

"Before 1975, privatization was called *tu huu hoa*, explains Cholimex director. Now it is *tu nhan hoa*. The most often used word is equitization or corporatization, *co phan hoa*."

But "equitization" is a story in itself. Most people I speak to regard it as the most difficult task Vietnam will have to tackle on the road to a successful stock market. "If you do not have shares to trade, you do not have a market," says John Theaker, of the World Bank training program. (Some small private share-holding companies have been established in Vietnam in the past two years but shares are not held by the public. They are held by small groups of investors who have cartel-like connections and are not interested at this point in selling to the public.)

After a month of "stock market" talk, the glossy US\$80 1993 Emerging Stock Markets Fact Book published by IFC, sounded very much to me like a "siren song", softly humming promises of money, investments and development. I found myself struggling to think up any perverse effects the market might bring.

At a recent party meeting in Hanoi, leaders from impoverished central and mountainous regions began to push harder for a share of the new wealth, asking for more funds and incentives to develop their areas. Would the new capital market help them in any way? It is clearly too early to tell.

IFC is busy promoting the idea to developing countries that selling shares to foreigners makes sense. Vietnam has clearly bought it. Hard not to, when IFC documentation shows how well the so-called "emerging markets" have done in the past decade. Last year the top performing share markets were Jamaica, Peru, China and Israel. Nine of the ten bottom performers, however, were also emerging markets.(6) In the second half of the 1980's, emerging markets as a group generally out-performed the OECD stock markets, often by a spectacular margin. No wonder a group of American institutional investors, representing huge pension funds, is now visiting Hanoi, as I write this, to discuss "portfolio investment". A few weeks earlier, another group of European and Asian representative of pension funds also visited Hanoi.

But for many, like McGuigan, Theaker and Spittaller, who insist on the not yet completed banking reforms, the stock-exchange project is like a cherry on a sundae, a sundae that is far from ready yet.



Carole Beaulieu  
Hanoi

PS: For those interested in the fate of the Nha Trang Oceanographic Institute whose problems I described in CB-16, the Worldwide Fund for Nature is now raising funds to create a marine reserve around an island off the coast of the Institute.

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(6) Emerging Stock Markets Factbook 1983, p.3

CB-18

INSTITUTE OF CURRENT WORLD AFFAIRS

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DONG, DOLLAR OR GOLD? - Part 2

Banking in Socialist Vietnam - a changing scene

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Dear Peter,

My landlord, Mrs My, does not keep her money in the bank. A well-educated and usually well-informed Hanoian [and not a poor one considering the rent I pay], My believes that the law forbids her from opening a bank account. She is wrong.

The law allows Vietnamese citizens to open individual bank accounts in both local and foreign currency. It was changed last year but My does not know this. Even if she did, she probably would not open an account. Like many Vietnamese she does not trust the banks. "You never know with them," she says coyly. "You leave them your money and when you want it back they tell you they do not have any or the amount you deposited was false."

My admits she has not heard of any such incidents recently. But still, she remains fearful. She is not impressed by the fact that I bank with a Vietnamese institution and have no problems. "Foreigners are treated differently," she says.

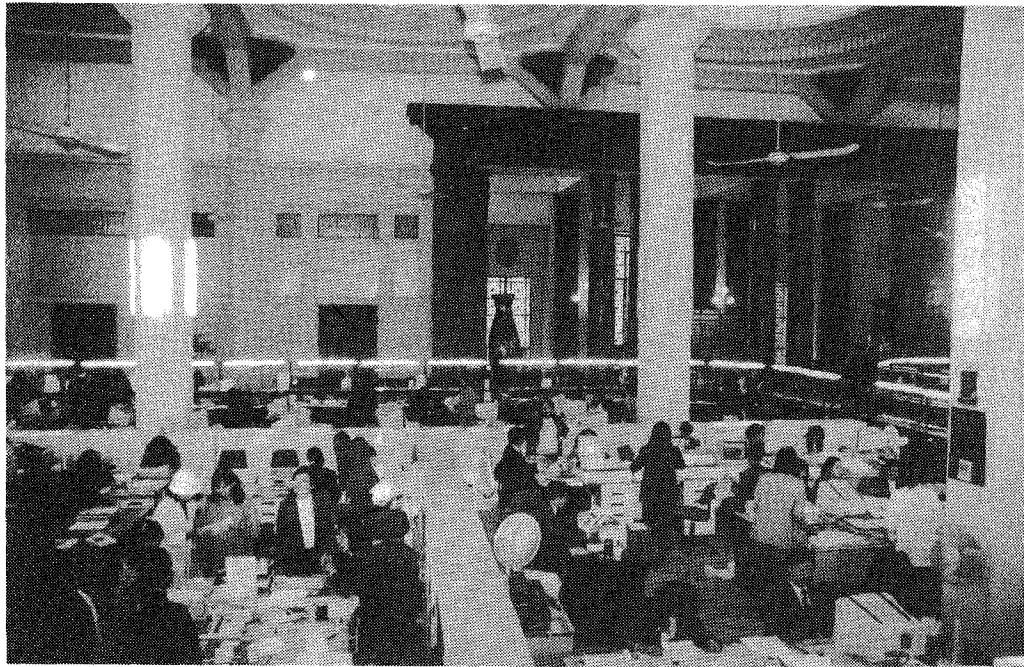
My (pronounced Mee-ee) is no exception. In 1994 market-oriented socialist Vietnam, most savings remain in boxes in people's homes or get invested in real estate. Despite attractive dong interest rates (24% on a one year deposit and 5.3% inflation in 1993), a majority of the population still ignore the banks. Over 60% of credit transactions occur through the informal sector. "Money does not circulate in the banking system," says John Theaker, a British Agent of the Crown heading a US\$4 million banking training program in Hanoi. "Even banks pay their employees in cash."

