

Existing Problems in Improvement of Capital Mobilization in Vietnam Bank for Social Policies

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Abstract: In 16 years of Vietnam Bank for Social Policies (VBSP) operation, although mobilized capital has basically met the demand for loans of poor households and other policy beneficiaries, there are still certain limitations. This study is aimed to assess the remaining difficulties in raising capital in VBSP. Research results are surveys of capital mobilization at 8 VBSP's provincial branches and questionnaire to customers, staff at branches of VBSP across Vietnam. The key problem is mechanism of creating capital source, which has not yet reached stability and long-term; unreasonable capital structure; the gap between capital demand of social security programs assigned by the State to VBSP and actual capital arranged in the annual plan in allocation of capital for socio-economic development plans and state budget estimates.

Keywords: Capital mobilization, policy bank, funding, policy beneficiaries .

1. INTRODUCTION

In developing countries in general and Vietnam in particular, poverty still accounts for a large proportion. From the point of view: if the issue of poverty is not addressed, there is no goal that the international community, as well as the country, commits such as economic growth, improvement of people's lives, peace and stability human rights is exercised. Therefore, poverty reduction has become a major policy, a big decision of Vietnam.

On October 4, 2002, the Government of Vietnam issued a decree on basic credit for the poor and other policy beneficiaries and the Prime Minister of Vietnam issued Decision No. 131/2002/QĐ-TTg on establishment of VBSP on the basis of reorganizing the Bank for the Poor to detach policy credit from commercial credit. The bank was built to help the poor by providing credit, guiding how to do business, forming a fund for poverty reduction in each locality on the basis of people help people and the state help people and take advantage of international funding, striving to increase number of rich households and proceed to poverty reduction

However, actual operational in the past 16 years shows that, although VBSP's mobilized capital has basically met the demand for loans of poor households and other policy beneficiaries, there still some problems, i.e: the mechanism of creating capital sources has not yet reached stability and long-term; unreasonable capital structure; the gap between capital demand of social security programs assigned by the State to VBSP and actual capital arranged in the annual plan in allocation of capital for socio-economic development plans and state budget estimates (typically the job creation loan program; ODA and concessional loans specified in the Government's Decree No. 78/2002 / ND-CP are increasingly difficult to access.)

2. BASIC ISSUES OF CAPITAL, CAPITAL MOBILIZATION AND MANAGEMENT OF COMMERCIAL BANKS' CAPITAL

In developing countries in general and Vietnam in particular, poverty still accounts for a large proportion. From the point of view: if the issue of poverty is not addressed, there is no goal that the international community, as well as the country, commits such as economic growth, improvement of people's lives, peace and stability human rights is exercised. Therefore, poverty reduction has become a major policy, a big decision of Vietnam.

2.1 Fundamental issues of capital

Capital of banks are the monetary values created or mobilized by banks to use to invest, lend or perform other business services. In fact, the capital of the bank is a part of the national temporarily idle income in the process of production, distribution and consumption, which their owners deposit in banks to carry out different purposes. The bank plays a centralized role and redistributes capital in the form of currency, accelerating the process of capital transfer, serving and stimulating all economic development activities. Capital controls all activities and decisions regarding the performance of the bank's functions.

In essence, capital of the bank includes the monetary sources of the bank itself and those of temporary idle capital. Thanks to the availability of capital, banks can do business: lending, guaranteeing, leasing ... The bank's capital resources dominate and decide on implementation of the bank's functions.

2.2 Fundamentals of capital mobilization

Capital mobilization activities are understood as activities aimed at creating capital sources other than owners' equity, including: mobilizing capital in the form of deposits; borrowing and issuing valuable papers; receive trust fund etc.

Capital mobilization has a great meaning to the economy such as providing capital for the economy, being a bridge connecting businesses with the market, a tool for the State to regulate the macro-economy. Besides, for banks, it also brings capital for banks, measuring prestige, customers' trust, providing credit and investment channels. For depositors, in addition to preserving the temporary idle money and seeking profits from unused idle money, depositors have opportunity to access banking services.

2.3 Basic features of capital management

Capital management is also the bank's asset management. Capital management aims to ensure safety and profitability; search for resources to meet the requirements of loan size, investment and liquidity; diversify sources to find a capital structure with the lowest cost and in accordance with the demand; maintain the stability of the source of money; seek new mobilization tools to increase bank capital. Capital management including equity management and debt management.

