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The Financial Institutions of the  
Republic of Vietnam

This paper reflects the personal  
opinion of the author and must not  
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opinion of the Board of Governors.

Vietnam

CONTENTS

Introduction..... 1

Commercial Banks..... 7

Commercial Credit Bank of Vietnam.....19

National Bank of Vietnam.....23

Agricultural Development Bank.....30

Rural Credit Cooperatives.....35

Rural Credit Cooperatives: Agricultural co-ops.....36

Rural Credit Cooperatives: Farmers' Associations.....41

Urban Credit Cooperatives: Savings and Credit Cooperatives.....44

Pawnshops.....50

Insurance Companies.....53

Private Moneylenders.....55

Mutual Savings and Credit Societies.....56

Industrial Development Center.....57

Vietnam Development Bank.....67

SONADEZI.....74

Industrial Development Refinancing Fund.....78

Saigon Savings Bank.....82

Civil Pension Fund.....84

Postal Demand Deposit System.....86

Some General Conclusions.....90

References.....94

July 22, 1969.

## Introduction

### A Bit of Background<sup>1/</sup>

The economy of the Republic of Vietnam is mainly agricultural, although it has some light industry. The main agricultural crops include rice, rubber, root crops and sugarcane. Manufactured products include textiles, glass, paper and cement.

The country, which achieved its full independence in July 1954, is about the same size as the state of Washington, having 66,000 square miles. Only 16 per cent of the land area is cultivated. In mid-1968, it had a population of about 17 million people, and a per capita gross national product of about \$120.

During the early 1960's net domestic product increased at moderate rates, but the war in Vietnam, which began to intensify in 1963-64, has greatly disrupted the economy. Aggregate output slackened in the mid-1960's, and exports fell after reaching a peak of \$86 million in 1960. Average annual exports in 1965-68 were about \$22 million. Vietnam's major export products are rubber, tea, fish products and peanuts.

Imports have been mainly financed by the United States' aid program. Annual commodity imports totaled about \$225-300 million in 1959-64. Since mid-1960, however, they have been running at an annual rate of \$500-600 million, reflecting a sharp increase in the volume of aid and U. S. military expenditures.

Currency is in fairly wide use in Vietnam, but the banking habit is not very widespread, and there are only about 9 commercial bank branches outside of the Saigon-Cholon <sup>2/</sup> area. The ratio of private demand deposits to total money stock in mid-1968 was 22 per cent, and a very large part of these deposits are liabilities of banks in the Saigon-Cholon area.

The basic unit of currency is the piaster which since June 17, 1966, has been at an effective exchange rate of VN\$118 to the U. S. dollar. This rate consists of the official rate of VN\$80 per U. S. dollar plus a Consolidation Tax of VN\$38 per U. S. dollar. Prior to this time the rate was VN\$60 to the dollar for commodity imports, with a complex system of multiple exchange rates for other types of transactions.

<sup>1/</sup> For a more detailed description of the Vietnamese economy, see Area Handbook for South Vietnam, Foreign Area Studies, American University, U. S. Government Printing Office, Washington, D. C., 1967.

<sup>2/</sup> Cholon, which is southwest of the center of Saigon, is part of the greater Saigon area and is heavily populated by Chinese and Chinese-Vietnamese.

Vietnam has suffered from inflation during most of the post-war period. During 1949-64, the Saigon cost of living index 1/ increased at an average annual rate of 8 per cent, although there was only a 1 per cent increase in the index between 1956 and 1961. In 1965 and 1966 the rate of inflation accelerated, and the index for those years rose 16 and 62 per cent, respectively. In 1967 and 1968 there was a deceleration as the index rose 44 and 28 per cent, respectively.

The basic cause of the inflation has been central bank financing of the central government's budget deficit and commercial bank credit expansion, also supported by central bank lending. Heavy expenditures by the U. S. forces in Vietnam exacerbated the inflationary pressures although these expenditures have in the longer-run been offset by increases in imports.

The sharp rise in prices in 1965-66 prompted the adoption of an extensive stabilization program in June 1966. Its main components involved a devaluation of the piaster, and simplification of the foreign exchange system, a sharp liberalization of imports including consumer durables, intervention in the domestic gold market to stabilize prices, and later a liberal rediscounting by the central bank of import bills. Although the program was successful in substantially reducing the rate of inflation in the last half of 1966, prices again rose sharply in 1967. Much of the inflationary pressure, as before, stemmed from expansionary operations in the government sector, since taxes were not increased adequately to cover the war-inflated expenditures.

#### The Financial Institutions in Brief

The Republic of Vietnam has at least 16 different types of financial institutions ranging from the central bank to insurance companies. A list of these different institutions is provided in Table 1. Those listed under "A. Banks" include only those institutions that have deposit-creating powers, i.e., institutions that are able to increase deposits when they have excess reserves by expanding loans and/or investments. The Agricultural Development Bank theoretically has this deposit-creating power, but for various reasons has not yet exercised it.

1/ Consumer prices including rent for lower-income families in Saigon.

The major credit-providing institutions are the commercial banks, the central bank, the Agricultural Development Bank and to a lesser extent the Industrial Development Center and the Vietnam Development Bank. Most of the other institutions are relatively small in terms of the volume of their operations, but it should be noted that private money lending, for which no data are available, is believed to be large in volume in both urban and rural areas. Some specific data on credits are provided in Table 2.

Table 1. Vietnamese Financial Institutions

A. Banks:

1. Private: 19 commercial banks: 6 local<sup>1/</sup>  
13 foreign
2. Government: National Bank of Vietnam<sup>2/</sup> (1955)  
Commercial Credit Bank of Vietnam (1955)  
Agricultural Development Bank<sup>3/</sup> (1967)

B. Other Financial Institutions:

1. Private: Rural credit cooperatives: agricultural co-ops  
: farmers' associations  
  
Urban credit cooperatives  
Pawnshops  
Insurance companies  
Moneylenders  
Mutual savings and credit societies
2. Government: Industrial Development Center (1957)  
Vietnam Development Bank<sup>4/</sup> (1967)  
SONADEZI<sup>5/</sup> (1964)  
Industrial Development Refinancing Fund (1967)  
Saigon Savings Bank (1887)  
Civil Pension Fund (1952)  
Postal Demand Deposit System (1962)

1/ Excluding the Commercial Credit Bank of Vietnam.

2/ The country's central bank.

3/ Formerly the National Agricultural Credit Office (1957)

4/ Formerly known as SOFIDIV (Société Financière pour le Développement de l'Industrie au Viet-Nam), (1961).

5/ National Company for the Development of Industrial Estates.

NOTE: The date in parenthesis indicates the year in which the institution began its operations.

Table 2. Credits Outstanding of Vietnamese Financial Institutions  
(In millions of piasters)

<u>Institution</u>		<u>Amount</u>
1. Commercial banks	VN\$29,389 <sup>1/</sup>	(Aug. 1967)
2. National Bank of Vietnam	VN\$ 8,193	(advance to banks: Sept. 1967)
	VN\$37,085	(temporary advances to Govt:Sept. 1967)
3. Agricultural Development Bank	VN\$ 1,414	(Aug. 1967)
4. Agricultural Co-ops	VN\$ 17	(Sept. 1967)
5. Farmers Associations	VN\$ 5	(amount extended in 1966)
6. Esso Standard Employees' Credit Association	VN\$ 11	(end of 1966)
7. Industrial Development Center	VN\$ 497	(disbursements in Jan.-Oct. 1967)
8. Vietnam Development Bank	VN\$ 850	(approx. amt. author- ized in 1967)
	VN\$ 100	(approx. amt. dis- bursed Jan-Nov. 1967)
9. National Company for the Development of Industrial Estates	VN\$ 35	(approx. amt. dis- bursed in 1967)
10. Industrial Development Refinancing Fund	VN\$ 400	(approx. amt. auth- orized: Jan-Nov. 1967)
	VN\$ 100	(approx. amt. dis- bursed: Jan-Nov. 1967)

<sup>1/</sup> Excludes VN\$4,262 million in treasury bond holdings.

Vietnam's money and capital markets are very limited. There is no stock market. Government bonds are issued, but these are mostly held by the central bank and commercial banks. There is no open market in either commercial bills or short-term government securities. An interbank loan market operated for several years, but interbank lending was prohibited by the central bank in July of 1967.

The lending pattern of financial institutions can be characterized both in terms of the maturities for credits and the nature of the borrower. Most commercial bank loans are short-term. Very few loans have an original maturity of over one year, and longer-term financing is generally accomplished by short-term credits that are renewed. Most medium-term credits have been extended by such special financial institutions as the Agricultural Development Bank, the Industrial Development Center and the Vietnam Development Bank.

The bulk of the credits have gone first to commerce and second to industry. Agriculture has been a poor third. Most of the commercial credits in recent years have been for imports, and a large part of the industrial credits from the commercial banks have been for working capital rather than for equipment or construction.

Vietnam has only a limited number of outlets for savings, and the various types of savings instruments are relatively few. The main outlet consists of time and savings deposits in commercial banks and the Saigon Savings Bank. Savers can also place their funds in credit unions, and some of these have been popular. Savers have not found rural co-ops attractive, primarily because of a lack of return on their savings. On an informal basis, many people have saved using the mutual savings and credit societies, but there is a much higher degree of risk involved with these institutions. The bulk of the organized savings is in the commercial banks.

The data in Table 3 indicate the rates of return on funds placed with different institutions. It is readily evident that except for the urban co-ops (i.e. savings and credit co-ops), the rates of return are quite low—especially in relation to the mutual savings and credit societies.

The different types of securities available are also relatively limited. Most shares of stock are closely held, limited in amount, and sold or exchanged on a direct personal basis. Issues of private bonds are nil. A large volume of government bonds has been issued, but holdings by the non-bank public are negligible.

Table 3. Interest Rates of Vietnamese Financial Institutions  
(In per cent per annum as of November 1967)

<u>Institution</u>	<u>Loan Rates</u>	<u>Deposit Rates</u>
1. Commercial banks	7-11 (including commission)	5 (6 months, business) 3 (3 or 6 months, individuals and associations)
2. National Bank of Vietnam	4, 7 and 12	n.a.
3. Agricultural Development Bank	6-12	4 (6 months)
4. Rural credit co-ops	10	up to 8 allowed
5. Savings and credit co-ops	12 (1% per month)	up to 8 allowed
6. Pawnshops	36 (3% per month)	n.a.
7. Private moneylenders	24-36 (prime borrowers only)	n.a.
8. Mutual savings and credit societies	48-120 (estimate)	48-120 <sup>1/</sup> (estimate)
9. Industrial Development Center	7-7.5 (including commission)	n.a.
10. Vietnam Development Bank	6-7.5 (including commission)	n.a.
11. National Company for the Development of Industrial Estates	8	n.a.
12. Industrial Development Re-financing Fund	3	2
13. Saigon Savings Bank	n.a.	

1/ Not deposits; rate of return to lenders.

NOTE: n.a. = not applicable. For further details on rates, see the text material under "Credit Terms" and "Sources of Funds."



### Commercial Banks

Since the early 1950's there have been substantial changes in the structure of Vietnamese commercial banking. Both the importance and the number of the indigenous Vietnamese banks have increased significantly. The number of foreign banks has also increased, providing increased competition for the French banks, which prior to the Second World War dominated the banking field. The 1965-66 period was particularly active when seven new commercial banks began operations in Saigon.

At the end of 1967, Vietnam had 20 commercial banks, including the government-owned Commercial Credit Bank of Vietnam.<sup>1/</sup> Of these, 7 were local Vietnamese banks, and 13 were foreign banks. Altogether the 20 banks had 36 branches, 9 of which were branches of the Commercial Credit Bank of Vietnam. Foreign banks had 12 branches while indigenous banks had 24 branches. A list of the banks is provided in Table 4.

As the list of banks indicates, of the 13 foreign banks at the end of 1967, 3 were French, 1 was British, 2 had head offices in Hong Kong, 2 were Nationalist Chinese, 2 were American, one was Japanese, one Thai, and one Korean. At this time, there were no representative offices of a foreign bank in Saigon.

### Bank Objectives and Organization

Vietnamese commercial banks have traditionally provided mainly short-term finance for trade and working capital. Medium-term finance for purchases of equipment has played a minor role, and very little direct agricultural credit has been extended. Thus, as in many other countries in Southeast Asia, the main objective of the commercial bank is to extend profitable and relatively safe, commercial credits. The main exception to this, however, is the government-owned Commercial Credit Bank of Viet-Nam which has extended medium-term industrial credits.

<sup>1/</sup> More popularly known in Vietnam by its French name, Crédit Commercial du Viet-Nam.

Table 4.

Commercial Banks in Vietnam 1/

Local Vietnamese Banks

1. Viet-Nam Ngan Hang (Societe Vietnamiennne de Credit)--1927.
2. Viet-Nam Thuong Tin (Credit Commercial du Viet-Nam)--1955.
3. Viet-Nam Cong Thuong Ngan Hang (Banque Commerciale et Industrielle du Viet-Nam)--1954.
4. Nong Cong Thuong Ngan Hang (Banque de l'Agriculture, de Commerce et de l'Industrie)--1956.
5. Tin Nghia Ngan Hang (Banque de Saigon)--1966.
6. Saigon Ngan Hang (Banque de la Capitale de Sud)--1966.
7. Nam Do Ngan Hang (Banque de la Capitale de Sud)--1966.

Foreign Banks

8. Banque Francaise de l'Asie (subsidiary of Banque de l'Indochine)--1875, Paris.
9. Hong King and Shanghai Banking Corporation--1883, Hong Kong.
10. The Chartered Bank--1904, United Kingdom.
11. Banque Francaise pour le Commerce (formerly Banque Franco-Chinoise pour le Commerce et l'Industrie)--1947, Paris.
12. Banque Francaise pour le Commerce et l'Industrie)--1922, Paris.
13. Banque Nationale de Paris (Banque Nationale pour le Commerce et l'Industrie)--1947, Paris.
14. Banque Nationale de Paris (Banque Nationale pour le Commerce et l'Industrie)--1922, Paris.
15. Bank of China--1947, Taipei.
16. Bank of Communications--1947, Taipei.
17. Bank of Communications--1947, Taipei.
18. Bangkok Bank, Ltd.--1962, Bangkok.
19. Bank of Tokyo, Ltd.--1962, Tokyo.
20. Bank of East Asia, Ltd.--1963, Hong Kong.
21. Bank of East Asia, Ltd.--1963, New York.
22. Chase Manhattan Bank--1966, New York.
23. Chase Manhattan Bank--1966, San Francisco.
24. Bank of America--1966, San Francisco.
25. Korea Exchange Bank--1966, Seoul.