Tremendous reforms have taken place in the past four years but common wisdom remains unchanged. "Go 50 km out of Hanoi and try to get a peasant to give you his money, try to convince him, he will get it back whenever he wants," says French management professor Jean-Pierre Aumiphin who teaches in Hanoi and whose mother is Vietnamese. "You will see the challenges we face."

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Banking reform is crucial, Vietnamese and foreign experts agree. "It is the key to this country's development," says Erich Spittaller, Hanoi resident advisor for the International Monetary Fund (IMF). "They have made phenomenal progress but a lot remains to be done to mobilize savings."



Main hall of Hanoi Vietcombank: computers and feverish activity replaced the once rude and slow service.

Some changes though worry other bankers. "Their progress is breathtaking," says French banker Jean-Pierre Fouché. "The word bank sounds like magic to them now but sometimes I have to tell them not to confuse capitalism and *affairisme*."

More private banks emerge every month. Services develop so fast people can hardly keep up. Ethnic-Chinese Vietnamese build luxurious bank headquarters in Cholon, the Chinese quarter and financial center of HoChiMinh City (HCMCity), the former southern capital Saigon. International organizations are running against the clock to train qualified banking staff.

Even charitable aid organizations have the "credit" bug. Few are building schools or digging wells. "Everyone is into credit programs," says Mary Etherton of the Hanoi non-governmental organizations (NGO) resource center. From the cities where US\$3,000 motorbikes roam the streets to poor rural areas where farmers earning US\$3 a month cannot pay the 5000 dong fee (US\$0.50) to send their child to primary school, "credit" is the magic key to the world of development and wealth.

#### MONEY'S SWEET MELODY

Money is important in Vietnam. Strangers often ask me how much money I earn, how much I pay for this or that. Newspapers routinely

publish prices of consumer goods and fluctuations in currencies. Coffee shop prattle is full of "money-talk". NGO workers complain of trusted and "oh so nice" Vietnamese partners who boost prices and literally rob a charitable project. Others despair on discovering that their "friend" took a commission for finding them a house or for introducing them to a good tailor. Vietnamese complain that foreign employers withhold the month's salary bonus traditionally given before Tet. Businessmen complain about the increasingly large sums necessary to bribe officials to secure contracts. Corruption spreads.

I have never heard so much talk of money in my life. Even well-dressed kids on the streets roll the word on their tongues like candy whenever they see a foreigner: "money, money". I cannot go to the Post Office without hearing "do-la? do-la?". Money-changers sit all day in front of the building trying to buy dollars despite the fact that the bank rate is sometimes better than the black-market rate! "We are coming from such a long way," says southern banker Huynh Buu Son. "The world is getting into global banking while we are learning money basics."



Black market money changers wait for customers in front of Hanoi General Post Office. They do not like photographs.

#### EXIT THE MONOLITHIC BANKING SYSTEM

Before 1988, Vietnam had a monolithic banking system. There were three banks in the country, two of which were under the control of the third one. The State Bank controlled the Bank for Foreign Trade, responsible for transactions involving foreign exchange, and the Construction and Investment Bank, responsible for domestic financial matters. The Agriculture Bank was not a bank yet, only a section of the State Bank "The banks were ordered to loan money to non profitable State-owned enterprises at low interest rates and

they had no choice but to obey," recalls a French banker based in Hanoi since 1989. "They knew the loans would never be repaid but there was nothing they could do. Political pressures were really strong."

Individual citizens did not consider opening a bank account, much less borrowing from the bank. It was simply not possible. And with inflation running in the three digits what would have been the point of savings in dong? Farmers, who make up 80% of the country's labor force, could not get individual loans. The bank only loaned to cooperatives, State-farms or State-run agribusinesses via over 7000 credit-cooperatives, most of which have now collapsed.

Individuals borrowed from friends or chose to belong to an informal credit circle, also called a *hui*, meaning assistance. They could also risk borrowing from some Vietnamese version of a pawnshop or a loan shark. "With them, risks were high but loans were given fast," explains Tran Kim Hoa, a researcher at the Central Institute of Economic Management, the research arm of the Ministry of Finance which recently did a survey of informal credit in four northern provinces.