3. POLICY BANK AND FUNDAMENTAL ISSUES ON CAPITAL SOURCES, CAPITAL MOBILIZATION AND CAPITAL MANAGEMENT OF VBSP

According to Article 17 of the Law on Credit Institutions No. 47/2010/QH12, policy banks are established by the Government, operating for non-profit purposes in order to implement the State's socio-economic policies. The Government regulates the organization and operation of policy banks.

Currently, in Vietnam, there are two policy banks: Social Policy Bank, which specializes in implementing social policy credit and Vietnam Development Bank, which specializes in implementing investment and export credit policies of the government.

3.2 Fundamental issues of VBSP funding sources

3.2.1 Operating capital of VBSP

Circular 62/2016/TT-BTC dated April 15, 2016 of the Ministry of Finance stipulated that VBSP's operating capital include: Equity and funds, mobilized capital, entrusted investment capital.

3.2.2. Features of VBSP capital

a) Equity and funds

In the structure of equity and funds, in addition to charter capital, funds and revenue and expenditure differences left unallocated to funds as in commercial banks, VBSP has capital from the state budget to provide loans to reduce poverty, create jobs and implement other social policies according to the regulations of the Government and the Prime Minister. Therefore, the proportion of equity and funds in VBSP's capital structure is often larger than that of commercial banks. If equity and funds of commercial banks

normally account for only about 10% of the total capital, equity and VBSP's funds usually account for over 20%. Equity and funds of VBSP include:

- Charter capital allocated by the State budget upon establishment and supplemented during the operation process.

- Funds established during the operation of VBSP include: Reserve fund for supplementing charter capital, professional development investment fund, financial reserve fund, risk provision fund, bonus fund, welfare fund, bonus fund for managers.

- State budget capital for lending to reduce poverty, create jobs and implement other social policies according to the regulations of the Government and the Prime Minister.

- The difference between revenue and expenditure which has not been allocated to funds (if any).

- Non-refundable aid of domestic and foreign organizations and individuals.

- Other capital as prescribed by law (if any).

b) Mobilized capital:

Mobilized capital includes: interest-bearing deposits within the approved annual plan; voluntary interest-free deposits of domestic and foreign organizations and individuals; savings of the poor and other policy beneficiaries; ODA capital allocated by the Government; bonds issuance, deposit certificates and other valuable papers in accordance with law; receiving deposits and loans from credit institutions; borrowings from the State Bank of Vietnam; borrowings from domestic and foreign financial and credit institutions.

c) Entrusted capital

VBSP receives trust funds for preferential lending by local authorities, economic organizations, socio-political organizations, associations, non-governmental organizations, individuals domestically and abroad.

3.3. Main issues of VBSP's capital mobilization

3.3.1 Forms of capital mobilization

The form of capital mobilization of policy banks includes: Mobilizing interest-bearing deposits; voluntary interest-free deposits of domestic and foreign organizations and individuals; savings of the poor and other policy beneficiaries; ODA capital allocated by the Government, issuance of bonds, deposit certificates and other valuable papers in accordance with the law, deposits of credit institutions; borrowings from the State Bank; borrowings from domestic and foreign financial and credit institutions.

3.3.2. Capital mobilization principle

Every year, the General Director of VBSP submit the credit plan and planning of mobilized capital sources to the Board of Directors of VBSP for approval. The mobilization of

capital sources with market interest rates to lend to poor households and policy beneficiaries must ensure the principle of mobilizing only when capital without interest or mobilized at low interest rates are utilised. The interest rate of VBSP's capital mobilization is based on the following principles:

- In case VBSP issues bonds guaranteed by the Government to mobilize capital, interest rates shall comply with the interest rate frame stipulated by the Ministry of Finance.

- In case VBSP mobilizes capital by issuing deposit certificates and other valuable papers (excluding issuance of government-guaranteed bonds); receiving deposits from domestic organizations and individuals; savings mobilization of the poor, the interest rates must not exceed the highest mobilizing interest rates of the same term, at the same time of four State-owned commercial banks, including: Vietnam Bank for Agriculture and Rural Development, Joint Stock Commercial Bank for Investment and Development of Vietnam, Joint Stock Commercial Bank for Foreign Trade of Vietnam and Vietnam Joint Stock Commercial Bank for Industry and Trade in the same area.