1/ Banks listed are those operating at the end of 1967. Dates shown are for the opening of the Saigon branch or head office. Country shown indicates the head office of a foreign bank.

2/ Formerly Bank of Korea.

The commercial banks in Vietnam are governed by a law implemented in October of 1964,<sup>1/</sup> This Decree Law replaced earlier legislation of December 1954,<sup>2/</sup> implemented at the time of Vietnamese independence. One of the main changes in the 1964 law was to require a minimum ratio of paid-in capital, reserve funds and retained earnings to deposits. This minimum proportion was subsequently established at 6 per cent.

Each local Vietnamese bank is under the supervision of a Board of Directors, elected annually at the stockholders' meeting. Board members generally serve for a three-year term and are frequently re-elected. The Board usually consists of up to 9 directors. The main executive officers, which are selected by the Board, are the General Manager and Vice General Manager.

Departmental organization of the banks is quite varied. However, most banks have at least 5 departments: accounting, foreign operations, loans and investments, administration, and cash and deposits department. Relatively few banks have a trust department.

The size of the banks, as based on the number of employees, also varies considerably. The most prominent private Vietnamese bank at the end of 1967 had about 120 employees while the Banque Francaise pour le Commerce had about 350. The latter, however, maintains a branch in the south in Soc Drang, as well as three sub-branches in the Saigon area. A relatively large number of the 36 branches or sub-branches of the commercial banks are located in the Saigon-Cholon area.

#### Sources of Funds

The commercial banks have two main sources of funds. These are deposits and credits from the central bank. (See Table 5.) Other sources of funds, such as capital issues and retained earnings, are much less important.

At the end of 1967 commercial bank deposit liabilities constituted 75 per cent of total bank liabilities including the capital account, or in absolute terms, VN\$34.6 billion out of total liabilities of VN\$46.2 billion. Of the total deposit liabilities, demand deposit liabilities to the private sector were VN\$18.7 billion (54 per cent) and deposit liabilities to the non-American public sector were VN\$4.5 billion (13 per cent).

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<sup>1/</sup> Decree Law No. 18/CT/LDQGQL/SL of October 24, 1964, "Banks and Establishments of Credit."

<sup>2/</sup> Ordinance No. 48 of December 31, 1954.

Savings deposits have been larger than private term deposits in recent years. Although the proportion fluctuates, savings deposits have been equal to about half of the total of private and governmental savings and term deposits.

The American banks have received from the U. S. Government relatively large deposits, arising from its military, foreign aid and Embassy operations in Vietnam.

Interest rates paid on commercial bank deposits are quite low in relation to rates paid by urban credit cooperatives (8 per cent) and to rates earned on loans in the private money market (2 to 3 per cent per month or higher). At the end of 1967, the rate on fixed deposits (for businesses) was 3 per cent per annum (1 and 3 months), 3.5 per cent (3-5 months) and 4 per cent (6 months).<sup>1/</sup> The rate for savings deposits (individuals and associations) was 3 per cent for amounts up to VN\$50,000 and 2 per cent for higher amounts.

Interest is also paid on demand deposits over VN\$300,000. For all individuals and associations, the rate was 1.5 per cent per annum, and for all other depositors it was 0.5 per cent per annum.

Some banks, such as the Commercial Credit Bank, also offer lottery deposits. Savers have an opportunity to win a large lump sum if their number is drawn. This feature has reportedly been quite popular with the savers.

Banks in Vietnam are not allowed to maintain deposits denominated in foreign currencies such as the U. S. dollar or other convertible currencies.

Prior to mid-1966, commercial bank borrowing from the central bank was not substantial. This situation changed sharply in the last half of 1966 and 1967 as the Government followed a deliberate policy of liberalizing imports in order to reduce inflationary pressures. Central bank rediscounting was limited primarily to import bills, and between June 1966 and December 1967 the proportion of commercial bank borrowing from the central bank to total commercial bank liabilities increased from 3 per cent to 15 per cent. Virtually all banks took advantage of the new rediscount facilities, which were generally available at rates of 4 and 7 per cent, in order to expand credits, which in turn were generally extended at rates of 7 to 11 per cent. This proved to be an attractive way to improve profits since no other major source of loanable funds was available.

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<sup>1/</sup> Interest rates are maximum rates set by the Saigon Bankers' Association.

Table 5.

Assets and Liabilities of Vietnamese Commercial Banks  
(End of Period; Millions of Piasters)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>June 1968</u>
<b>ASSETS, TOTAL</b>	<u>9,578</u>	<u>8,762</u>	<u>8,112</u>	<u>8,620</u>	<u>8,296</u>	<u>9,598</u>	<u>11,480</u>	<u>13,669</u>	<u>21,815</u>	<u>47,120</u>	<u>46,226</u>	<u>49,720</u>
Cash & Dpsts. in National Bank, Treasury & Local Banks	2,329	2,796	3,547	3,504	1,968	1,821	3,161	4,179	10,345	11,063	11,279	12,464
Treasury Bonds	0	0	0	0	0	0	0	970	2,797	3,701	4,995	6,566
Deposits in Foreign Banks	346	392	438	229	142	186	173	153	231	1,265	1,115	1,232
Loans to, & Investment in Private Sector	3,224	3,007	3,667	4,345	5,701	6,948	7,484	7,618	7,361	29,200	26,784	26,704
Fixed & Miscellaneous Assets	3,679	2,567	460	542	485	643	662	749	1,081	1,891	2,053	2,754
Memorandum Entry												
Foreign Exchange in Millions of U.S. Dollars	(9.9)	(11.2)	(12.5)	(6.5)	(4.1)	(5.3)	(4.9)	(4.4)	(6.6)	(15.2)	(13.3)	(14.7)
<b>LIABILITIES, TOTAL</b>	<u>9,578</u>	<u>8,762</u>	<u>8,112</u>	<u>8,620</u>	<u>8,296</u>	<u>9,598</u>	<u>11,490</u>	<u>13,669</u>	<u>21,815</u>	<u>47,120</u>	<u>46,226</u>	<u>49,720</u>
Deposits	3,106	3,508	4,691	5,103	4,670	5,780	6,351	7,843	13,937	16,947	18,724	22,947
Demand--Private Sector	700	923	906	923	947	892	2,010	2,226	2,853	8,341	9,032	8,692
Time & Term--Private Sector	414	950	1,218	1,112	809	1,098	986	1,377	1,710	3,980	6,891	5,431
Government	672	155	182	193	251	271	269	241	44	62	52	59
Due to Foreign Banks												
Loans Payable--National Bank	357	217	160	150	463	275	325	195	147	5,358	4,487	4,984
Miscellaneous Liabilities	(4,329)	(3,009)	572	609	530	554	598	670	1,343	10,036	3,467	3,706
Capital Accounts			383	530	626	728	941	1,117	1,781	2,396	3,573	3,901

SOURCE: Annual Statistical Bulletin, No. 10, Supplement No. 2 (Data through September 1967), U.S. AID, Saigon 1967, pp. 10-11; and both earlier and later issues.

This change in policy affected those commercial banks which had generally extended credit by means of the overdraft system. These banks had to switch to financing imports on the basis of bills in order to have eligible paper for rediscount at the central bank.

As a result of this surge in central bank credit to the commercial banks, the ratio of loans and investments of the commercial banks to their demand and time deposits also increased substantially. Between June of 1966 and the end of 1967, the proportion jumped from 52 per cent to 97 per cent.

Bank capital has not been a major source of funds for the foreign banks, but has been somewhat more important for the local banks. At the end of 1967, bank capital totaled 8 per cent of total commercial bank liabilities. In 1965, all banks were required to maintain a minimum capital-to-deposits ratio of 6 per cent. This requirement mainly affected the foreign banks, as in earlier years the local Vietnamese banks tended to maintain fairly high ratios.<sup>1/</sup> All commercial banks operating in Saigon also had to have a minimum capital on December 31, 1965, of VN\$30 million.

Retained earnings have provided the banks with some funds, but the amounts have not been relatively large. A high proportion of the net profits of the foreign banks, perhaps 70 to 90 per cent, is remitted abroad, although there have been some delays in obtaining official approval for these remittances. Commercial bank net profits after income taxes generally increased during the 1960's and rose from VN\$193 million in 1960 to VN\$425 million in 1964, the latest year for which a figure is available.

#### Lending and Investing Activities

The commercial banks in Vietnam cannot be easily categorized according to their lending and investing activities. Only the roughest form of outline is possible, particularly since there have been substantial changes through the years. But, in general, the foreign banks, particularly the French, were leaders in financing foreign trade and plantation products, such as rubber, while the single local Vietnamese bank <sup>2/</sup> was engaged in the financing of retail trade and various commercial activities until 1945 when it began some financing of foreign trade.

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<sup>1/</sup> In 1963-64, for example, the ratio was 10 per cent for all banks, but 16 per cent for local Vietnamese banks alone. Annual Report: 1964, National Bank of Vietnam, Saigon, June 1965, p. 52.

<sup>2/</sup> The Bank of Viet-Nam (Viet-Nam Ngan Hang).

After 1955 the Commercial Credit Bank of Vietnam was urged by the Government to expand into light industrial financing. With the import liberalization and stabilization program of June 1966, all banks stepped up their volume of import financing and have become much more trade-oriented.

Most of the loans are short-term, with three-month loans being fairly common. Medium- and long-term credits are also extended, and these reportedly constitute about one-fourth of the loan portfolio. Long-term loans with a maturity of 5 years or more, tend to account for about 5 per cent of the loan portfolio and medium-term loans for the other 20 per cent. As is frequently the case in many countries, the short-term loans are often renewed, in effect becoming long-term credits for many businesses.

During the 1950's and early 1960's, much of the commercial bank credit was extended to finance exports (rubber and rice), imports, light industry and domestic trade and commerce. Industrial projects included textiles, tobacco manufacturers, plastics, chemicals, pharmaceuticals, insecticides, canning and batteries. Since mid-1966, however, central bank monetary policies have given preference to import financing and this has decreased the relative importance of the other types of financing. Except for credits to the plantations, agricultural loans have been rare.

Industrial finance has consisted mainly of credits for working capital, and to a much lesser extent for equipment. Some commercial banks have guaranteed equipment loans for their customers for up to 5 years for the Industrial Development Center. Borrowers pay the bank, which in turn pays the IDC, the original source of the funds. The commercial banks do not in general engage in syndicate loans or participations.

At the end of 1966, commercial bank loans broke down as follows: commercial, 61 per cent; industrial, 32 per cent; service, 6 per cent; and agriculture, 1 per cent.

For their lending and other business operations, most foreign banks employ a comprador who is often Chinese or a Vietnamese of Chinese origin. He generally earns a small salary plus commissions. The comprador, knowing both the Chinese language and the people, can deal with the Chinese community, bring business to the bank, and make recommendations on the creditworthiness of potential borrowers. Prior to the Great Depression of the 1930's many compradors also guaranteed loans, but this proved unworkable in the 1930's when many went bankrupt, and this is generally not required today. In some cases, the position is passed from father to son.

Prior to July of 1967, the commercial banks engaged in substantial interbank lending at a flat rate of 4 per cent. Specific data are not available, but the two American banks, which were established in 1966 and had excess funds deposited by the Americans, were the main lenders. Earlier in 1965, one of the main lenders was the Bank of Vietnam (Viet-Nam Ngan Hang), the foreign banks being the borrowers. Interbank borrowing was arranged directly between the banks without the use of brokers.

The central bank felt that the sums involved were abnormally large and that the interbank lending was adding substantially to inflationary pressures. Therefore, on July 12, 1967, the central bank ordered all interbank lending to be terminated.

Commercial bank investments mainly consist of three items: treasury bonds, deposits at the treasury, and investment in the Vietnam Development Bank (formerly known as SOFIDIV). At the end of 1967, the first and second were respectively, 11 per cent and 4 per cent of the total assets. Altogether, commercial bank investments in recent years have been about 30 per cent of total bank assets. One reason for this relatively high ratio is that commercial banks are required to hold from 5 to 20 per cent of their deposit liabilities in the form of treasury bonds.

In late 1967 treasury bonds, which were available in maturities of 3, 6, 9 and 12 months, yielded 2.5 per cent, with banks mostly holding bonds of one-year maturity. The yield on bonds held by individuals was 3.25 per cent.

Commercial banks are allowed to deposit excess funds overnight at the treasury and a substantial number of banks take advantage of this facility. At the end of 1967 banks were earning three-fourths of 1 per cent per annum on these deposits at the treasury.

#### Credit Terms and Other Bank Services

Just as deposit rates are prescribed by the Bankers' Association, similarly, maximum and minimum interest rates on loans and overdrafts are also set by the Association. Up to November 1, 1967, the minimum lending rate was 6.5 per cent per annum, but this was raised on that date to 7 per cent. Banks also charge commissions on their credits which add an additional 0.5 to 1.0 percentage points. Thus a common lending rate is 8 per cent (7 per cent plus 1 per cent commission) and for advances under VN\$300,000 the rate could rise to 11 per cent (10 per cent plus 1 per cent commission). Although not authorized by the Association's rate schedule, some banks reportedly charge up to 12 per cent per annum for three-month credits. Long-term credits, such as for



5 years, tend to carry a rate of 8 per cent. These rates have been in force for 10 to 15 years with relatively few changes, despite the acceleration in inflation in 1965-67.

Vietnam has several usury laws<sup>1/</sup> passed during the French colonial administration which have not been rescinded, but have not necessarily been enforced either. These laws establish a 12 per cent limit under commercial law (i.e., where individuals or firms need a license to carry out their activities) and an 8 per cent limit under civil law.

The commercial banks usually require their borrowers to have an account in the bank and to have a government-issued license for their business when required by law. Collateral requirements are flexible depending on the creditworthiness of the borrower. Common items consist of merchandise, mortgage deeds, and sometimes titles to land. Financial reports are often not required of the very small borrowers, but they are submitted by large firms.

Outside of their lending and investing activities, other bank services are relatively limited. Some of the banks, particularly the French, provide safe deposit boxes and some banks perform trust services. Almost all banks provide guarantee services. These include guarantees for performance bonds, tariffs, foreign exchange liabilities, tax liabilities, and credits from the Industrial Development Bank.