Those few who actually used the banks grew to expect bad service. "Once a bank clerk told me there was no money and I should come back in a week," recalls a 45-year-old Saigonese lawyer. French Banker Jean-Pierre Fouché likes to tell how, in the fall of 1989, a bank cashier hurled his US dollars back at him across a counter, saying there were no dongs to be bought. "Service was definitely not their forte," he says laughing. That same year, the bank gave Fouché a fake US\$100. In 1989, traveler's checks could be exchanged at only one bank in HCMCity and it took quite a while. In 1990 this all began to change.



Picking up piles of 2000 dong notes at the Vietcombank.

## BANKING REFORMS, CUSTOMER CHOICE

On 23rd May 1990, the Council of Ministers promulgated the "Decree on Banks, Credit cooperative and Finance companies" also called the "Commercial Banking Decree". Branches of the State Bank - such as agriculture - became separate state-run commercial banks. Commercial banking activities were clearly separated from the State Bank. The government allowed foreign banks to open offices. "Suddenly customers had a choice," recalls a Saigonese businessman. "The banks began to treat us better because they wanted to keep our business." (It is not so simple though. State-run firms, for example, are still under political and economic pressures not to bank with foreigners.)



The State Bank downtown Hanoi. Reforms began in 1990.

The "Decree on the State Bank of Vietnam" established the State Bank as the monetary authority of the country. The Bank stopped providing money to State-owned enterprises and became a real central bank. The decree gave it the power to issue currency, set exchange rates for the Dong and supervise commercial banks.

Today, Vietnamese customers face a very different banking world. They can now chose from four state-run commercial banks, (1) over 40 shareholding banks and credit organizations, three new foreign joint-ventures banks or from over 30 foreign banks. (Not counting the credit cooperatives and the informal sector which I shall return to later). Anybody willing to deposit one million dong

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(1). The four state-run commercial banks are the Vietnam Trade and Foreign Export Bank (Vietcombank), the Agricultural Development Bank of Vietnam (AB), Vietnam Industrial Development Bank (VID) and The Bank for Construction and Investment.



(US\$100) can now open a bank account, in dong or in foreign currency. The use of checks, letters of credits and payment orders has ended past shortages of cash. Even before the Lunar New Year, when demand for cash is strongest, banks manage to keep up. "We have learned to plan," explains Le Kim Thu, international relations manager for Vietnam Export-Import Bank (EximBank), my bank.

Even credit cards have appeared. In 1993, the Vietnam Foreign Trade Bank (Vietcombank) - covering about 80% of Vietnam's external trade - issued credit and payment cards. A revolution!

Although they free businessmen from the burden of cumbersome bags bulging with dongs, the cards are not very popular. One foreigner, after wining and dining business colleagues at the HCMCity expensive Floating Hotel, was told his Vietcombank card was "stolen" (which it was not) and could not be used.

In cities, banking services are growing fancier by the day. A Korean joint-venture offers electronically controlled bank books. The Bank of Commerce and Industry announced early January 1994 savers could now withdraw their savings from any branch of the bank. (Prior to January 1st, savings had to be withdrawn from the same branch where they had been deposited). The Vietnamese State Bank announced in January a pilot project to introduce automated-tellers and a Vietnamese Banking Association is in the making. "We are moving as fast as we can," says Nguyen Thanh Ky, director of the State Bank Credit Department. Credits to households have increased from 8.2% of all loans in 1992 to 28.3% in 1993. Last but not least, personal checks were allowed on January 1st 1994. Though the printer is late on delivery and checks have yet to appear.

#### GROWING PAINS

Amidst great progress, problems abound. "Take bank checks for example," says British expert John Theaker. "Legally they are worthless. You would be mistaken to call them checks at all. No Vietnamese legislation recognizes them. They are only paper."

Trinh Ba Tuu, director of Financial Institutions for the State Bank, admits his country still has a lot to do. "We have no banking insurance, no civil law," he says. "Interbank service is only beginning. We have no regulations on collateral. Major Vietnamese banks often do not respect legal ratio for loans and deposits. State-run enterprises still get the largest amount of loans although the private sector is more profitable."

Problems in banking are not only legal or administrative, they are also political. A bank's autonomy is precarious. Local credit-cooperatives are often under pressure from the local People's Committee. As I write this, a local newspaper announces that the HCMCity People's Committee has ordered local banks to loan money to "economic units" to finance their Tet activities. "The banks have more autonomy than they used to," says IMF resident Erich Spittaller. "But they do not have enough yet."