- In case VBSP borrow money or receive deposits from financial institutions, credit institutions in the interbank market, the interest rate for capital mobilization will be negotiated by the parties only when the State Bank has regulations (in special cases when banking activities have unusual movements that require state regulation) the lending or deposit interest rates shall be complied with the interest rates prescribed by SBV.

- In case VBSP receives 2% deposit of credit institutions (according to Decree 78/2002/ND-CP), the deposit interest rate should not exceed the interest rate prescribed by the State Bank.

- In case VBSP borrows from the State Bank in Vietnam dong or in foreign currency, the loan interest rate shall comply with the State Bank's regulations.

- In case VBSP borrow money from credit institutions and financial institutions in foreign countries, it must comply with the provisions of the Law on Credit Institutions and current legal documents. The capital mobilizing interest rate must be sent to the Ministry of Finance for consideration and comments before implementation.

3.3.3 Capital management in VBSP

VBSP performs management and use of capital in accordance with Decision No. 180/2002/QD-TTg dated December 19, 2002 and Decision No. 30/2015/QD-TTg dated July 31, 2015 of the Prime Minister. In which:

- VBSP performs management and use of capital in accordance with the law to ensure right purpose, safety, efficiency and capital development.

- VBSP is responsible for monitoring all capital sources, recording in accordance with the current accounting and statistics standards; reflecting fully, accurately, honestly, promptly the status of capital use and fluctuation of capital sources in the course of operation, clearly defining the responsibilities of each department and individual in cases of capital losses.

4. FACTORS AFFECTING VBSP'S CAPITAL MOBILIZATION

4.1. Subjective factors

a) VBSP organizational model

The unique organizational model and operation network has helped VBSP to be able to mobilize a significant amount of capital from remote and isolated areas where commercial banks cannot reach.

The organizational and management model of VBSP has also helped to mobilize a large amount of capital from the local budget (savings from the policy of increasing revenue and decreasing expenditure and extracting a part of that budget to transfer to VBSP to supplement capital for lending to the poor and policy beneficiaries in the area) this is one of the favorable factors for VBSP to increase its operating capital.

b) Balance of capital sources and use of capital

The balance of capital sources and capital use plays a very important role for capital mobilization activities of commercial banks in general as well as VBSP in particular. Through capital balancing, banks know the situation and can anticipate fluctuations of future demand for capital. Thus, it is possible to make appropriate mobilization policy in terms of quantity as well as maturity. Thereby, it will enhance the bank's autonomy in capital mobilization.

c) Policy on interest rates and products and services

- Interest rate policy: This is an important policy of the bank, the interest rate policy requires flexibility, in accordance with the interest rate fluctuations in the market, ensuring compliance with provisions of SBV, has the lowest mobilization costs and must ensure the bank's operational efficiency.

- Product policy: This is one of the factors that have a great influence on the capital mobilization of VBSP. In recent years, commercial banks have issued many products that are both traditional and modern, such as: savings deposits, issuance of bills, bonds, etc., with a richness in term, par value and category, thus, attracted many customers. For VBSP, in previous years, there were no conditions to diversify capital mobilization products, therefore, it was difficult to attract capital from customers, the proportion of capital mobilized in the market was low compared to other capital sources.

- Services provided by banks: A bank with good service will obviously have more advantages than other banks. In the context of market economy, banks must strive to improve service quality and diversify services to meet customers' needs and increase bank income. Unlike competition on interest rates, competition on banking services is not limited so this is a strong point for banks to rise in competition. Since technology conditions have not yet met requirements, VBSP's services and utilities are not yet diversified to bring more benefits to customers.