The commercial banks maintain deposits with the Treasury General and are able to transfer funds to various parts of the country by using the Treasury General's facilities in the cities and towns where there are no bank branches.

Clearinghouse facilities for all the banks are located on the ground floor of the National Bank of Vietnam. Clearings take place twice daily and are under the control of a representative from the National Bank. Each private bank is required to send a delegate to submit checks, bills and other relevant items for settlement. The clearinghouse volume has increased steadily. In 1957 there were 553,051 checks presented bearing a value of VN\$38.5 billion. Ten years later in 1967 the amounts were 1,835,695 and VN\$367.9 billion, respectively.

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<sup>1/</sup> These laws are based on decrees passed on April 21, 1868, May 15, 1914, May 17, 1934 and December 2, 1936.

### Volume of Bank Credit

The volume of commercial bank credit has changed irregularly in Vietnam. (See Table 5.) Between 1957 and 1965 the level of bank credit outstanding to the private sector increased at an average annual rate of 12 per cent.<sup>1/</sup> However, in some years (1958 and 1965) the level declined, and in 1961 it rose 31 per cent.

In 1966 there was a tremendous increase, as bank credit rose from VN\$7 to VN\$29 billion, or about fourfold. During 1967 the level rose further to VN\$34 million in April, but by the end of the year had receded to VN\$27 million.

Commercial bank holdings of treasury bonds were nil until the last quarter of 1964. As a result of a central bank regulation requiring commercial banks to hold treasury bonds, however, the amount of holdings rose substantially. By September of 1966 they were just under VN\$5 billion and by mid-1968 were VN\$6.6 million.

### Monetary Controls

The central bank uses several monetary instruments to control commercial bank credit expansion. These include cash reserve requirements, treasury bond requirements, and penalty discount rates.

At the end of 1967 the cash reserve requirements were 25 per cent for demand deposit liabilities and 15 per cent for time and savings deposits. Banks in the provinces were allowed to observe a uniform 15 per cent requirement. During those periods when the central bank is requiring advance import deposits of commercial bank customers, these deposits must be transferred to the central bank. Legal reserves can be held as vault cash, or as deposits at the central bank, at the Treasury or in the Postal Checking Account System.

Since June of 1966 commercial banks have been required to hold treasury bonds equal to 5 to 20 per cent of their average daily gross deposits, the minimum percentage depending upon the size of the bank's deposits. In late 1967 these bonds, which have to be held at least 18 months, yielded 2.5 per cent.

<sup>1/</sup> This figure includes a relatively small amount of investments in the private sector, which at the end of 1967 were about VN\$600 million.

In a move to step up imports and thus reduce pressure on prices, the central bank in December of 1966 made all bills financing exports and imports eligible for rediscount at the central bank without limit. Other bills financing customs duties, government contractors and certain agricultural transactions were granted the same privilege. Commercial bank credit continued to expand sharply, and in order to reduce overdependence by some commercial banks on central bank credit a system of penalty discount rates was introduced. This consisted of three rates (4, 7 and 12 per cent) applied progressively as the bank increased the amount of its rediscounts. By late 1967 most banks were paying only 4 or 7 per cent for central bank accommodation.

In addition to the above monetary controls, commercial banks must also observe capital and loan requirements. Banks organized as joint-stock associations must set aside 5 per cent of their net profits annually in a Legal Surplus Fund. All banks must also set aside 10 per cent of their net profits in a Special Surplus Fund until this Fund is equal to the amount of the bank's paid-in capital stock. Bank loans to directors or other persons associated with the bank are limited to 20 per cent of the bank's paid-in capital and surplus, but this restraint in practice affects only indigenous Vietnamese banks. Government approval is needed for foreign banks (or foreigners in general) to purchase land or other real estate. Some foreign banks, however, do accept mortgages as loan collateral.

#### Bank Supervision and Publications

Commercial banks are examined every year or two by the central bank, and occasionally by tax officials from the Fiscal Department of the Ministry of Finance. All banks have an internal audit, but practices on the external audit vary. Most local Vietnamese banks, in accordance with an 1967 law, hire an Accountant Commissioner to perform the external audit, but the examination is reported to be somewhat perfunctory. Foreign banks generally do not have an external audit, although there is one for the home office abroad, and occasionally home office personnel are sent to Saigon to examine the branch's activities.

Banks are required to submit data weekly, monthly, quarterly and annually to the central bank. Only two banks publish regular annual reports and these are the Commercial Credit Bank of Vietnam, and the Bank of Vietnam (Viet-Nam Ngan Hang). Each bank, however, is required by Article 36 of the October 24, 1964, Decree Law on Banks to publish its balance sheet within 30 days after the end of its financial year, and these usually appear in a local newspaper in January. The annual reports at the home office of the foreign banks seldom provide financial data on the branch's activities in Vietnam.

### Some Conclusions

One of the basic problems of the commercial banks, particularly since 1966, is the shortage of self-generated funds, and, as indicated earlier, the subsequent heavy dependence on the central bank. Credits from the central bank were equal to about 40 per cent of private deposits in late 1967. The ratio of loans to deposits has been abnormally high and there is a strong need for additional deposits from the private sector in order to restore a better balance.

A major factor causing this imbalance has been the unrealistically low level of interest rates. Deposit rates, at a maximum of 4 per cent, provide little incentive for savings, particularly in view of the 62 and 43 per cent rise in consumer prices in 1966 and 1967, respectively. Relatively low lending rates have also stimulated an excessively strong demand for funds. An upward adjustment in both the deposit and lending rates, which have a relatively large spread, would help provide a better balance between both the supply of, and demand for, funds.

Another problem relates to establishing an appropriate foundation for encouraging the growth of both a money and capital market. The decision of the central bank in July 1967 to abolish altogether the market in interbank lending may have been overly severe. The market did serve a useful function in providing the commercial banks with quick, easy access to loanable funds, and the lending banks with a convenient outlet for excess funds, thus promoting a more efficient use of available funds. It should be possible to regulate the total volume of funds lent in the market, if necessary, instead of abolishing the market altogether. Under the present circumstances, the very short-term investment opportunities for banks with excess funds are relatively poor.

A final point relates to the present government regulation which prohibits foreigners from purchasing real estate without government approval. As Vietnam develops economically, it is likely that foreign trade financing will diminish in relative importance, while various types of agricultural and industrial finance will increase. In order to encourage this development, banks should be in a position to freely accept all types of desirable collateral without worrying about possible adverse legal difficulties. It might therefore be appropriate to exempt the foreign banks from the application of this provision or institute special provisions for them, at least in those cases where the bank acquires the title to real estate through loan default. Under the present arrangements, the banks feel somewhat inhibited in accepting this type of collateral because of the legal uncertainties.

### Commercial Credit Bank of Vietnam

The Commercial Credit Bank of Vietnam (Crédit Commercial du Viet-Nam) 1/ is a completely government-owned commercial bank that was established by the Government in 1955. It was set up partly to provide a local, or indigenous, bank that could compete with the near-monopoly position enjoyed by the foreign banks. 2/ Since the late 1950's it has played an important role in extending medium-term industrial credits, a field of operations not particularly favored by the other commercial banks. Because of its unique position as a commercial bank, it deserves some separate discussion.

The Bank has a certain similarity to the Philippine National Bank which was established in Manila in 1916. Both banks are completely owned by the government, are engaged mainly in regular commercial bank operations, were set up partly to counterbalance the preponderant position of the foreign banks, and have a relatively large proportion of the commercial banks' deposits and credits.

#### Objectives and Organization

The Bank was established by Decree Law No. 35/TC of December 13, 1955, and it began operations in the same month. Its original capital was VN\$200 million, which was made available as a loan from the central bank. In November of 1967 the Bank had repaid all but VN\$50 million of this loan from the profits of its operations.

One of the main objectives of the bank has been to supply funds to those sectors of the economy where the other commercial banks had been either unable or reluctant to extend credit. The bank has also helped to supplement the government's economic development program by undertaking certain types of medium-term loans, particularly industrial credits. The Bank, of course, also has the objective of continuing to expand both its regular commercial operations and its profits.

The Bank is managed by a six-man Board of Directors, all but one serving ex officio. The Chairman of the Board is the Governor of the central bank, while the non-ex officio member is to be "an expert in economics and finance." 3/

1/ Vietnamese name is Viet-Nam Thuong-Tin.

2/ In 1955 there was only one other indigenous commercial bank, the Bank of Vietnam.

3/ The other ex officio members usually include the General Manager of the Bank, as well as the Auditor, and occasionally the Director General of the Directorate of Budget and Foreign Aid, and the Managing Director of the Vietnam Development Bank.

The General Manager, who is nominated by the Governor of the central bank and the Minister of Finance, is appointed by presidential decree . He is aided by five Assistant Managers, each one being in charge of the Bank's five departments: Foreign, Domestic Loans, Accounting, Branches and Personnel. The Bank has nine branches, two of which are in Saigon-Cholon. Six of the branches have been established since 1961. The Bank's main office is in the central bank, and at the end of 1967 the Bank had about 550 employees, of which about 175 were working at the branches. Most of the Bank's personnel when it first began to operate were provided by the central bank.

### Sources of Funds

Like the other commercial banks, the Commercial Credit Bank's main sources of funds are its deposits, and since mid-1966, rediscounts at the central bank. Some funds are also available from retained earnings, but the paid-in capital at the end of 1967 was the same as in 1955. Except for its original capital, the Bank has not received any loans from the Government.

In mid-1967 the Bank had about VN\$9 billion in total deposit liabilities. This was equal to about 30 per cent of the total deposit liabilities of all commercial banks. Savings deposits of up to VN\$50,000 earned 2 per cent interest, and depositors also had an opportunity to win a bonus through a lottery system. The amount of bonus paid is equivalent to an extra 1 per cent interest on savings accounts. Other interest rates on deposits were the same as for the other commercial banks. Savings and time deposits comprised about 17 per cent of the Bank's total deposit liabilities. A large proportion of the savings and time deposits consisted of the six-month time deposits earning 4 per cent.

### Type of Lending and Investing Activities

The Commercial Credit Bank's lending pattern is substantially different from that of other commercial banks in that it has played an important role in helping to finance industry. In mid-1967, about 51 per cent of its credits outstanding were financing industry, 1/ about 35 per cent imports, and 11 per cent construction. The remaining credits were for financing local commerce, exports and consumption.

1/ Some of the main industrial products financed were textiles, paper, petroleum, and pharmaceuticals.

For the same date, about 62 per cent of the Bank's credits were short-term and 38 per cent long-term. These "long-term" credits, however, are actually six-month credits that are continuously renewed.

Except for the substantial holdings of treasury bonds, the Bank's investment holdings are relatively small. Holdings of stocks, including those issued by two paper plants and an insurance company, totaled only 5 per cent of total loans and investments at the end of 1967. The Bank used to extend some mortgage loans prior to mid-1966, but since then has not done so. Because of the inflation in 1966-67 the Bank has favored mainly short-term credits."

#### Credit Terms and Other services

The Bank's credit terms are essentially the same as those for the other commercial banks. At the end of 1967, the Bank's maximum maturity was two years. Certain loans are renewed regularly, and a fairly common maturity is for six months. Collateral is usually required for loans exceeding VN\$300,000.

Most of the Bank's loans are secured, with the requirements for borrowers generally being the same as for other commercial banks. About 15 to 20 per cent of the Bank's loans carry only a personal guarantee.

In addition to the usual commercial bank services, the Bank has also guaranteed substantial credits from France and Germany. Government funds utilized by the Industrial Development Center are channeled through the Commercial Credit Bank.

#### Volume of Lending and Investing

Changes in the volume of loans and discounts outstanding have fluctuated sharply, increasing 27 per cent in 1959, and registering virtually no change in 1965. Between 1958 and 1965, loans and discounts outstanding increased at an average annual rate of 15 per cent. In 1966, however, they rose 268 per cent, and in the first half of 1967, an additional 30 per cent.

The Bank's credits comprise a substantial part of all commercial bank credits. In mid-1967 they were about one-fourth of the total.

Holdings of investments have increased, mainly because of the requirement for commercial banks to hold treasury bonds. In 1960 investments comprised only 6 per cent of total assets, but by 1966 the proportion had more than doubled to 14 per cent. In absolute terms over the same period, investments increased from VN\$137 million to VN\$1,688 million.

#### Supervision, Reports and Publications

The Commercial Credit Bank is subject to the same statutory regulations on its financial operations as the other commercial banks. Although the Bank has an internal audit, which is performed either by the General Controller or the Assistant Manager in charge of the Accounting Department, it does not have any external audit like some Vietnamese banks. The Bank is, however, examined by the central bank and occasionally by officials from the Ministry of Finance.

The Bank is required to submit a monthly report to its Board of Directors and an annual report to both the Board and the Ministry of Finance. Along with the Bank of Viet-Nam (Viet-Nam Ngan Hang), the Commercial Credit Bank is the only other bank to issue an annual report, which has generally been much briefer than the report by the former.

#### Some Comments

The Commercial Credit Bank has shown that it can compete successfully with the other banks, expand its network of branches, and earn substantial profits. It has thus met a real financial need and also provided valuable training in finance for the local Vietnamese.

It has also been helpful in providing certain industrial credits that might not otherwise have been available, particularly at relatively low interest rates. The inflation since 1966, however, has forced it to keep the maturities on its credits relatively short.

Although the Bank has 7 branches outside the Saigon-Cholon area, there are still a substantial number of cities that do not have adequate banking facilities. There is thus a need for the bank to extend its operations further as the country develops economically.



## The National Bank of Vietnam

The National Bank of Vietnam<sup>1/</sup> is the country's central bank. It has the usual functions of a central bank in a less developed country,<sup>2/</sup> and it has also promoted medium- and long-term industrial finance. In recent years it has played an increasingly important role in controlling and channeling credit operations. See Table 6 for specific changes in central bank assets and liabilities since 1957.

### Establishment, Organization, and Division of Powers

The Bank was established in 1955 following the passage of Republic Ordinance No. 48 of December 31, 1954. The new Bank superseded the previous bank note issuing authority (Institut d'Emission) for Vietnam, Cambodia and Laos which had been set up on January 1, 1952. After 12 years of operation, the central bank ordinance was substantially amended by Decree Law No. 20/SLU of September 3, 1966. Some of the main changes made by the new Law were: 1) to increase the number of members on the Council of Administration; 2) to change the criteria for selecting the Governor and Vice-Governor; 3) to abolish the requirement that the Bank maintain international reserves equal to at least 33 per cent of its note issue and current liabilities; 4) to allow the Bank to rediscount commercial bills in order to grant industrial credits of up to 7 years; and 5) to increase the permissible amount of advances to the Government.