Nguyen Trung, vice-president of Caisse Centrale Desjardins, one of Canada's largest financial institutions, worries authorities are not strict enough. "Anybody with enough money can open a bank now," he says. "I keep telling the State Bank to be careful not to

recreate in the banking sector the insecurity of informal credit networks but they do not listen."(2)

In 1992, in HCMCity alone, 24 new banks and financial companies were licensed to operate. "Private banks seem to open every day," jokes French banker Jean-Pierre Fouché. "All you need is five millions dong (US\$500) and some political support and you've got yourself a bank."

Foreign bankers such as John C. Pattison, vice-president deontology of Canadian Imperial Bank of Commerce, have warned the Vietnamese to monitor closely small banks's activities. "Trends in the world of banking favor larger, healthier banks," he told a group of 50 Vietnamese banking officials in Hanoi. "Small institutions are often poorly managed."

In Vietnam, banking strength varies not only from bank to bank, but from branch to branch. "If a branch is in trouble, the center will not help," explains Fouché. "This reflects the still semi-feudal character of the country. Even in banking, the center does not have control over localities."

In the case of Vietcombank, for example, Fouché rates the HCMCity branch as the lowest risk. Hanoi branch comes second, Vung Tau third and Haiphong fourth. But the situation is "very dynamic," he adds. One has to monitor it constantly. In the Mekong Delta, for example, new branches have opened in Can Tho, Bien Hoa and An Giang, the three fastest-developing agricultural provinces in the south. "They had enough of HCMCity managing their wealth," explains Fouché. "They wanted the delta money to serve the delta." Nguyen Nghia Tieu, one of the State Bank deputy directors, says regional offices will be a future priority.

Vietnamese bankers talk openly about their problems. "How can we take collateral from a State-owned enterprise?" asks a Vietnamese banker during a seminar held in Hanoi this winter. The seminar's foreign speakers had no miracle answer, but they did point out that even in capitalist countries - such as Canada - lending to government enterprises is a complicated procedure.

The world of modern banking is enough to give headaches to any hardworking Vietnamese. A least two officials attending the seminar literally grabbed their head in exasperation when Canadian bankers explained how to measure risks involved in loaning to companies who could turn out to be poluters. "We have so little information about our clients," complained State Bank credit director Nguyen

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(2) Last summer, in HCMCity, private credit-cooperatives mostly run by Ethnic-Chinese Vietnamese, collapsed *en masse*. The coops had amassed tens of millions of dollars in deposits by promising to pay very high interest rates. The network, called *Truc Vien*, the Bamboo Garden, was an interlocking network of some 420 cooperatives. According to the local press, it began to collapse early in July when a well-known local singer failed to meet payments on a sizeable loan.



Thanh Ky. "Our means of communication are insufficient. We are a long way from being able to assess that kind of risk."

Despite all the growing pains, progress is apparent. Take my bank for example.

In the fall of 1992, when I was about to leave for Vietnam, some Canadian bank officials said transferring my money to Vietnam was impossible. Others said it would take "two to three weeks." All US dollar transfers had to transit through the States and because of the embargo, well... transferring money was "sort of illegal" and "it took time."

Le Mouvement Desjardins, Quebec's largest financial institution, fixed it all up for me. I don't know what they did, but it works. Money transfers from Hanover NH, via Montreal and HCMCity are done in a few days.

Some foreign banks use a coded account for transactions bound for Vietnam and routed through one of their branches in the region (this way circumventing the embargo). One Hanoi-based foreign banker almost had a fit when he realized I knew about the trick. "You must not write this," he says. "Whoever told you is irresponsible." (Aside from possible legal retaliation against the bank, the procedure is not without risk. One businessman "lost" US\$40,000 in the system for a few days.)

As for me I bank in Hanoi, at the Commercial Joint-Stock Bank for Import and Export, better known at EximBank, one of Vietnam's new semi-private banks. The bank opened in 1989 when reforms were in their infancy. Today, the governor of Vietnam's State Bank, Cao Si Kiem, calls EximBank "one of the two best export-import banks in Vietnam."(3)

My first visit to the Hanoi branch of the HCMCity-based bank was not that impressive. The place reminded me of the cramped dusty credit union of my Montreal neighborhood, barely out of the



In the backroom of Eximbank.

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(3). "EximBank reports good profits, plans new branch in Da Nang", in Vietnam Investment Review, 1-7 Nov. 1993, p. 8.

church basement where it had begun. Seen from the street, on that morning of January 1993, Eximbank did not look much like a bank, but rather like a crumbling old house. Inside, a long L-shaped wooden counter occupied more than two-thirds of the room. There were no computers. A set of tea cups on a green plastic tray sat on a window ledge. A torn-up calendar adorned the wall. Stacks of seemingly disorganized cardboard files were scattered over a rickety wooden table, next to a white mica board covered with the day's foreign exchange rates. Three women worked behind the counter wearing three or four layers of clothing to fight the cold and humidity of the Hanoi winter. One of them was absorbed in an odd job: measuring and cutting string - for some unknown purpose - using the floor tiles as a meter. My spirits sank. Would I ever get money out of this bank? A young woman raised her head from the counter and greeted me in English. Her name was Loan. She knew us, had heard about us, knew our account number and was ready to give us any of it, right away, in US dollar or Vietnamese dong. It was love at first sight.

