorable interest rates and conditions and without mortgage.

Those achievements have been reached by a number of socio-economic measures, in which the cooperation with Farmers' Union in establishing borrowing-saving groups is an effective one.

II. Establishment

From 1992-1993, with the technical support from Rabobank, Netherlands, a project on granting loans to farming households in form of joint liability groups (called borrowing groups) has been implemented. Each group consisted of 5-7 members in the hamlet or village or 3 hamlets nearby, mainly relatives and friends, recognized by the commune People's Committee. However, the group's activities were monotonous, and not tight. The borrowing, principal and interest payment were carried out by the group leaders. Some group leaders became "patrons", credit officers did not meet the borrowers directly, the group leaders collected the principal and interest at their disposal. This loose management style resulted in a fact that some group leaders appropriated the principal and interest paid, or collected additional fees, increased the interest rate, etc. The efficiency of borrowing groups was limited, therefore they failed to attract a number of households. This resulted in a low level of outstanding loans and the demand for loans of the majority of farming households was not met.

The main reason is that those groups were lack of proper management and full of autonomy. Therefore, they were not suitable to the rural areas in Vietnam. This project lasted for only 5-6 years.

In October 1999, following the decision number 67/TTg of Prime Minister on "some bank credit policies for agricultural and rural development" and basing on lessons from borrowing groups, VBARD and Farmers' Union signed a joint resolution number 2308/NQLT/1999. The resolution stated that the two parties were to cooperate in the establishment of borrowing-saving groups helping farming households deposit as well as get access to borrow and banking services. Farmers' unions at all levels cooperate with local authorities in the management of these groups. The operating budget is covered by the fees paid by VBARD according to interest collection level and support from VBARD for meeting and holidays, etc. Also, VBARD organizes training and instruction on borrowing procedures and documents regularly, invites agricultural extension techniques organizations to give instruction on cultivation and husbandry, and agricultural product preservation, etc.

The borrowing-saving groups have developed in terms of size, quantity and quality under the management of Farmers' Union. The establishment, preparation, operation, assessment, lending, debt collection and interest collection have been carried out openly in a democratic manner with a high level of socialization, therefore have minimized the violation of lending principles and regulations from the perspective of borrowers, group leaders, as well as bank officers.

Borrowing-saving groups have enhanced the loans management, contributed to increase the loans utilization and on time repayment efficiency as well as reduce the workload of credit officers, avoid overload. Therefore, credit size has been widened, outstanding loans has been increased.

The borrowing-saving groups have a full regulations of operation, close structure, with periodical meetings integrated with and transferred technical advances, agricultural, industrial, fishery, and commercial extension programs helping members in loan utilization to increase productivity and quality.

Through monthly meetings of group leaders, local and bank leaders are able to grasp the local socio-economic situation, therefore work out on suitable plans and measures.

The borrowing group activities have actively contributed to people's life stabilization in rural areas, made an impact on other industries and organizations at different levels in implementing democracy at grassroots levels, especially in agriculture and rural areas.

Thanks to the budget gained from VBARD with a 6% commission on net interest amount and other support, borrowing-saving groups are able to organize meetings, pay group leaders, set up fund for rewarding well performed households in production and debt payment, etc. Therefore, group members feel enthusiastic and encouraged when joining meetings of borrowing-saving groups and Farmers' Union branches, which also comprise of borrowing groups. This has brought up a close atmosphere with solidarity and sympathy in rural communities.

III. Results

1. After more than 7 years of implementation, this model has developed more and more dramatically and solidly. There are now 85,425 groups with 1,494,409 members (households), with an outstanding loan amount of 16,820 billion VND (16% total outstanding loans for farming households of VBARD.) Besides, borrowing-saving groups have actively canvassed members to deposit in the bank, the capital mobilized has reached more than 10,000 billion VND.

The borrowing-saving groups represent in all villages in some provinces like Nam Dinh, Hai Duong, Thanh Hoa, etc.

2. The borrowing-saving groups have performed well in debt payment. They ask for extension only in force majeure situation. Besides the members' self-awareness, the groups' management method has positive effects since the groups operate under the control of Farmers' Union which, meanwhile, is an important socio-politic organization in Vietnam with its extensive network reaching every village. All the State's policies relating to agriculture and farmers need comments from the Central Farmers' Union. Locally, Farmers' Union plays a key role towards government. Therefore, borrowing-saving

groups are considered parts of the Farmers' Union branch at a village. Hence, if any member violates regulations of the group, Farmers' Union and local government will express their opinions and take measures to solve the case.

3. Moreover, while operating as a part of the Farmers' Union, the borrowing-saving groups have diversified activities of the union and connected its members more closely. It can be said that such grouping brings to its members practical benefits in borrowing funds, learning and sharing technologies and experience in doing business....therefore, groups' activities when attached to Farmers' Union will enrich the union's operations. The relationship among villagers and inhabitant community, as a result, is warmed up.

IV. Orientation

The fundamental long-term task of Agribank, even after equitization, is to invest in developing the rural and agricultural economies with main customers being farm households. To carry out the task successfully in the new period of agricultural and rural modernization and international integration, Agribank has to speed up lending and providing banking services directly to farm households, try to increase the average outstanding loans per household to 15 million VND in one or two years and to 25 -30 million VND in 2020; expand advanced services like credit cards, ATM cards, individual and securities accounts and other banking services so that at least 70% of households in rural areas will be provided with these products from 2020.

To achieve the above target, besides developing Agribank into a modern banking financial group, seeking solutions for funds sources and improving lending conditions...the model of borrowing-lending group should be strengthened and expanded in quantity and in better quality. Agribank Vietnam and Farmers' Union are starting discussion on amending the resolution 2308/NQLT/1999 according to the above orientation. In the next three to five years, the number of the groups must be doubled and groups represent in almost all villages by 2020. At the same time, the Bank has to issue standard regulations on operations of the group with clear responsibilities of relevant parties.

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An effective lending method to Farming
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