The National Bank's original capital of VN\$67 million came from Vietnam's share in the capital of the Institut d'Emission. In December of 1961 this was augmented by VN\$333 million from previous earnings of the Bank, bringing the Bank's total basic capital to VN\$400 million. In October of 1967, the Bank's total capital was VN\$1,995 million, consisting of VN\$400 million of paid-in capital, the balance consisting mainly of reserves and other capital accounts.

The National Bank has no obligation to turn over its annual profits to the National Treasury but, it has done so in recent years. The amounts in some years have been fairly substantial, in the order of VN\$100 - VN\$200 million.

<sup>1/</sup> The name in Vietnamese is Ngan Hang Tuoc Gia Viet-Nam, and in French, Banque Nationale du Viet-Nam.

<sup>2/</sup> The Bank's 9 main functions are stated explicitly in Article 3 of the September 3, 1966, Decree Law.

The National Bank is managed by a 10-man Council of Administration. The Governor and Deputy Governor of the Bank serve ex-officio as President and Vice-President of the Council, respectively. Four of the members are to be competent in economic and financial matters, and the other four are to be experienced in the fields of agriculture, commerce and industry. The eight members are appointed by presidential decree for four years on the basis of recommendations from the Minister of Finance, and of advice from the Minister of Economy and the Governor of the National Bank. An eleventh, non-voting, participant in the Council's meetings is the Censeur, who exercises general surveillance over the Bank's operations, advises the Bank, and also serves as an external auditor of the Bank.

Both the Governor and Deputy Governor are appointed by presidential decree on the basis of a recommendation of the Central Executive Committee after due consideration of the matter by the Council of Ministers. Both are appointed for a term of 5 years. They are to be persons of great integrity, with broad competence and experience in banking and monetary matters.

At the end of 1967, the National Bank had about 1,000 employees and eleven departments,<sup>1/</sup> plus a Bank Inspector and his staff. The National Bank has no branches, as the two branches at Hué and Dalat that it "inherited" from the Institut d'Emission were closed in 1956.

The Bank is subject to some restraint in its decision-making powers. Important decisions made by the Governor are to be submitted to the Council of Administration. In addition, major policy matters are also discussed in the Supreme Council on Economy and Finance,<sup>2/</sup> a cabinet-level group, and the Council's decisions are also submitted to the Government for final approval.

### Monetary and Credit Controls

The Bank is legally authorized to use a wide variety of monetary controls. These include the use of cash reserve requirements, secondary reserve requirements, graduated rediscount rates, qualitative controls on rediscounts, controls on the level of interest rates for loans and deposits, controls on interbank borrowing, advance import deposit requirements, and moral suasion.

<sup>1/</sup> These were: 1) Foreign Aid; 2) Foreign Relations; 3) I.B.M.; 4) Research; 5) Administration; 6) Cash; 7) Credit; 8) Issue; 9) Foreign Exchange Control; 10) Legal; and 11) Transfer.

<sup>2/</sup> Consists of the Minister of Finance, the Governor of the National Bank, the Directorate General of the Budget, and the respective ministers of Economy, Public Works, and Agriculture. The Council, plus 6 U. S. officials, comprise a Joint Economic Committee, which in turn has a Money and Banking Sub-Committee.

Table 6.  
Assets and Liabilities of the National Bank of Vietnam  
(End of Period; Millions of Piasters)

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	June 1968
ASSETS, TOTAL	16,254	17,284	18,098	19,836	19,225	21,578	25,463	30,224	51,190	79,769	109,370	143,774
Gold and Foreign Exchange Consolidated Debt of Government	4,822	5,567	6,003	7,577	6,137	5,360	6,109	4,750	6,031	24,050	26,000	27,403
Advance to the Government:												
Temporary	0	0	0	0	600	2,020	4,650	10,950	28,100	33,423	40,633	79,248
Special <u>1/</u>	0	398	750	750	750	750	750	750	750	0	0	0
Advances to Banks	234	190	160	150	521	275	331	205	147	5,604	5,340	5,582
Fixed Assets	284	232	181	137	130	170	174	185	183	342	678	1,032
Other Assets <u>2/</u>	233	216	323	341	406	2,322	2,768	2,713	5,298	5,669	26,037	19,828
Memorandum Entry:												
Gold and Foreign Exchange in Millions of U.S. Dollars <u>3/</u>	(137.8)	(159.1)	(171.5)	(216.5)	(175.3)	(153.1)	(174.5)	(135.7)	(172.3)	(300.7)	(325.0)	(342.5)
LIABILITIES, TOTAL	16,254	17,284	18,098	19,836	19,225	21,578	25,463	30,224	51,190	79,769	109,370	143,774
Notes in circulation	8,529	9,139	10,071	12,158	12,887	14,107	16,644	20,422	36,106	48,921	67,099	92,954
Deposits	5,395	5,611	5,064	4,382	2,900	2,888	4,557	5,878	9,845	16,805	15,940	18,968
Miscellaneous Creditors	1,863	1,853	2,145	2,181	2,024	3,461	2,936	2,340	3,276	11,152	22,179	27,767
Provisions and Reserves	206	247	547	781	939	1,110	1,313	1,313	1,574	1,870	1,986	2,932
Other Liabilities	261	434	271	334	435	12	13	271	389	1,021	2,166	1,153

1/ To cover losses from devaluation of the French Franc in August 1957 and December 1958.

2/ Includes advances to the Counterpart Fund.

3/ Beginning June 18, 1966, gold and foreign exchange are calculated at a rate of VN\$80 to the U. S. dollar.

SOURCE: Annual Statistical Bulletin, No. 11, U. S. AID, Saigon, October 1968, p. 41.

Between 1955 and 1964, the main instrument used was the change in cash reserve requirements. Since 1965 the bank has also relied on secondary reserve requirements, qualitative rediscounting, and penalty rediscount rates.

The National Bank has the power to establish the minimum legal reserves that commercial banks must maintain against their deposit liabilities and the ratio is to be between 10 and 35 per cent. Between 1955 and 1966 the ratio was changed at least six times, varying between 10 and 25 per cent. Near the end of 1965 the ratio was increased sharply from 10 to 25 per cent. At the end of 1967 the requirement was 25 per cent for demand deposits 1/ and 15 per cent for time and savings deposits.

In 1966 the National Bank also imposed secondary reserve requirements. By the end of 1967 commercial banks were required to hold treasury bonds equivalent to 5 to 20 per cent of their gross deposit liabilities, depending on the amount of liabilities.2/ Commercial bank holdings of treasury bonds were nil until October 26, 1964, when the Government began to issue treasury bonds.

In December 1967 their holdings had increased to VN\$5 billion, or 14 per cent of bank deposit liabilities. While the imposition of this requirement did reduce bank liquidity, its main effect was to transfer reserves to the Government which might otherwise have been utilized by the private sector.

Another monetary instrument used by the central bank is that of qualitative rediscounting, which in Vietnam has taken the form of limiting the type of paper eligible for rediscount. Prior to mid-1966

1/ For new branches of banks outside the Saigon-Cholon area, the requirement was a flat 15 per cent, this ratio to be effective for the first three years of their operations.

2/ The respective rates were as follows: For gross deposit liabilities in piasters of:

zero to 500 million	-----	5 per cent;
: 501 to 1,000 "	-----	10 per cent;
: 1,000 to 1,500 "	-----	15 per cent;
and: 1,501 million or higher	-----	20 per cent.

central bank rediscounting was not too large, mainly because the commercial banks generally had either adequate or excess liquidity. After June of 1966, however, imports were sharply liberalized and the commercial banks expanded their import credits sharply. This reduced bank liquidity to the point where the banks began to increase their dependence on the National Bank for loanable funds. Beginning in September of 1966 the Bank relaxed its conditions for rediscounting and in December 1966 it began to rediscount without limit all export and import bills. Due to port congestion, importers were not always able to liquidate their credits from the banks, and the central bank rediscounts helped to ease this problem for the banks. Loans from the National Bank to the commercial banks increased from about VN\$100 million in May of 1966 to a high in 1967 of almost VN\$10 billion in February.

A few banks abused this privilege and borrowed excessive amounts from the central bank. To correct this situation, the central bank introduced in 1967 a three-tier system of rediscount rates, *viz.* 4, 7, and 12 per cent, depending on the ratio of the commercial bank's central bank borrowing to its deposits. The last rate was a penalty rate, and it was generally successful in removing excessive dependence on central bank credit as it was unprofitable for the banks to borrow at 12 per cent. Prior to 1967, the rediscount weapon had not been too effective as the rates were relatively low and the amount of rediscounting was relatively small.

The central bank also has control over the interest rates charged by banks and paid on deposits. However, the rates in Vietnam have generally been too low either to exercise restraining influence on credit expansion or to encourage an influx of funds into the banks. Consequently, this potential power for credit restraint has, in effect, not really been exercised.

#### Regulatory Powers and Other Functions

The National Bank has extensive regulatory powers which include bank supervision, examination, and approval of new banks, new branches, bank mergers, changes in location, capital and name. Ministry of Finance approval is also needed for the establishment of a new bank.

The central bank's examination staff is relatively small, but each of the 20 banks is still examined about every two to three years. A bank can, of course, be examined at any time when necessary. Monthly reports submitted by the banks are also examined by the Bank Inspector and his staff.

Other central bank functions include the issue of bank notes and coins, serving as fiscal agent for the Government, handling gold and foreign exchange operations and controls, maintaining accounts for foreign governments, embassies, consulates, and aid missions, handling government security issues, assisting the development of certain financial institutions, and advising the Government on economic and financial matters.

One of the National Bank's main asset items is the Consolidated Debt of the Central Government. This amounts to VN\$10,681 million, a substantial part of which is the counterpart of the VN\$8,331 million liability for note issue that the National Bank assumed at its inception. The increase in bank note issue after 1964 was particularly sharp and at the end of 1967 totaled VN\$67 million.

The central bank has played an active role in fostering new financial institutions. It has extended credits to the Industrial Development Center for industrial finance, and it established the Industrial Development Refinancing Fund for providing funds for relending for medium-term industrial credits. It has also extended credits to the National Agricultural Credit Office.

#### Regulation and Supervision of the Bank's Operations

As indicated earlier, the National Bank has not been required since September of 1966 to maintain 33 per cent in international reserves as backing behind money in circulation and the Bank's current accounts and demand deposits. The Bank has stated that this requirement was abolished "...because the gold and foreign exchange backing of money issued has become an old fashioned economic thought, and the value of a currency depends more on other factors than on precious metals and foreign exchange reserves of the issuing country." <sup>1/</sup> Since the 33 per cent requirement was abolished, the National Bank has not been subject to any statutory or other restraints on the amount of its credit expansion.

The September 1966 amendment to the 1954 central bank law also increased the statutory limit on central bank advances to the Government from 25 per cent, to 40 per cent of the Government's budget receipts for the previous year (Article 56). The advances, which take the form of a treasury bond, must be liquidated within a period of 18 months.

1/ Annual Report: Fiscal year 1966, National Bank of Viet-Nam, Saigon, June 1967, p. 57.

In addition to the National Bank's own internal audit, it is also subject to examination and audit by the Censeur. He is the central government's representative at the Bank, and he is allowed access to all the Bank's operations and accounts. At the beginning of each year he is required to submit a report on the Bank to the President of the Central Executive Committee.

The Bank is required to submit an annual account of its operations to the President of the National Assembly (Article 22, Section 10), and also to have its balance sheet published monthly in the Journal Officiel (Article 111). In addition, the Bank publishes both an Annual Report (in English) and a bimonthly Bulletin Economique (in French).

#### Some Comments

One of the main sources of Vietnam's inflation in recent years has been the large central government deficit. This has mainly been financed by the banking system, particularly the central bank. In view of all the problems brought on by the war, it is highly unlikely that inflationary financing could have been completely avoided. The decision to increase the limit on central bank advances from 25 to 40 per cent is merely symptomatic of this problem, and not the direct cause of the inflation. However, it has been a contributing factor insofar as it has been easier to increase borrowing from the central bank than to raise taxes.

Because of the buildup in excess liquidity, the economy in mid-1966 was confronted with strong inflationary pressure. This problem was dealt with mainly by devaluing the piaster and liberalizing imports. This did have a beneficial effect, but the program could also have been supplemented by stronger fiscal measures and by an upward revision of the interest rate structure to realistic or market levels. This would have helped to curb uneconomic borrowings, and at the same time to channel into bank time and savings accounts some of the excess liquidity.

The elimination of the 33 per cent international reserve requirement has not, per se, contributed to Vietnam's inflation, but it made possible a greater expansion of credit than was desirable. The Vietnamese experience demonstrates that legal limitations designed to restrain central bank credit expansion are of little value where the will to curb credit expansion is lacking.

Although the use of reserve requirement and rediscount rate changes was not too effective prior to 1966 because of the relatively liquid position of the banks, it should be noted that the penalty rediscount rate system instituted in 1967 was generally a success. This experience shows again that the rediscount rate system is capable of being effective where the rate is brought near or above the going rates charged by the borrowing banks.

### The Agricultural Development Bank

The Agricultural Development Bank is a completely government-owned institution that provides both short- and medium-term credits in the fields of agriculture, forestry, fishery and handicraft. The Bank first began its activities as the National Agricultural Credit Office (NACO) <sup>1/</sup> in 1957, but about 10 years later on May 2, 1967, it changed its title to the Agricultural Development Bank (ADB) and also some of its activities.

#### Purpose and Organization

One of NACO's main objectives was to provide low-interest credits to the primary sector of the economy.<sup>2/</sup> The decree authorizing the replacement of NACO with the ADB does not mention the low-interest aspect, but merely states that the ADB "...aims at contributing to the development of agriculture, forestry and fishery in the country."<sup>3/</sup> The Bank is basically interested in financing all aspects of production in the primary sector, and in improving the people's standard of living.

The Bank is controlled by a seven-man Board of Directors, with the Minister of Agriculture serving ex officio as Chairman of the Board. Two officers of the Bank, the Director General and the Controller General also serve ex officio as members of the Board. The other four members are appointed by the head of the executive branch of the Government upon the recommendation of the Minister of Agriculture. During 1967 these included the President of the Saigon Chamber of Commerce and a university professor.