4.2. Objective factors

a) Socio-economic development situation

VBSP's capital depends heavily on the state budget and the operation of state-owned commercial banks. Therefore, the socio-economic situation at home and abroad has a significant impact on VBSP's capital mobilization. The economy in the period of growth, production developed, thereby facilitating more accumulation, increasing state budget revenue, and at the same time creating an environment for the bank's capital attraction. In contrast, when the economy falls into recession, the state budget is narrow, inflation increases, making the investment environment of the bank narrowed due to stagnant production and losses, thus, few businesses borrow from banks. The bank's income decreases, the process of creating capital is difficult, making deposits of credit institutions at VBSP will also decrease. Besides, inflation makes the currency devalue, reducing people's confidence in the stability of the currency. Moreover, when the income is low, the amount of idle money in the whole economy will be reduced and the amount of money deposited into the banking system is likely to be withdrawn. Those are the reasons why commercial banks in general and VBSP in particular face difficulties in capital mobilization.

b) State policies

The State performs macro management functions through the legal system to regulate production and business activities, regulate income distribution, ensure social justice and economic development evenly across sectors and regions throughout the country; At the same time, the State uses economic policy instruments such as fiscal policies, monetary policies, investment policies, agricultural and rural development policies, poverty reduction policies etc. These policies all affect the operation of banks, in particular:

- Monetary policy: The objective of monetary policy includes: controlling inflation, stabilizing prices, stabilizing the purchasing power of money, economic growth, creating jobs. Depending on the realization of the objectives of the monetary policy, its influence on the bank's capital creation business will vary. For example, when inflation rises, the State has a tight monetary policy by increasing deposit rates to attract money in the society, then the bank mobilizes more

easily. Or the state will pose policies to encourage investment, expand production, the bank will face more difficulties to mobilize because idle money is mostly used for production investment. Or the State poses policies to encourage non-cash payment, people open a lot of bank accounts, limit cash use, increase social money supply, create conditions for banks to attract capital. .

- State investment policy: Reasonable or unreasonable state investment policies affect the bank's capital mobilization policy. In fact, these policies will directly affect the business environment not only for customers but also for banks. Therefore, in order to encourage production and investment, the State should have appropriate policies such as price subsidy policies and protection for domestic goods. Thereby creating conditions for development of production, leading to banks having a favorable investment environment and requiring banks to find ways to attract capital to expand their business. On the other hand, when production is profitable, businesses and individuals have high accumulation conditions, thereby creating an environment for banks to raise capital.

c) Factors from customers

Customers directly affect capital mobilization of banks. Capital mobilization of banks is mainly formed from mobilizing idle funds in the population. Without savings, there will be no capital to invest in production and vice versa. Savings of the population depends on many factors such as income, spending habits in cash and especially the stability of the economy:

Income affects potential capital that banks can mobilize in the future. Psychology affects the volatility of the money. Trust in the bank can stabilize the amount of money deposited in and withdrawn, in contrast, if customers trust about the money in the future depreciate, banks without prestige will cause mass withdrawal.

Consumer habits also affect the bank's capital creation operations. In areas where people are accustomed to using idle money in the form of storage, it is difficult for banks to raise capital. In places where people want to earn interest or preserve assets, they deposit more money into the bank, thus, the chance of raising banks' capital is higher.

5. INTERNATIONAL EXPERIENCES ON RAISING CAPITAL FOR POLICY CREDIT ACTIVITIES AND LESSONS LEARNED FOR VBSP

5.1. International experiences on capital mobilization for policy credit activities

5.1.1. Experience of Bank for Agriculture and Agricultural Cooperatives (BAAC)

In Thailand, BAAC is a state-owned commercial bank established by the Government. BAAC's initial equity was

100% funded the Government, the Government appoints the Board of Directors chaired by the Minister of Finance. BAAC has the tasks:

- Support capital for comprehensive development of agriculture and rural areas.
- Providing agricultural loans according to the Government's programs and projects.
- Strictly control the state's capital sources for investment in agriculture and rural areas.
- Every year, BAAC is funded by the Government to implement a program to support capital for poor farmers. The poor can get loans without collateral, but must have trust guaranteed by production groups and cooperatives. Lending rates for poor farmers are often reduced by 1-3% per year compared to lending to other subjects. In addition, to strengthen agricultural and rural development, the Government stipulates that other commercial banks must spend 20% of the mobilized capital to lend to the agricultural and rural sectors. Every year, the Government has mandatory criteria for commercial banks to lend to the objects of production and business activities in the agricultural sector. If the commercial bank does not lend to the required target, it must send the remaining required amount to BAAC. The Central Bank guarantees BAAC to borrow foreign capital. In operation, BAAC is exempt from compulsory deposit.