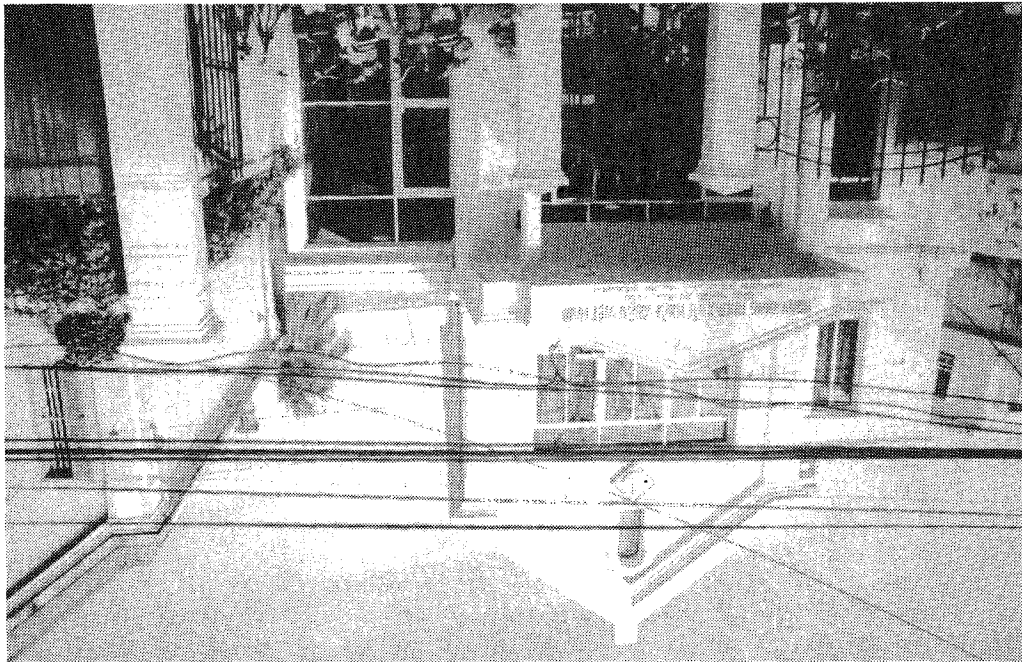
Loan is tiny and shy. A cartoon picture of Goofy smiles from the front of the red sweatshirt she often wears, but she is dead serious when she works. We were her first foreign customers. Most foreigners bank with Vietcombank, or other State-owned banks, or with one of the foreign banks which have opened branches in Hanoi. The number of Vietnamese clients has been growing though. Motorbikes often crowd the narrow front yard of EximBank. "Most of our customers come from new Vietnamese private businesses," explains external relations director Le Kim Thu. (4)

Once, in October, my world of quiet banking collapsed. The walls of the bank bore gaping holes. Bricks and debris blocked the entrance to the bank. There we go, I thought, the bank is gone and my money too. Then, through the debris, at the back of what used to be my bank, I saw piles and piles of dong on top of a table. I parked my bicycle outside and found my way in, squeezing under scaffolding and stepping over loose bricks. Back there, Loan was at work, smiling. She promised the "new building" would be ready in "a few days".

The renovation lasted longer than that, more like two months but the service was always fine. Odd sometimes, but fine. Once, the cashier sat outside in the rain, with a sheet of plastic to protect the piles of dong stacked underneath. By January 1st, the old house had been transformed into a nice white building with a large golden sign at the front. And that, according to Mrs Thu is just "a temporary building." "We are planning a seven-storey building in two years," she says. Computers now crowd the main room of my small bank on Tran Hung Dao street. And EximBank has other ambitions. It will soon open a Danang office and has applied to open a branch in Russia!

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(4) In fact, as of September 1993 the Hanoi branch of Eximbank had 121 accounts of State-owned enterprises and 115 accounts of private businesses. In September 1993 it reported a profit of US\$85,000.



Eximbank: the new facade.

EximBank is not the only bank with plans. The Maritime Bank, the newest of the joint-stock commercial banks, is also the fastest growing one. Licensed in June 1991, the bank made US\$100,000 in profits within its first six months of operation. Headquartered in Haiphong, the bank has branches in six other cities. "They are well capitalized and their structure is sound," says John Theaker. "They have hired very qualified management."

The bank has 50 shareholders: 22 State-owned enterprises, 10 limited liability companies and 18 private individuals. State-owned maritime companies are the largest share holders with 25%. Other big share holders are the department of Civil Aviation, the Telecommunication and Post corporation, the insurance group Bao Viet and garment maker Confectimex. According to French banker Fouché, the Maritime Bank came about because some people were tired of the bureaucratic ways of Vietcombank.