NACO, on the other hand, was run by a Board of Directors consisting of civil servants. This arrangement, however, did not work very well, hence the change.

<sup>1/</sup> Decree No. 67/CCDD of April 1, 1957.

<sup>2/</sup> Excluding the mining sector.

<sup>3/</sup> See Article 2 of Decree No. 27/SL/CN of January 3, 1967.



The chief executive officers of the Bank are the Director General and three Assistant Director Generals. The Director General is appointed by the head of the executive branch of the Government upon the recommendation of the Minister of Agriculture. The Controller General is also appointed by decree upon the recommendation of the Minister of Finance. He has the responsibility of supervising and examining the Bank's financial accounts, and making sure that the operations of the Bank follow the policies set forth by the Board of Directors.

The Bank is organized into seven departments: Planning, Credit, Business, Personnel and Logistics, Legal, Accounting and Inspection. Altogether the Bank has about 800 employees.

In 1965 NACO had 40 branches, but since then there has been a retrenchment. In late 1967 the ADB was operating only nine branches. These are authorized to do a full banking business. The ADB was also maintaining 20 sub-branches and 10 representative offices. Although the sub-branches can accept savings, they can only extend special, or soft, loans which have little or no real collateral as security for the loan. The representative offices mainly observe and report on developments and business opportunities in their area. These outlets of the Bank at the end of 1967 were located in 44 provinces and 5 cities.

#### Sources of Funds

When it was established in 1957, NACO's initial capital was VN\$248 million, which was appropriated from the national budget. U.S. aid contributions of VN\$628 million and other sources boosted the capital to about VN\$895 million by the end of 1966. <sup>1/</sup> With the very poor record of repayment to NACO, however, the new Agricultural Development Bank, after liquidating NACO's assets, was only able to obtain VN\$200 million as its starting capital. It did not receive any new funds from the Government in May 1967. It has also obtained some funds from deposits, but these have been relatively small. West Germany has extended a VN\$225 million, 10-year credit to the Bank, mainly for the import of machinery, such as marine engines and power tillers. The Bank also expects to receive funds from deposits of local currency owned by the United States.

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<sup>1/</sup> "Basic Data on the Economy of Vietnam," Overseas Business Reports, 63-5, U. S. Department of Commerce, Washington, D. C., March 1967, p. 7.

Although NACO borrowed from the central bank, the ADB through the end of 1967 had not drawn on this source. Article 6 of the Bank's Decree authorizes it to borrow from the National Bank of Viet-Nam, from foreign countries, to receive subsidies from the Government, and to receive financial support from foreign governments as well as foreign and international financial institutions.

The Bank maintains three types of deposits: demand, time and savings. No interest is paid on demand deposits up to VN\$300,000, but those over VN\$300,000 receive 1.5 per cent per annum. Time deposits with a maturity of 1 to 2 months receive 2 per cent per annum, 3 to 5 months receive 3.5 per cent, and over 6 months receive 4 per cent. Type A savings deposits, i.e., those up to a maximum of VN\$50,000, receive 3 per cent per annum, with each depositor limited to no more than three savings accounts. For Type B savings deposits there is no maximum limit, but only 2 per cent is paid.

#### Type of Lending Activities

The Bank is authorized to extend credits for a wide variety of activities in the fields of agriculture, forestry, fishery, livestock and handicraft. These can be short-, medium- or long-term credits, with or without collateral. Eligible borrowers may include individuals, rural credit associations, cooperatives, farmers' associations, and any appropriate legal entity. Credits can be extended to finance production, storing, marketing and processing.

Both NACO and the Bank have extended primarily short-term credits for production of rice and pig raising. In some earlier years, a substantial part of NACO's credits were channeled through the cooperatives. NACO also tried to encourage rubber production by extending long-term loans through its Rubber Development Fund.

The Bank divides its credits into two categories. Nominally known as "banking type" and "special type" credits, they can more conveniently be referred to as hard and soft loans. The hard loans are mainly to large-scale farmers who are able to offer property as collateral. The soft loans are mainly extended to small-scale farmers who cannot provide specific collateral. Repayment of the soft loans thus depends mainly on the character and production capability of the borrower. As much as possible, the Bank would like to use its capital for extending only hard loans, while relying on government funds for the soft loans.

The Bank does not hold any significant amount of investments. The bulk of its assets consists of loans, and since May of 1967, only a very small part of these have been extended to agricultural cooperatives.

Credit Terms and Requirements of Borrowers

The Bank charges a variety of interest rates, depending on the maturity and the purpose of the credit. Hard and soft loans, however, appear to carry the same interest rate. The rates below were those in force at the end of 1967:

<u>Short-term</u> (under 18 months):	production	--1%/mo.
	marketing	--8-10%/yr.
	processing	--8-10%/yr.
<u>Medium-term</u> (18 mos. to 5 yrs.):	equipment	--6%/yr.
	marine engines	--8%/yr.
	fertilizer, seeds	--12%/yr.
<u>Long-term</u> (over 5 yrs.):	equipment	--6%/yr.

Since most of the Bank's credits are short-term production loans, the rate of 1 per cent per month is very common. Many of the short-term credits are only for the crop season, i.e., about 8 months.

There are several conditions that the borrower, or project, must meet. The credits are limited to persons active in agriculture, forestry, livestock, fishery or rural handicraft production. Projects have to give promise of a reasonable profit, and in certain cases the borrower is required to provide collateral. In the case of hard loans, this is often a title to land or other property, or crops in a warehouse. Crops growing in the field are not permitted to serve as collateral. In the case of soft loans, the Bank frequently requires one guarantor.

Volume of Credits and Other Activities

The volume of loans extended by NACO reached a peak in 1959-60 and then declined irregularly until 1967 when the ADB began its operations. Total loans granted in 1957 were VN\$223 million, and they jumped to VN\$1,017 million in both 1959 and 1960. By 1966 the volume had fallen irregularly to VN\$370 million.

Between 1953 and 1966, NACO and its predecessors extended VN\$5.5 billion in loans, of which VN\$1.0 billion, or 19 per cent, was extended through cooperatives. Of the total of VN\$5.5 billion, 85 per cent were short-term credits, 7 per cent were medium-term, and 8 per cent were long-term credits. The proportion received by different sectors were: agriculture, 88 per cent; animal husbandry, 6 per cent; fishery, 3 per cent; forestry, 1 per cent; and handicraft and others, 2 per cent. 1/

1/ "Agricultural Credit through Cooperatives," Directorate of Cooperatives, Ministry of Economy, 1967, pp. 3-5.

During the May-September period in 1967, the new Agricultural Development Bank extended VN\$835 million in credits. Of this total, about 73 per cent was for agriculture and 18 per cent for animal husbandry. About 91 per cent of the credits were short-term and 6 per cent medium-term, while co-ops received only 2 per cent of the total.

In addition to its credit activities, the Bank also performs a supply function. It imports and distributes such products as fertilizers, insecticides, sprayers, water pumps, power tillers and marine engines. It also helps producers to find outlets for their produce, and provides technical advice, especially under its Supervised Credit Program. Earlier, NACO served as a collection agent for "pacification" loans which were extended largely for political reasons, without much hope of repayment.

#### Restraints on Operations and Publications

Although the Bank maintains deposits, it is not subject to minimum legal reserve requirements. At present, most depositors live in the rural areas and the total deposit volume is relatively small. Should the deposits increase to a substantial size, the central bank might impose legal reserve requirements on the Bank.

The Bank is expected to maintain a Reserve for losses, but the January 1967 Decree (Article 26) does not specify the proportion. A Legal Reserve is also to be set aside each year from net profits, the amount to be determined by the Board of Directors.

The Bank's accounts are examined both by the Controller General, who is responsible to the Ministry of Finance, and by the central bank, but basically the Bank is under the control of the Ministry of Finance. The auditors of the United States Agency for International Development also are allowed to examine the procedures and accounts of the Bank if they deem it necessary to do so.

The Bank is also inspected by an Inspector appointed by decree upon recommendation of the Ministry of Finance. He inspects all departments and operations of the Bank and submits reports every six months to the Ministry of Finance. He also attends the Board's meetings and submits to the Ministry a report on all problems and decisions of the Board.

The Bank is required to submit monthly reports to the central bank and an annual "activity report" to the Government. It also publishes in Vietnamese a monthly publication, Nong-Tin Dan-Sinh (Agricultural Credit), an annual report, Phúc-Trình Hoat-Dong, and in 1967 it published a pamphlet, "The Organization and Operations Procedures of the Bank."

### Conclusions

One of the main problems of both NACO and the present ADB is that the operation has little prospect of becoming viable without heavy dependence on the Government. While both institutions have extended a substantial volume of credits, the record of repayment has been quite poor, and many peasants still remain heavily dependent on private moneylenders.

Some of the problems the Bank faces are inherent in the situation and there is not too much the Bank can do to overcome these problems. These include the danger that adverse weather conditions might spell disaster and inability to repay for large geographical regions in Vietnam. Another is that until the Communists are defeated, it will be difficult to administer full-fledged lending and collecting activities.

Some problems, however, could be reduced or possibly eliminated. One of these is the shortage of funds. The interest rates paid by the Bank on deposits are very low in relation to market rates of interest and the inflation. It is likely that if positive interest rates were paid, i.e., rates substantially in excess of the rate of inflation, that the Bank would be able to attract a much larger volume of deposits. Lending rates, however, would have to be adjusted upward accordingly, but even so, they would tend to be below the rate charged by private moneylenders.

Another problem is the farmers' attitude toward debt. In some cases the debtors may feel that since the debt is to the Government, it will not matter too much if it is not paid. Attitudes like this are difficult to change quickly, but if the farmer can be shown that in reality he is borrowing his neighbors' money (assuming an increase in deposits, discussed above) and that failure to repay could cause the collapse of the whole system, then the program would be taken more seriously. Training and educational efforts should be used to place the program on a sound financial basis.

### Rural Credit Cooperatives

Cooperatives in Vietnam tend to be organized according to both producer and consumer activities. Thus there are four main producer-type cooperatives, viz., agriculture, fisheries, industry and small traders. The three main consumer-type co-ops are housing, rural electricity and consumers. There are also savings and credit cooperatives which are discussed separately later.

At the end of September 1967, Vietnam had about 500 different cooperatives, excluding the Cooperative Federations and the Farmers' Associations. These had a reported membership of 175,000 and paid-in share capital of VN\$109 million. However, not all of these co-ops were active.

The agricultural co-ops tend to be the most numerous, and can be divided broadly into two categories. One is the Farmers' Association which groups together farmers in the same geographical area regardless of the type of agricultural activity performed by the members. The other category is that of agricultural cooperatives grouped according to the type of product produced. For example, at the end of September 1967, the following type and number of co-ops were active in Vietnam: rice (35), sugar cane (5), tobacco (5), vegetable (1), tea (1), breeding (8), multi-purpose (11), and motor pumps (9). While this is a total of 75 cooperatives, Vietnam also had on the same date 47 agricultural co-ops that had stopped their activities temporarily due to the war and other problems, and 24 that had ceased operating altogether.

The various cooperatives have also joined together into seven larger federations. The type and number of federations are: sugar cane (1), fisheries (2), multi-purpose agriculture (1), cotton weavers (2), and rural electricity (1).

With the exception of the savings and credit co-ops, none of these co-ops operates solely as a credit co-op, but rather performs a variety of functions. However, only the credit aspects will be discussed here, and the agricultural cooperatives will be considered separately from the farmers associations.

#### A. Agricultural Cooperatives

##### Early Co-ops and Recent Legislation

Western type cooperatives first began in Vietnam in 1915 when a credit cooperative was established at My-Tho in the province of Dinh-Tuong.<sup>1/</sup> It was a local, mutual, agricultural credit association. By 1944 there were 46 credit cooperatives and 56 cooperatives of other types.

The first basic law passed on cooperatives in the postwar period was Ordinance No. 24 of August 27, 1954, which set forth the general statutes for all cooperatives. This ordinance proved to be too complex for Vietnam at this phase of development, and an amending decree was passed on March 11, 1959,<sup>2/</sup> to simplify administrative and management

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<sup>1/</sup> "The Cooperative Movement in Vietnam," (mimeo.) Directorate of Cooperatives, Ministry of Economy, 1967, p. 2.

<sup>2/</sup> Decree No. 58/TTP of March 11, 1959.

procedures for both the cooperatives and the Government. All cooperatives, except the Farmers' Associations, are subject to the guidance and supervision of the Commissariat General for Cooperatives and Agricultural Credit,<sup>1/</sup> Ministry of Economy. The Farmers Associations are under the supervision of the Directorate of Farmers' Associations, Ministry of Agriculture.

### Organization and Sources of Funds

Cooperatives are managed by a Board of Directors consisting of 3 to 15 members. The officers of the cooperative, who are elected by the members of the co-op, also serve as a Loan Committee. At the yearly general membership meeting, a control, or audit, committee of 2 to 8 members is elected.

The officers of the co-op are generally reimbursed only for their expenses, but some co-ops do employ full-time bookkeepers. The 1959 decree on cooperatives permits the Board of Directors to employ a manager, but it appears that very few co-ops do so.

In recent years the cooperatives' main source of funds for lending operations has been credits from the Agricultural Development Bank. Another, relatively small, source has been from the purchase of capital shares when new members join the cooperative. However, new members are only required to purchase one share at a price of VN\$100, and a substantial part of these funds has been used to pay for the operating expenses of the co-op.

The central government does appropriate budget funds for the cooperatives, but these are used solely for operating the Directorate of Cooperatives and other central government cooperative activities. Members have little incentive to purchase shares in the co-op, primarily because no interest has been paid on the shares. Even if interest were paid, it is limited by the 1959 Decree (article 7) to 8 per cent per annum.<sup>2/</sup>

Some funds, however, have been generated by a requirement (1959 Decree, Article 7) that was in force until late 1963 that 5 per cent of any co-op loan to a member be set aside as "members' savings." These funds are also known as "savings for self-capitalization." But the cooperatives have not been allowed to lend or spend these funds. About VN\$100 million was obtained up to 1963,

<sup>1/</sup> This position was established by Decree No. 41/TTP of February 27, 1959.