Thus, BAAC's capital is mainly provided by the government and the capital that commercial banks transferred to BAAC as they failed to lend to the compulsory targets in the agricultural sector.

5.1.2 Experiences of National Life Finance Corporation (NLFC)

In Japan, the National Life Finance Corporation (NLFC) - an organization specializing in the implementation of national policy on financial support for small and medium enterprises, especially micro businesses (hiring maximum 3 staff), start-up enterprises, and enterprises that do not have enough conditions to borrow capital from commercial banks - do not have capital mobilization. NLFC are not allowed to mobilize savings deposits of people and organizations, therefore, most of the NLFC's capital is granted by the Government or loaned with low interest rates from special budgets (state budget, Postal Savings, Retirement Fund) accounting for 90% and the rest 10% is in the form of financial investment bonds or government guaranteed bonds.

5.1.3. Experiences of Grameen Bank in Bangladesh

Grameen Bank is a bank specializing in serving the poor, mainly poor women. The bank was founded by Professor Muhamad Yunus and has been approved by the Government since 1976. Grameen Bank operates on the following principles: (i) self-financing, not subsidized by subsidies from the Government; (ii) implementing a positive real

interest rate mechanism, lending rates to members are often higher than market rates; (iii) direct loans to poor households through savings and loan groups; (iv) do not apply collateral, but simply trust through "saving - borrowing" groups; (v) Grameen Bank borrowed for loans and was entrusted to receive funding from domestic and foreign donor organizations, mobilizing members' savings deposits, managing group funds, and issuing loan bonds.

5.2. Lessons learned for VBSP

5.2.1. Increase savings mobilization

From the experiences of the above organizations, for VBSP to be proactive in operational capital, increase the autonomy of capital sources, financial and operational sustainability, in addition to the capital from the state budget and deposits of state-owned credit institutions and other sources of capital, VBSP should increase mobilization from savings deposits. VBSP should focus on three factors: people, networks and technology. With the network of VBSP spread throughout the country to the districts and commune transaction points which are very close to the people, helping people save time and costs, VBSP has helped people in the area, especially the poor and other policy beneficiaries to access banking and financial services. Thus, VBSP has focused on researching and deploying a number of savings products suitable with the characteristics of VBSP's activities such as: mobilizing deposits at commune transaction points, receiving deposits of Savings and Credit groups' members. Through specific products, VBSP creates conditions for rural people to have more access to banking and financial services; Poor households, policy beneficiaries to practice the sense of saving, create self-sufficient capital and accumulate for the future.

5.2.2. Increasing autonomy in capital resources

Development of VBSP in a stable, sustainable and capable way to well implement policy credit of the government. VBSP has established a mechanism to create capital suitable for policy credit programs under the motto "The State, businesses and people work together".

The goal of poverty reduction, social security is defined as one of the important objectives in the long-term socio-economic development direction of the country. Therefore, not only VBSP, but also the whole society, state and private enterprises, economic organizations, residents need to share, shoulder the responsibility to implement the poverty reduction and social security goal. The State strengthens responsibilities of commercial banks for policy credit activities through requiring commercial banks to mobilize deposits from businesses, economic organizations, residents, and using a part of this funding source to lend to VBSP for providing loans to the poor, thus creating conditions for economic organizations and residents to indirectly participate in social policy activities. In addition, VBSP also

pays appropriate interest rates for these deposits to commercial banks to ensure the cost of mobilization, encouraging these banks to make deposit at VBSP. 5.2.3. Strengthen links with governmental, non-governmental and other entities

Actual activities of the above organizations show that most organizations have no association, cooperation with governmental or non-governmental organizations, so they cannot take advantage of preferential, cheap and long term capital sources.

In order to successfully implement policy credit programs, any country, including Vietnam, the Government must set forth its immediate and long-term strategy, and issue a policy mechanism on capital development; At the same time, it is needed to have coordination between state management agencies with governmental, non-governmental and other organizations to facilitate VBSP to have access to welfare programs, official development assistance and concessional loans from foreign governments, international organizations, intergovernmental or inter-national organizations to supplement capital for lending to poor households and other policy beneficiaries.

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