#### SMALL DEPOSITORS - A VAST RESERVE OF UNTAPPED CAPITAL

So the banks are moving ahead. With competition increasing, they are scrambling for customers. The Vietnam Industry and Commerce Bank (VID) attracts small and medium enterprises by offering them preferential loans. The Agriculture Bank launched in 1993 a special program for farmers and food-processing industries. But few are concerned with small individual depositors. "The banks do not have the capacity to handle thousands of small depositors," says Theaker. "Administrative costs would be too high. The priority is to get the banks working for the commercial sector."

I understand Theaker's point but I cannot help remembering I personally had a savings account before I even went to school. This

was just the way it was those days in French Canada, even in poor working-class neighborhoods. My childhood is filled with memories of those mornings when we would turn the class into a branch of the local credit union. It was an honor to be the class clerk and check on the other kids deposit slips. Usually, deposits were for 25 cents, sometimes C\$1 if one of us had received a gift of some kind. Everyone of us had a "bank book". Out of those Friday mornings grew Quebec's largest financial institution: Les Caisses Populaires Desjardins. So who every said small depositors were not costly?

In Vietnam, one bank has shown interest, however, for small depositors: the Agriculture Bank. In 1991, it began to loan to individual farmers. "The farmers are the Bank's only chance of success," says Agribank spokesperson Ha Huy Toan. "We will grow with them."

With its country-wide network of 700 branches, AgriBank is the largest of the four State-run banks. Until 1991, State-owned enterprises accounted for 92% of the Bank's loans. The Bank took the farmer's money and brought it to the cities to be used as low-interest loans for the State-owned sector. Early in 1992, all that changed. The Bank made individual farmers a loan priority and began to mobilize capital in the cities to lend to farmers. By the end of 1993, two million city households kept deposits at Agribank, over 56% of its customers were farmers and over 4.5 million rural households had an Agribank loan.

Borrowing conditions vary widely from province to province and even between districts. The Bank's policy in a commune (Vietnam's smallest administrative unit) depends on its director. In some communes, the bank may loan small amounts (100,000 to 300,000 dong) without collateral. In other communes, it does not.<sup>(5)</sup> Agribank Director of External Relations Ha Huy Toan admits the bank's policy to "not demand collateral for a loan below 500,000 dong" is not always respected. "It depends on the branch's financial capacity. You must understand."

Last year, the bank granted only 30% of the requests for short-term loans and 3% of medium and long-term ones. "We cannot keep up," admits Toan. "With the land given back to households, the number of farmers wanting capital has skyrocketed. We need to broaden our network of savings."

The bank also lacks equipment and well-trained staff. "Because of our lack of expertise, we do not make a sufficient impact in diversifying production," says Toan.

The Bank finds it difficult to help the poorest farmers. "We must keep on playing our social function," says Toan, "but poor farmers are often not credit worthy, they have no collateral and the cost of administrating small loans is high." (Not everyone agrees with

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(5). To get a loan over 10 million dong, one needs collateral certified by a notary. A lesser loan does not require the notary signature but requires the signature of the commune People's Committee certifying the applicant is credit worthy.

him. Unicef's credit program for poor women has been very successful, with very high repayment rates, but the administration cost are a problem. More on this later.)

AgriBank classifies farmers in three categories: "better-off" (yearly income of more than 1 million dong), "average" (between 500,000 and one million) and "poor" (less than 500,000). The first group gets the largest portion of the loans. "They have some training in business," explains Toan. "They can hire labor; they have access to technology and know how to diversify their production. They are the people that can change the rural economic structure." The second group also has some business plan and some technical skills but not enough money to hire labor. They are self-sufficient but lack the capital to begin commercial activities. As for the poor, the best the bank can do is encourage them to form credit circles. "The Agriculture Bank is not a humanitarian organization," says Tuan. "We should focus on the most profitable people, those who have the strongest desire to get rich."

Speaking to a meeting of foreign-aid workers involved in rural credit, Toan made his point very clearly. "Are the poor a focus of our bank? I tell you frankly: No!"

So if Agribank does not concern itself with the poor, who does? The "informal credit sector" does and most recently the United Nations development organizations and the foreign NGOs, through credit programs managed by Vietnamese mass organizations such as the Women's Union.

#### NGOS - THE NEW LENDERS

"The poor have no spare cash to put in a savings account but they can save. Our program proved it. We not only loaned money to them we helped them learn about productive savings," says Pham Van Ngoc, credit program officer with ActionAid, a British aid organization working in five impoverished mountainous districts of northern Vietnam.

Action-aid is not the only group attempting what all Vietnamese banks have deemed impossible: mobilizing savings from poor households. "Members of our groups have to commit to weekly savings if they want to get a loan," explains Loan, credit program officer for Unicef in Hanoi. "At first they do not like it but they manage. They chose themselves the amount they will save, usually 1000 or 2000 dong a week. They are happy at the end to discover they not only have repaid the loan but they have some money saved."