<sup>2/</sup> Theoretically, cooperative members can also receive "refunds" of the yearly surplus of the co-op after meeting expenses and reserve fund requirements (1959 Decree, Article 22), but in actual practice there have been none.

and then the 5 per cent deduction was discontinued. About VN\$60 million has been returned to the members, but about VN\$40 million is still on deposit in the Agricultural Development Bank. In late 1967 these funds were earning interest for the cooperatives at the rate of 2.5 per cent per annum. The Government plans to refund eventually to the co-op members this VN\$40 million.

Not all cooperatives are eligible to receive credits from the Agricultural Development Bank. Credits for relending have been limited to agricultural, forestry and fishery co-ops.

The proportion of the Bank's credits going to cooperatives fell from 31 per cent in 1957 to 8 per cent during 1963-66, and by 1967 it was down to only 2 per cent. Before 1965 as many as 170 co-ops received credits for relending, but by 1966 it was down to 40, and in 1967 it was only 7.<sup>1/</sup>

Not all of the factors contributing to this decline are readily evident, but the Agricultural Development Bank did adopt about 1965-66, a policy of providing financial assistance only to the financially strong cooperatives, such as for tobacco and tea, while other cooperatives are either turned down or granted only a small amount. In addition, physical collateral has been emphasized by the Bank rather than the general financial character of the borrower as in the past. Previously NACO and the Directorate of Cooperatives were under one head, but this was also changed in the mid-1960's, and this may account in part for the declining proportion allocated to the co-ops.

Cooperatives obtaining credits from the Bank in late 1967 were paying interest of 6 per cent per annum. In earlier years, NACO charged the cooperatives 5 per cent.

#### Financing and Other Activities of the Co-ops

Most of the credits extended by the cooperatives are primarily for short-term needs, for example, to pay for seeds, fertilizer, plowing charges, or for people to haul water. Some loans are also made to help finance storage and capital equipment costs. Although some borrowers may use the credits for food to maintain

<sup>1/</sup> "Agricultural Credit through Cooperatives," (mimeo.) Directorate of Cooperatives, Ministry of Economy, 1967, p. 10.



themselves or their families, or to meet expenses in connection with sickness, the co-ops were not established to finance that type of expense. Using a credit to purchase a small radio set, for example, is forbidden.

Since most of the loans are extended for only 8 to 18 months, it is difficult for the borrower to use the proceeds for capital equipment. Under the present arrangement, loans with a longer maturity would have to be obtained from the Agricultural Development Bank.

The cooperatives perform many other functions, of course, besides providing credit. These include marketing pool arrangements, group buying, distribution services, and educational and technical services.

#### Credit Terms and Requirements of Borrowers

As indicated above, the bulk of the credits are extended for 8 to 18 months. Cooperative financing is normally supposed to provide only about one-third of the total cost of an undertaking. For example, if VN\$6,000 is the total cost of preparing the field and planting autumn rice, then only one-third, or VN\$2,000, would be provided in credit by the cooperative, the farmer having to take care of the balance in one way or another.

Until about 1964, cooperative credits were extended at a rate of 12 per cent per annum. Since 1965, the rate has been reduced to 10 per cent per annum, despite an acceleration in the domestic inflation. The 10 per cent rate is calculated monthly on the unpaid balance, and is a flat 10 per cent, no matter what type of activity is financed. One of the reasons for the rate reduction was to increase the attractiveness of the cooperatives in relation to the Agricultural Development Bank since the latter charged 12 per cent per annum on its short-term credits.

The cooperatives usually do not require specific collateral for their short-term loans. Only a "moral pledge" is required. Short-term credits to farmers cultivating up to 5,000 hectares are generally not to exceed VN\$5,000. For farmers cultivating more than 5,000 hectares, the credit may exceed VN\$5,000 but the amount of the loan is scaled down.

Prospective borrowers must meet certain requirements. They must buy an initial share at a cost of VN\$100 in the cooperative, and file a loan application. They must borrow for a productive purpose, not for speculative or other purposes. If the potential borrower was a Viet Cong, he must prove that he is a national, otherwise he is not eligible to receive a credit.

### Volume of Credits and Regulation of Co-ops

Only partial data are available on the volume of cooperative credit extended since the early 1950's. Loans granted by NACO (and later the Agricultural Development Bank) through the co-ops for relending fluctuate sharply. In 1957 the amount of loans granted was VN\$53 million and by 1960 it had increased to a peak level of VN\$277 million. It generally dropped to lower levels, except for an upsurge to VN\$125 million in 1964, and in 1967 was down to VN\$17 million. <sup>1/</sup>

All cooperatives are required by the 1959 Decree (Article 21) to set aside 10 per cent of their yearly net surplus as a legal reserve account until the amount is equal to the co-op's capital. If they wish, they may also set up additional reserve accounts for other purposes, such as a bad debts reserve.

A Control Committee of 2 to 8 members is elected annually by the general membership to examine at least every two months the accounts of the co-op. Occasionally the accounts are also inspected by the Directorate of Cooperatives and the Agricultural Development Bank.

The Directorate of Cooperatives submits annually to the Minister of Economy a Cooperative Activities Report. This report, which is usually in Vietnamese, can be examined by the general public.

### Conclusions

Although the number of cooperatives has grown through the years, the number that have been effective and functioning well has varied. Precise data are not available on the latter aspect, but in 1967 the Directorate for Cooperatives estimated that of the 416 cooperatives and 7 Cooperative Federations registered at the end of 1966, only 32 per cent, or 135, were "bringing good results." <sup>2/</sup> The rest were "bringing poor results" or were

<sup>1/</sup> "Agricultural Credit Through Cooperatives," ibid., p. 5.

<sup>2/</sup> "The Cooperative Movement in Vietnam," ibid., p. 7.

not active. This estimate of 135 compares with 175 co-ops that were active and presumably functioning fairly well at the end of 1956. Consequently, Vietnam has probably not made too much progress in the growth of effective cooperatives, particularly those in the agricultural field.

Even more clear is the very poor record with regard to the expansion of agricultural credits. On the basis of the credits channeled through the co-ops by NACO, these fell by 94 per cent between 1960 and 1967, and in 1967 were a mere VN\$17 million.

Several factors have contributed to this sharp decline in cooperative credit activities. A major factor is the heavy dependence on NACO and the Agricultural Development Bank. As funds for relending have been reduced, the co-ops have had to reduce their operations accordingly.

This aspect might not have been so serious if the co-ops had been able to attract funds from their members, and thereby supplement their loanable funds. But no strong efforts were made in this direction. Not only was an artificially low ceiling of 8 per cent established on dividends to members, but in addition, few if any dividends were ever paid. As a result, members had no incentive to buy additional shares in the co-op. It will not be possible for the co-ops to attract loanable funds from their members until more realistic rates are offered and actually paid.

If the cooperatives could be made more viable from the viewpoint of generating their own loanable funds, the agricultural credit institutions in Vietnam could be placed on a sounder financial basis. The loan repayment record of the cooperatives, at 86 per cent through 1967, was much higher than the 35 per cent record of the Agricultural Development Bank.

#### B. Farmers' Associations

The Farmers' Associations, which are essentially multi-purpose agricultural cooperatives organized on a geographical basis, began to operate in 1959. To a certain extent, they have been patterned after the Farmers' Associations in Taiwan which have been generally successful. The basic legal framework for their operations was provided by a December 1958 Decree. 1/ By the end of 1966, Vietnam had 428 Farmers' Associations operating at the village level.

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1/ Decree No. 560/TTP of December 17, 1958.

Objectives and Organization

According to the December 1958 Decree (Article 1), the main objectives of the Farmers' Associations are: (1) to develop the spirit of mutual aid between farmers; (2) to improve their technical knowledge; (3) to increase agricultural production; and (4) to raise the standard of living of farmers and improve economic conditions in the rural districts.

The Associations are organized at five levels. At the top is the Central Farmers' Association which is a new group organized in November of 1966 to plan the general activity programs each year of the Farmers' Associations. It has a legal status<sup>1/</sup> and is financially autonomous.

At the next level is the Provincial Association. Although seven of these were established 1960-62, only one (the Thua Thien Province which includes Húe) was operating at the end of 1966 and that was rather nominally. It was found that the Provincial FA's (Farmers' Associations) were expensive to operate and slowed down the progress of other FA's.

The next three levels, in descending order, are the District FA's, Village FA's and the SAU's (Small Agricultural Units). Some of these, particularly at the district level, have temporarily ceased operations. As of December 31, 1966, Vietnam had the following FA's actually operating:<sup>2/</sup>

1	Provincial Association
51	District Associations
428	Village Associations
4,986	Small Agricultural Units

For the same date, the total number of members in the FA's was 147,232.

The organizational arrangements also include the Ministry of Agriculture's Directorate of Farmers' Associations. It provides both technical and supervisory assistance to the FA's at all five levels.

<sup>1/</sup> Decree No. 142-SL/CN of July 27, 1966.

<sup>2/</sup> Farmers' Association Activity Report: 1966, Directorate of Farmers' Associations, Ministry of Agriculture, Saigon, 1967, p. 8.

### Sources of Funds

The FA's receipts come from a VN\$10 entrance fee, annual dues of VN\$20, the issue of shares at a nominal value of VN\$100 per share, profits from enterprises operated by the FA's, deposits, funds for relending and subsidies from the Government.

Altogether the FA's at the end of 1966 had capital of VN\$114 million.<sup>1/</sup> These funds were derived mainly from government subsidies, a special allocation from the 1964 Pacification Fund, and sales of shares to members. The FA's have been short of capital, partly because a relatively large portion of their capital that was deposited in the provincial branches of the NACO were frozen by NACO in October 1965 to satisfy debts owed to the NACO by members of the FA's. By late 1967, these funds had still not been released to the FA's.

### Nature of Lending and Other Activities

The FA's undertake the same type of lending as that indicated earlier for the agricultural cooperatives. Credits help finance purchase of seeds, fertilizer, insecticides, livestock, harvesting expenses, and garden improvement.

The FA's also engage in a wide variety of other activities which include supply of seeds, fertilizers, insecticides, drugs, water pumps and sprayers. The FA's have a program for importing and selling needed farm products such as rice, kerosene, wood and canned-milk. They carry out a storage and marketing business, operate some processing plants and power plants, conduct training courses, and engage in agricultural extension, supervisory and social work activities.

### Terms and Volume of Loans

The credit terms for members of the FA's are similar to those for the agricultural credit cooperatives. Most loans are short-term, seldom exceeding 18 months. Borrowers must also meet requirements similar to those of the agricultural credit co-ops discussed earlier.  
<sup>1/</sup> Ibid., pp. 11 and 39.

In 1966, due to limited financial resources, the FA's extended VN\$5.3 million in loans.<sup>1/</sup> During the same period repayments were VN\$4.8 million.

### Regulation of FA's and Conclusion

As is the case with cooperatives, FA's are also required by the December 1959 Decree (Article 36) to allocate 10 per cent of their net profits to a reserve fund. Other reserve funds may also be established by the FA's if desired.

FA's are required to submit their accounts for audit to either the next higher level in the hierarchy of the Farmers' Association, or to the authorized government controller. Unlike the 1959 decree on cooperatives which provides (Article 18) for a Control Committee, no similar provision is contained in the 1958 decree on Farmers' Associations.

The FA's, like the other credit cooperatives discussed earlier, suffer from a shortage of loanable funds. Although they are legally authorized to accept funds for deposits and to pay out these funds, members have not found either the shares or the deposit accounts attractive.

If the FA's are to play a larger role in agricultural credit and to operate as viable institutions, some reform of the interest rate structure would appear necessary. An increase in both deposit and lending rates would help bring about a better balance between the supply and demand for funds.

### Urban Credit Cooperatives

Although Vietnam has some urban credit cooperatives, they are relatively limited in both type and number. Most important are the savings and credit cooperatives which appear to be patterned after the credit unions found in the United States. Vietnam also has housing cooperatives, but few if any have functioned as credit co-ops, and these have reportedly not been very successful. <sup>2/</sup>

1/ Ibid., p. 21.

2/ The National Bank of Vietnam set up a housing cooperative in 1966, but it lacked sufficient funds to be successful. The Bank has therefore bought land and extended construction loans to those employees desiring to build houses. The Esso Standard Company also set up a housing cooperative in September 1967, and it hoped to rely on commercial banks for its mortgage funds. It plans to make 10-year loans at rates of 6 to 7 per cent per annum.

In mid-1967, there were 38 saving and credit co-ops and 57 housing co-ops.<sup>1/</sup> Of the 38 saving and credit co-ops, 15 were in Saigon, and of the 57 housing co-ops, 54 were in Saigon.

Since the savings and credit cooperatives are the most important of the urban credit cooperatives, and because of lack of information on the other types of cooperatives, this section will be devoted mainly to savings and credit co-ops.

### Savings and Credit Cooperatives

Savings and credit cooperatives have mainly been formed by employees of the same private company, or public servants of the same government agency. Members make deposits, receive dividends, and borrow from the cooperatives.

At the end of 1967, Vietnam had 38 savings and credit cooperatives with a reported membership of about 12,000, of which at least five consisted of employees of government agencies.<sup>2/</sup> Some of the main private cooperatives were formed by employees of the petroleum companies, a cigarette factory, a cement company and a commercial bank. In general, cooperatives have been formed where the companies or government agencies are relatively large.

### Origin and Authorizing Legislation

One of the early basic laws governing cooperatives was Ordinance No. 24 of August 27, 1954. It outlined regulations concerning the establishment, organization, administration, management and supervision of cooperatives. However, the ordinance was fashioned according to Western standards and proved too complex. On March 11, 1959, Decree No. 58/TTP was promulgated, which amended Ordinance No. 24 and simplified the regulations on cooperative administration and management.<sup>3/</sup>

<sup>1/</sup> "The Cooperative Movement in Vietnam," (mimeo.), Directorate of Cooperatives, Ministry of Economy, Saigon, 1967, p. 5.

<sup>2/</sup> The governmental agencies were the railways, the Saigon waterworks, the Mayor's office, the Cooperative Department in the Ministry of Commerce, and the press information service in the Ministry of Information.

<sup>3/</sup> "The Cooperative Movement in Vietnam," ibid., pp. 4-5.

The first savings and credit cooperative to be established was the Esso Standard<sup>1</sup> Employees Credit Association which began to operate in April 1958. Although called a "Credit Association," the charter refers to the Association repeatedly as a "Credit Union." It is, in fact, organized and operated like a credit union in the United States.