Unicef's credit program was very successful in 1993. "With the past two years stability, people are less anxious about inflation now and more ready to save," comments Loan.

Over 10,000 poor women from 35 communes took part in it, borrowing about US\$30 to fund some income-generating activities such as raising chickens or fish. (The Women's Union prefers chickens to pigs, for example, because chickens give quicker returns - the eggs - and need less care. "Some women were so afraid the piglet would die they took care of it more than their child," complains a Women's Union member.)

Unicef's credit program has targeted women with malnourished children or women whose children have dropped out of school, seeking them as most needy. "The market economy has generated opportunities but only the rich can take advantage of them because they have some capital. The poor need a chance to enter the market economy," says ActionAid Pham Van Ngoc.

Interest on loans vary. From a monthly 2% in the case of ActionAid, to 2,5% in the case of a French aid group. Repayments models also vary widely from group to group. "Some farmers do not understand the way we calculate interest and plan the repayment schedule," admits Ngoc during a meeting of the Credit Forum, an informal gathering of NGOs offering credit programs in Vietnam.

I must say I understand the farmers. It is my second meeting of the Forum, and my mind has gone numb. Revolving funds, reimbursement days, installments, penalties for delays, interest rates, number of people in a "solidarity group", eligible families... Credit programs sound more complicated to me right now than the Vietnamese taxation system. According to Hanoi's NGO Resource Center, most NGOs working in Vietnam offer one form or another of credit. "It's the big fad right now," says Beth Porter, credit advisor for Save the Children UK. "No one seems to be into health or education. Everyone wants to do credit."

A Japanese NGO follows the widely-acclaimed Bangladesh model of the Grameen Bank, some other organizations loan only to women, others offer rates lower than the market, others loan only in ethnic-minority villages. Most do a lot of good.

Take for example M. Huong of Thai Ninh province who borrowed from a French NGO credit program. A father of three, he borrowed 100,000 dong (US\$10) and bought a 10-kilo pig for 95,000 dong. He spent no money on feed, giving the piglet sweet potatoes leaves, bran and dry cassava, all grown on his farm. He sold the pig three months later for 280,000 dong and reimbursed the loan. Once subtracted the cost of vaccines for the pig, Huong made a profit of 165,000 dong. He used the money to buy another piglet and plans to spend the rest on a brick oven so he can build a brick house. Not all stories turn out as well as Huong's. Sometimes the piglet dies and the farmer cannot repay the loan.

For the NGOs, being the new lender on the block has some disadvantages. "We are the last to be reimbursed because heavily-indebted farmers know we will not retaliate the way the usurer will," says Heather Gready, an American-aid worker. "The farmer wants to stay on good terms with the local lenders because he sees them as more permanent than the NGO."

Even NGOs find it difficult though to target the poor. The local Vietnamese they hire to manage their credit programs tend to believe the poor "are not credit worthy". "They are lazy and they do not know how to work," says a Vietnamese man working for a western NGO. "There is no point in loaning to them. They are not smart enough to use the money well."

Even local communist authorities often misunderstand the programs. "Targeting the poor is rarely their priority," says Ngoc.



Among the poor, women have the best reputation with both banks and credit programs. "Women are bankable," says Agribank director Toan. "They do not drink, they spend money wisely. They always repay the loan."

Toan is not the only one to praise Vietnamese women, both as borrowers and as bank employees. "I would hire a woman anytime over a man," says French banker Fouché. "They work harder, are more conscientious, more open to learning new methods. Men talk a lot but they do not get the work done."

#### INFORMAL SECTOR - THE REAL CHALLENGE

Banks and NGOs represent only a small fraction of credit transactions. Authorities estimate 60% of the lending in the cities, and 40% in the rural areas, is done through informal credit circles called *hui* groups. The groups, also called *tontines*, take a different form in the rural and urban areas.

No one knows exactly how many exist, because of their informal nature. Both poor and rich use them. Generally speaking, a few people (numbers vary, sometimes 5, sometimes 10) get together and deposit money in a kitty. Members interested in borrowing the money pledge to pay a certain interest rate. The money is loaned to the highest bidder. The length of the loan varies. In some cases, interests paid is shared between members. In other groups, new loans are made using the interests paid. Some *hui* in rural areas mobilize savings in rice, not in cash.

Most people like the *hui* (or *tontines*) because they require no paper work and no collateral. Borrowers get their money fast. "Most small traders use it to refurbish their stock," explains Tran Kim Hoa, of the Central Institute for Economic Management (CIEM), a Hanoi-based government research group. "In Hanoi, most traders and small businesses are members of *tontines*. They do not trust the banks. "(6) In 1993, Hoa surveyed 20 *tontines* in the provinces of Ha Bac, Ha Tay, Vinh Phu and Hanoi. Over 80% of their members were women.

Still, the groups are risky. Depositors risk losing all their money if a member flees with the capital. As the banking reforms proceed, *hui* groups are the subject of an intense debate. Some want to forbid them. Others say they may be risky but they play an irreplaceable role and will survive as long as the banking system is unable to fulfill the country's needs. "We will never eradicate the *hui*," says Tran Kim Hoa. "The best we can do is try to have them registered so there will be some supervision."

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(6). Formalities are long with the Bank but can be sped up in some cases. According to Dominique Bousquet, a French volunteer supervising small credit union in four northern districts, the client can sometimes speed up the process by giving some money to the agent (30,000 dong for example for a 1 million loan). In some communes, numerous efforts have been done to speed up the process.

Nguyen Thi Hiem, also of CIEM, believes the *hui* will disappear "once Vietnam's banking sector responds to people's needs and offers them better protection." But for now, the need for capital has never been greater in the rural areas and "people need the *hui*," she says.

Even foreign NGOs, traditionally harsh on the informal credit sector, are now taking a new look at it. "We used to regard it as greedy, usurious, exploitative, cold-hearted," recalls Heather Gready. "Our vision has evolved. We know that informal credit plays a critical role in a community's economy. Some aspects of it make it more attractive to borrowers than our own programs. It can be exploitative, but we can also learn a lot from it."

Gready's words are not received lightly at the meeting of the Credit Forum. Murmurs of disapproval rise from the back of the room where about 20 people have gathered. "How about the violence of the money lender when loans are not reimbursed?" asks one foreigner.

Gready is not troubled. According to her, informal credit has advantages neither the banks nor the NGOs are able to match. The lender often lives in the village, service is personal and formalities are minimal. Interest calculation and repayment installments are simple, loans are approved on site and cash is delivered rapidly, small amounts of money can be borrowed. Character-assessment replaces feasibility studies.

Hiem, of CIEM, hopes to legalize some informal credit, turn *tontines* into registered credit-cooperatives. But "credit-cooperatives" face an uphill battle to gain depositors confidence. In the past many cooperatives collapsed, especially in the South, leaving small depositors dongless.

Nguyen Van Soan, from the Marketing Department of Agribank, admits a lot needs to be done to simplify the Bank's procedures. Help is coming from a variety of sources. The Asian Development Bank - through a Special Japan Fund - will assist the Bank to increase credit to farmers. The State Bank is also studying a Canadian project to launch credit unions modeled on the *caisses populaires* of the Quebec Desjardins Movement. No final decision has been reached yet. Desjardins insists the *Caisses* must be independent, free from economic and political pressures.

In the meantime, training is underway with at least three major internationally-funded projects. The largest one is housed in an anonymous villa in the newly-developed area of West Lake, northwest of Hanoi's downtown. Funded by The Swedish International Development Agency (SIDA) and the World Bank, the five-year US\$5 million project is implemented by the University of Stockholm and the Crown Agents of London.

The program hopes to train 300 banking managers through a seven-week program. One hundred trainers from Vietnam's two banking colleges and the University of Economics will also be trained. Two hundred others will go for three-week study tours in various ASEAN countries. Four English-language experts are training translators and interpreters, both in Hanoi and HCMCity. Close to 600 Vietnamese banking staff will benefit from the program.

"There is no quick fix to the banking system," insists director John Theaker who has done similar programs in other developing countries. "Seminars are interesting but their impact is very limited. We must work on the long term. The Vietnamese are the most extraordinarily driven people I have ever worked with but they need training."(7)

People like Theaker and French professor Aumiphin predict development will not take place as fast as planned. They constantly remind me of the 50 millions Vietnamese still living on the land in what amounts to a very conservative village-bound tradition. To them, cities like Hanoi or HCMCity are lonely bubbles of modernity. "Mentalities change very slowly," insists Aumiphin. "People have to learn that banks can be trusted, that they are mainly meeting places for the demand and supply of capital. First, banks have to prove they are trustworthy. The political will is there but there are still many roadblocks."

Next door, my neighbor just said goodbye to the construction workers who have crowded our alley for weeks. She has had her tiny house renovated using money she borrowed from a friend at a "reasonable" interest rate she will not disclose. She plans to rent the house to a foreigner to repay the loan. With friends like that, who needs a bank?



Carole Beaulieu  
Hanoi, Feb.4th

PS: Yesterday, according to traditional belief, the Kitchen Gods went to heaven bringing with them all the bad spirits of the dying 1993 Year of the Rooster. Today, President Clinton lifted the embargo against Vietnam and there is a big party at the Thang Loi hotel. The Kitchen Gods must be happy.

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(7) A note on seminars: I have attended many and tend to share Theaker's skepticism. Foreign speakers are often not warned that their speech will be translated phrase by phrase (simultaneous translation is still a rarity in Vietnam) and the quality of their presentation suffers. Many speakers are unaware of the Vietnamese situation and tend to give speeches ill-adapted to their audience.

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