Other savings and credit cooperatives did not get started until 1963 or later. By August of 1964, however, there were 29 such cooperatives with a membership of about 8,000, and by the end of 1967 the number had increased to 38 with a total membership of 12,000. But of these 38, only about 15 are reportedly very active. In relation to the urban population, a membership of only 12,000 indicates that savings and credit cooperatives are not very widespread.

#### Organizational Aspects

The first, and still one of the main cooperatives, is the Esso Standard Employees' Credit Association. Its organization and operational arrangements are more or less typical of other cooperatives.

The Esso Association is under the management of a seven-man Board of Directors. The members of the Board are elected every two years by the association members at the annual general meeting. There is also a three-man Credit Committee which includes one member of the Board as chief, and a three-man Board of Auditors which is elected every year.

The Board of Directors, which meets at least once a month, actually makes the decisions with regard to loans, taking into account the advice of the three-man Credit Committee mentioned above.

Although all officers serve without pay, they are remunerated for the incidental expenses involved in the monthly meeting. None of the association staff works full time for the association except for the accountant who is the only one paid by the Association. The Charter of the Association, however, does permit it to recruit a Manager who "...shall receive a salary to be determined by the Board of Directors."

<sup>1</sup>/ In 1958, Esso Standard was known as Stanvac.



### Sources of Funds

Deposits in the Esso Association are made in two ways. Members can deposit money and have the amount entered in their Savings Share Booklet, or they can arrange to have their deposits made through a payroll deduction system. Technically members buy shares in the Association and dividends are paid only on the basis of the number of shares purchased.

Dividends are paid once a year and the rate has been 8 per cent per annum since 1960. In 1959, the first full year of operations, it was 6 per cent. Article 9 of the Charter of the Association states that no higher rate than 8 per cent can be paid. Shares must be purchased and held for at least one month before dividends can be paid at the end of the calendar year. Dividends are paid once a year and are based on the number of months that the shares have been held by a member.

The minimum amount accepted by the association is VN\$100 which is the cost of one share. There are no limits on how many shares may be purchased and some members have as much as VN\$200,000. Dividend payments by the Association have run as large as VN\$1 million per year.

The purchase of shares by the members is the only source of funds for the Association. By the end of 1966, the Esso Association had 636 members, comprising 70 per cent of the company's employees, who held VN\$10.8 million in shares in the association. The average holdings per member were VN\$16,293. During the 1961-66 period, the average annual increase in the year-end level of shares outstanding was 36 per cent. At the end of 1967, the Association had about VN\$15 million in shares outstanding.

### Type, Terms and Volume of Credits

The share capital of the Association is mainly used to extend credit to members. Some of the more frequent uses of these credits are to repay other debts, purchase motor scooters, bicycles, cars and household appliances. The funds are also used for home repairs, sickness and accident expenses and weddings.

The maximum maturity on credits is 24 months, which is a popular period. However, maturities tend to average about 16 to 18 months. The interest rate charged is 1 per cent per month. Payments are made once a month in equal amounts, with the earlier payments containing a larger proportion of interest. Members are eligible to receive loans up to a maximum of VN\$150,000.

Borrowers must meet several requirements. They have to be a member of the Association for at least three months before being eligible to receive a loan. They must also own at least one share in the Association. If they are contract employees, the repayment period on the loan cannot exceed the period of their contract.

Data are not available on total credits outstanding for all urban credit cooperatives. Some idea of the relative magnitude, however, may be gained from the volume of activity of the Esso Standard Employees' Credit Association. At the end of 1966, the Association had VN\$10.8 million in loans outstanding. During 1966 new credits totaling VN\$15.0 million were extended. The number of loans was 505, with an average value of VN\$29,706 per loan. During the five years ending in 1966, the volume of total credits granted during the year increased at an average annual rate of 31 per cent.

#### Government Regulation

The main governmental bureau regulating the credit cooperatives is the Commissariat General for Cooperatives and Agricultural Credit. Financial reports of the co-ops are sent to the regional bureaus. For example, the Esso Association sends monthly reports and its annual financial statement to the provincial head for the Saigon area, viz., to the Gia Dinh Provincial Cooperative Bureau. This Bureau is part of the Cooperative Department of the Ministry of Commerce.

Although the Provincial Bureau examines the reports submitted by the credit co-ops, there do not appear to be any regular annual inspections or visits by Bureau officials.<sup>1/</sup>

Savings and credit cooperatives are required to observe certain regulations with regard to the maintenance of a legal reserve fund. Article 42 of the Esso Association's Charter is representative of this requirement. It states, "Ten per cent (10%) of the annual net profit shall be set aside to form the legal reserve fund, until such fund is equal to the Credit Union's Fund." The latter represents the basic paid-in capital shares of the Association, and under Article 6 the amount is fixed at a minimum of VN\$10,000.

1/ In 1966 the Government claimed that the Esso Association should pay income tax, but a Vietnamese court found in favor of the Association, deciding that it was a non-profit organization.

The Esso Association also maintains two other reserve funds. One is the "Reserve for Bad Debts" and the other is "Reserve for New Building."

Relatively little published information is available on the two types of urban credits cooperatives discussed here, however, some statistical information (mimeographed) can be obtained from the Directorate of Cooperatives, Ministry of Economy.

### Some Conclusions

The savings and credit associations have been popular in Vietnam, judging from the continued growth in the number of these associations. Much of the growth has been since 1963. The associations are clearly making a contribution to the financial system in that they are bringing together a growing number of savers and borrowers. The rate of growth in both savings and loans of the Esso Association has been impressive, but not all associations have done as well.

The relative importance of the associations is still not too great. In addition, some associations have reportedly had financial difficulty. This has been attributed in part to the lack of a withholding system, i.e., contributions to the association are not automatically deducted from the wages and salaries before payment to the employee. The Esso Association has had the payroll deduction system.

It would seem advisable that if the Government's goal is to foster the growth of these associations, then there should not be any obstacles inhibiting the payroll deduction system where it is mutually desired by both employees and employers.

Some of the savings and credit cooperatives have indicated that in recent years there has been a strong excess demand for funds in relation to the supply. Under the present arrangements, however, the cooperatives are not allowed to pay a rate higher than 8 per cent on their shares.<sup>1/</sup> This limit tends to hold down the volume of loanable funds that the cooperatives can attract. If the supply and demand for funds is to be brought into better balance, it would appear that an interest rate adjustment would be desirable.

1/ See Article 7, Decree No. 58/TTP of March 11, 1959.

### Pawnshops

Vietnam has a substantial number of pawnshops. In late 1967, the country had 563 of these establishments, of which 152 were located in Saigon. Most of the pawnshops are in the cities, with only a few being found in the villages.

Prior to 1955 many of the pawnshops were owned and operated by Chinese, but under the present laws, only Vietnamese or naturalized Vietnamese, are permitted to operate pawnshops. Operators must be able to exercise freely all of their civic privileges and must be at least 25 years old. Most of the pawnshops tend to be operated as family businesses.

### Pawnshop Activities

The pawnshops in Vietnam appear to be quite popular and are used by a substantial number of people, especially those with relatively low incomes. They have apparently proved helpful as a source of funds in an emergency for many persons. Users include not only workers from the private sector, but also low-salaried civil servants.

All types of goods are pawned. Some of the more common include jewelry, precious metals, watches, clocks, radios, bicycles, and even motor scooters.

As in most of Southeast Asia, it is difficult to ascertain the main purposes for which the borrowed funds are used. But in Vietnam these reportedly include unexpected expenses, such as occur in the case of sickness or accident. Some borrowing is also undertaken by persons who need a small amount of capital for business purposes.

There are four major legal requirements for pawnshop operations. The first is the maximum legal interest rate that pawnshops must observe, which is a charge of 3 per cent a month on loans. The pawnbrokers feel that this rate is too low, particularly in view of the substantial inflation in Vietnam in recent years. Their organization, the Association of Pawnbrokers' Shops, has therefore requested that the maximum rate be raised to 5 per cent a month.

A second legal requirement is that customers pawning items with a value of more than VN\$5,000 must present evidence, such as a sales receipt, indicating that the value of the item is over VN\$5,000.

This requirement serves two purposes: it discourages the pawning of stolen goods; and it makes it more difficult for the pawnbroker to grossly undervalue the item.<sup>1/</sup> The Association of Pawnbrokers' Shops is also unhappy with this requirement and would like to see the amount raised to VN\$15,000, with no sales receipts or other evidence being required for items under VN\$15,000 in value.

A third requirement is that pawnbrokers not accept anything with a value higher than VN\$75,000. Where no evidence is submitted to indicate the object's value, the estimated market price of the object for the date on which it is pawned, is to be used. Where the value of the pawned object is estimated, the loan is supposed to be at least 60 per cent of the value. Where there is evidence to indicate the value, 75 per cent is the minimum.

A fourth legal requirement relates to the maximum time period for loans. In the case of artistic objects, diamonds, and precious metals, the maximum loan period is for five months. For all other objects, the maximum is three months. Loans can also be renewed for the same periods. In those cases where the borrower is not able to reclaim the pawned object by paying both the principal and interest, the object can be auctioned 30 days after the date of default.

Very few data are available on the volume of pawnshop operations. In 1964 there were about 400 pawnshops (or Popular Credit Houses, as they are sometimes called in Vietnam), and they had a total operational capital of about 15 million piasters. In view of the inflation and growth in the number of pawnshops, the operational capital is probably substantially higher now.

#### Governmental Supervision

In 1955 the Government planned to establish governmental pawnshops to be known as Popular Credit Funds. However, due to a lack of funds and qualified personnel, their establishment was postponed and in the meantime provision was made for many of the former pawnshops to continue operating on a private

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<sup>1/</sup> Where the item is grossly undervalued, the effective rate of interest paid on the loan tends to be higher. Also gross undervaluation may permit the pawned item to be resold later, in the event of the customers' default, at a relatively high price.

basis. These establishments, however, were subjected to new regulations<sup>1/</sup> and are known now as Popular Credit Houses (Nhã Cãm Dó Bính Dân). In actuality, they are very similar to the old pawnshops, except that the law requires the proprietor, as indicated earlier, to be Vietnamese.

The pawnshops are regulated by the Chief of Administrative Services in the Ministry of the Interior. Applications to open pawnshops have to be submitted to the Chief, who has the power of approval or disapproval, as well as the power to issue pawnshop licenses.

Applicants must meet several requirements. These include the payment of a performance bond (or the subscription of an insurance policy up to the amount of the performance bond), and the pledging, or hypothecation, of one or several real estate mortgages up to the amount of the operational capital.. In lieu of a real estate mortgage, a guarantee by a third party may be accepted. Applicants are also subject to minimum capital requirements and must be businessmen of good personal integrity. The Association of Pawnbrokers' Shops has been able to obtain a relaxation of some of these rules, but only for those pawnshops that have been in operation at least three years.

### Conclusions

Although the total volume of loans extended by pawnshops is probably small relative to total commercial bank credit, pawnshops, nevertheless, do appear to be meeting a need for short-term consumer financing. To a certain extent, they are also providing short-term financing for small businessmen.

As indicated earlier, the system of pawnshops is fairly large, with over 600 located in the major towns. Since only very few commercial banks have branches outside of the Saigon-Cholon area, the pawnshops are filling, in a small way, the financial gap created by the absence of commercial banks.

In short, the pawnshops are filling some financial gaps, but taken as a whole, their operations are not really making a substantial contribution to Vietnam's economic development.

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<sup>1/</sup> Two of the basic decrees regulating the pawnshops are Decree No. 537 of November 17, 1958, "Decree Permitting the Operation of Pawnbrokers," and No. 614 of October 17, 1955, which specifies the organization and responsibilities of the establishments.

### Insurance Companies

The insurance industry in Vietnam is not an important source of capital funds, but a limited amount of capital is mobilized as a result of reserve, and other, requirements. Premium income more than doubled between 1965 and 1966, and the industry has the potential of playing a much larger role eventually in capital mobilization.

#### Decline in the Number of Foreign Companies

Vietnam in 1967 had 26 insurance companies. Of these, 9 were domestic and 16 foreign. The foreign companies consisted of 12 French, 2 American, 2 Chinese and 1 Swiss.

In recent years there has been a substantial reduction in the number of foreign companies. In 1960, there were 27 foreign insurance companies and 8 domestic companies, or a total of 35. Thus the number of foreign companies fell by 10 during 1960-67, while the number of domestic companies increased by one.

Of the 10 foreign companies that discontinued operations, at least 4 were French and 2 were Swiss. These companies discontinued their operations in Vietnam mainly because they did not have any important premium income.

#### Types of Insurance Sold

In 1967 all of the 26 companies were engaged in general insurance, none being in life insurance. In the early 1960's, however, there was one firm that did specialize in life insurance. The companies have not found life insurance very profitable in recent years, mainly because of the war, the inflation, and the lack of suitable investments.

The two main types of insurance sold relate to the fields of transportation (particularly ocean freight) and motor vehicles. These two fields accounted for more than 90 per cent of company premium income in 1966. Other types of insurance sold include fire, workmen's compensation, accident and illness.

Both the domestic and the foreign companies re-insure abroad. The companies overseas have established limits, however, on the amounts that they will re-insure for companies in Vietnam, and this has been one factor holding down the growth of the insurance industry.

### Volume of Activities

Premium income for the insurance companies was VN\$291 million in 1960 and by 1964 had increased to VN\$394 million. There was a substantial jump to VN\$482 million in 1965 and a dramatic increase to VN\$1,239 million in 1966. The sharp rise in 1966 reflected mainly the sharp rise in imports following the devaluation and liberalization of the piaster in June of 1966. Inflation also helped to boost the volume of premium income in 1965-66.

The premium income for 1966, according to types of insurance, breaks down as follows: (1) transportation, VN\$894 million (72 per cent); (2) motor vehicles, VN\$230 million (19 per cent); (3) fire insurance, VN\$61 million (5 per cent); (4) workmen's compensation, VN\$29 million (2 per cent); and (5) miscellaneous, VN\$24 million (2 per cent).

One of the more prominent indigenous insurance companies is the Vietnam Insurance and Re-Insurance Company, or V.A.R.<sup>1/</sup> as it is commonly known. This company is owned 71 per cent by the Government, in that the shares are held by the Commercial Credit Bank of Vietnam, a completely government-owned commercial bank. The other 29 per cent of V.A.R. is held by private foreign shareholders, mainly three French insurance companies and one Swiss insurance company. V.A.R. was established in 1960 by the Government, partly in order to increase the role of indigenous companies in the insurance industry. In 1966, V.A.R. had about VN\$130 million in premium income, or about 10 per cent of all premiums.

Insurance company assets consist mainly of demand deposits for working capital purposes, time deposits, treasury bonds, and real estate. The time deposits usually carry a maturity of six months or more, and yield 4 per cent interest. The treasury bonds held by the insurance companies in late 1967 were yielding 3-1/4 per cent per annum. Real estate holdings include mainly land, factories, and office buildings.

### Government Supervision

The insurance companies in Vietnam are regulated by the Ministry of Finance under a comprehensive insurance law<sup>2/</sup> passed in 1965. <sup>1/</sup> V.A.R. is derived from the name in French, which is Société Vietnamiennne d'Assurances et de Réassurances.

<sup>2/</sup> Decree Law No. 015/65 of September 1965. It replaced Law No. 018/59 of 1959.



They are required to be either joint stock companies or mutual societies, other forms of commercial association not being allowed. Depending on the company's operations, it may have to maintain both guaranty and technical reserves.

The new 1965 law also required foreign companies to have a minimum surety deposit. These can range from VN\$1 million to VN\$3 million. In general, the larger the amount of foreign exchange invested by the foreign insurance company, the smaller the required deposit.

Responsibility for enforcement of the insurance regulations has been placed with the Insurance Commissioner. He is head of the Directorate of Insurance in the Ministry of Finance. Insurance companies are required to submit reports to the Directorate at least once a year, and members of the staff of the Directorate also visit each company about once every two years.

The annual report of the Directorate of Insurance is published in Studies in Finance <sup>1/</sup> which is issued by the Ministry of Finance. Additional information on the Vietnamese insurance industry is also contained in the UNCTAD (Geneva, Switzerland) insurance questionnaire.

#### Private Moneylenders

Very little information is available on the operations of private moneylenders in Vietnam. Prior to 1955, the French authorities did license certain moneylenders. Many of these licensed lenders were Indian Chettyars, who were allowed to charge rates up to 3 per cent per month. Unlicensed lenders also operated at this time and these were mainly Chinese, and to some extent Vietnamese.

In 1955 when the law on pawnshops was changed, <sup>2/</sup> private moneylending was outlawed and private moneylenders were no longer able to obtain licenses. As a result, all moneylending in what is sometimes called the unorganized market, has actually become clandestine and hence the difficulty in obtaining information on these operations.

1/ This publication, which is in Vietnamese, is entitled Nghien Cuu Tai Chanh.

2/ Ordinance No. 63 of October 17, 1955, and Ordinance No. 614 of the same date.

The Indian Chettyars provided funds mainly to the most credit-worthy borrowers. These include persons receiving a regular income such as public servants or commercial employees, real estate proprietors and known businessmen and industrialists who could mortgage property.

Currently the private moneylenders charge high rates in relation to commercial bank rates. The most credit-worthy borrowers obtaining funds from private moneylenders reportedly pay at least 2 to 3 per cent per month.<sup>1/</sup> In very inflationary times, this rate is probably even higher. For people of very limited means, the annual rates can get as high as 240 per cent. There is a popular phrase among the low-income groups, "Xanh xit--dit dui." This translates as "five six--ten twelve," or for every VN\$5 lent, VN\$6 is returned, and for VN\$10 lent, VN\$12 is returned. Interest of VN\$1 on a loan of VN\$5 for one month is 20 per cent, and converted to an annual basis 240 per cent.

No reliable information is available on the amount of funds lent by private moneylenders but it is believed to be very substantial. Because the interest rates paid on most deposits in financial institutions are very low, the supply of loanable funds has been low. For many persons the only source of ready funds is the private moneylender.

#### Mutual Savings and Credit Societies

Like the other countries in Southeast Asia, Vietnam also has mutual savings and credit societies. Although these societies are constantly being formed and terminated, this type of institution has reportedly been in operation for a thousand years. As such the societies probably represent the oldest financial institution in Vietnam.

Mutual savings and credit societies are formed by groups of people that have something in common. The common factor could be their geographical proximity, being students of the same school or class, members of the same profession or trade, or employees of the same firm. Someone serves as a kind of manager or head of the group, and the participants are either savers or borrowers, or both. The basic idea is for the savers to make monthly cash contributions to the group, the borrowers repaying both principal and interest. There are various ways, however, of handling these arrangements.

<sup>1/</sup> According to one source "...industrialists, traders, farmers and even consumers must turn to moneylenders for credit, at rates varying from 3 to 12 per cent per month." Davies, S. Gethyn, Central Banking in South and East Asia, Hong Kong University Press, Hong Kong, 1960, p. 187.

In South Vietnam, mutual savings and credit societies are known as hui.<sup>1/</sup> The manager plays an important role in forming the group and in collecting the monthly payments. The manager also helps determine the total amount of the monthly payments which are generally prorated among the savers. Usually a monthly bidding will be held to see who is to receive the money paid in during the month. The excess of the bid price over the amount paid in, is to constitute the "interest" to the savers. In North Vietnam, the manager often receives one-third of this interest as compensation for his work in organizing and collecting the funds. In South Vietnam, however, the manager is allowed to use as he wishes, without paying any interest, the money he collects during the first month from the society. But in subsequent months, the full amount of the monthly cash contribution goes to the successful bidder.

Borrowers use their funds to pay for a variety of expenses, such as for weddings, sickness, accident and funerals. In some cases, the funds are used for sponsoring the celebration of death anniversaries, or to provide money to needy students.

Some of the societies are now operated on a somewhat commercial basis. A few persons have made the operation of these societies their main profession and have reportedly earned substantial incomes. There have also been some scandals in those cases where the managers have absconded with the funds collected.

Although fairly common, and a frequent source of funds for the low income people, the mutual savings and credit societies have not been very important as a source of business funds. The main use of the funds has been for consumer expenditures.

Interest rates paid tend to be higher, the shorter the duration of the hui. For a weekly hui, the rate might run 120 per cent per annum and for a monthly hui, 54 per cent per annum. Rates also tend to be higher when the amount of capital involved is smaller.

#### The Industrial Development Center

The Industrial Development Center (IDC) is a completely government-owned organization engaged in the promotion of industrial enterprises. It operates as a multi-purpose organization, providing technical assistance, managerial aid, and medium-term credits. It does not, however, accept deposits, either from the general public, or its borrowers.

<sup>1/</sup> In North Vietnam, they are called hói.

### Origin of the IDC

The original impetus for the establishment of the IDC came from the United States aid mission in Saigon. In 1957 the U. S. Government's aid agency in Washington had a general policy of promoting industrial development centers, and several of these were established in East Asian countries, including Vietnam.

The IDC in Vietnam began its operation in late 1957 by first absorbing the National Investment Fund.<sup>1/</sup> This had been established in 1955 by the Government to provide medium-term finance to industry.

The IDC was established by Decree No. 478/KT of November 16, 1957. The original capital was provided by both the American aid agency and the Vietnamese Government. The former provided a grant of \$5,679,000 (equivalent to VN\$198.8 million) and the latter, using counterpart funds, provided VN\$87.7 million.

This represented a total initial capital of VN\$286.5 million. About 10 years later on August 31, 1967, this had increased only moderately to VN\$292 million.

### Objectives and Organization

The IDC has been given several major responsibilities. It is to establish, or assist in the establishment of, new industrial enterprises. For existing industrial enterprises, it is to provide technical assistance in order to increase or improve production. It is to advise both foreign and domestic industrialists in matters of investments, providing them with any necessary information in technical, economic and financial fields. Upon request, it is to undertake studies of various types and to provide sufficiently detailed information on specific projects resulting from these studies. It is also to provide financial assistance to industrial enterprises.

This financial assistance is to be extended in the form of medium-term credits for both imported and domestic equipment. In actual practice, credits have also been extended to finance construction activities, and also to finance a special Economic Reconstruction Surtax. In addition to its loans, the IDC has also undertaken joint equity participations along with the private sector in industrial ventures. The IDC's main objective is not to make profits, but rather to provide the financial and other assistance necessary for the successful operation of worthwhile ventures.

<sup>1/</sup> Established by Decree No. 36-KHKT of January 31, 1955.

The top policy making body of the IDC is the Administrative Council. The Council consists of a President and five members designated by the President of the Republic. The term of office for each member of the Council is one year and all members are eligible to be reappointed.

Four of the members of the Council serve on an ex officio basis. The Chairman of the Council is the Minister of Industry. The three other ex officio members are the Chairman of the Bankers' Association, the President of the General Confederation of Craft and Industry, and the General Manager of the government-owned Commercial Credit Bank. The other two members are generally leading economists.<sup>1/</sup> In addition, the Managing Director of the IDC serves as Rapporteur for the Council.

The day-to-day management of the IDC, which has about 100 employees, is under the supervision of a Managing Director. He is nominated by presidential decree on a resolution of the Administrative Council. He is responsible, among other things, for the internal organization of the IDC, handling its relations with the public, and presenting various reports, budgets, and the activity program to the Council.

The IDC is organized into four departments: (1) Economic Studies; (2) Credit and Investment; (3) Productivity and (4) Trust Department. Each of these in turn is divided into two parts.

The Economic Studies Department provides potential investors with information on investment laws and procedures, the economic situation and policies, administrative procedures, industrial statistics, and with liaison services, linking potential foreign investors with local entrepreneurs, or prospective investors with the Government, and offers guidance and assistance on investment procedures. It also checks later on the performance of those enterprises enjoying investment privileges.

The Productivity Department undertakes area, industry and product surveys; conducts technical studies involving plant sites, capital structure and project implementation; and disseminates information on production, marketing and business management techniques. Its Project Advisory Service has six product divisions and its Management Advisory Service seven functional divisions.

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<sup>1/</sup> In late 1967, one was from Saigon University and the other was from Dalat University.

The Trust Department, on behalf of the Government, manages mixed enterprises owned partly by the Government, and also supervises the exchange of agrarian reform bonds for shares in mixed government enterprises. The Department manages certain enterprises confiscated by the Government<sup>1/</sup> and cooperates with the existing Board of Directors in managing partly confiscated enterprises.

The IDC set up a branch in Danang in 1958, but this was closed down in 1964. It discovered that the loan demand was not sufficient to maintain the relatively large group of skilled people needed to handle the activities in so many different fields.

Although the IDC is completely government-owned, it is run to a certain extent like a private institution. Its employees are not government civil servants, and the salary scales are similar to those for private banks. The government-owned Commercial Credit Bank and the IDC are similar in this regard.

#### Source of Funds

In addition to the initial capital of VN\$287 million mentioned earlier, the IDC has also received VN\$1,260 million in medium- and long-term loans from the central bank and Government. The IDC received in the mid-1950's via its predecessor organization the National Investment Fund, a VN\$200 million, 3 per cent, 5-year credit from the Department of Finance. The IDC's funds were replenished in 1962 when the National Bank extended a VN\$460 million credit to it at a rate of 0.5 per cent per annum, and again in 1966 when the IDC also received a VN\$400 million, 2 per cent, 5-year credit from the National Bank. Beginning October 1, 1967, the IDC had to pay a uniform 3 per cent per annum interest on these loans. In 1967 the Government also extended to the IDC, through the central bank, a VN\$200 million, 3 per cent 15-year loan to help the IDC replenish its diminishing supply of funds.

More recently, the IDC has also received funds for relending from the Industrial Development Refinancing Fund (IDRF). However, the volume of funds received from the IDRF has not been too large, mainly because IDRF assistance is extended only to projects involving investment outlays of VN\$20 million or more. This is a relatively large

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<sup>1/</sup> In 1963 the Government of Premier Ngo Dinh Diem was overthrown. Many of the confiscated companies or shares now placed under trust arrangements and managed by the IDC for the Government were previously owned by the Diem families. One of the companies in which the Trust Department holds shares is the Commercial and Industrial Bank of Vietnam.

amount and there have not been too many projects of this size. For the credits obtained from the IDRF, the IDC pays 3 per cent per annum.

As indicated earlier, the IDC does not accept deposits from either the private or public sector. It therefore is not able to increase its loanable funds from this source.

In addition to its lending activities, the IDC also serves as a channel and controlling agency for central government funds spent on industrial projects. These funds are provided through regular budget appropriations, and are spent for part of the governments' capital investment program.

#### Nature of Lending and Investing Activities

As indicated earlier, the Industrial Credit Service in the Credit and Investment Department extends medium-term industrial credits. The Department also undertakes equity participation in some firms.

Some of the industries that have been major recipients of credits from the IDC are textiles, paper and food-based industries. Credits have also been extended for water, power, transport and chemical industries. The main equity participation in recent years has been in textiles.<sup>1/</sup>

The IDC has extended two types of loans. The first is an ordinary, or regular, industrial loan for financing equipment or factory construction. The other is a special loan known as the 5/7 Exchange Surtax Loan. This latter type of loan was first extended in January of 1962 when the piaster was devalued from VN\$35 to VN\$60 to one U. S. dollar. An Economic Reconstruction Surtax was levied on the CIF value of imported machinery and equipment, and the IDC extended special loans to finance this surtax which amounted to VN\$25 per U. S. dollar of imports. The loans were known as 5/7 loans because the range of maturities was from 5 to 7 years. Since the June 18, 1966, devaluation of the piaster from 60 to 118 piasters to the U. S. dollar, only a single type of industrial loan has been granted, namely the equipment and/or construction financing loan.<sup>2/</sup>

<sup>1/</sup> Particularly one company, Sicovina (Vietnam Cotton Industry Company).

<sup>2/</sup> See Survey of the Development Banking System in Vietnam, Industrial Development Center, Saigon, 1967, p. 6.

As a general rule, the IDC does not extend working capital loans. Such credits were extended during the first few years of IDC's operations, but they were eventually discontinued. One reason for dropping this activity was that the commercial banks felt that these short-term loans were too competitive with their operations.

The commercial banks, particularly the Commercial Credit Bank of Vietnam, are used by the IDC as a channel for borrowers, both in applying for and receiving, credits. In those cases where the branches of the Commercial Credit Bank receive loan applications for equipment, they are channeled to the IDC. When loans are made, the financing is channeled through the commercial banks, mainly the Commercial Credit Bank, and when the IDC follows up and checks later on a loan, this is also done through the commercial banks.

#### Credit Terms and Volume of Activity

The interest rates on IDC credits have varied, depending on whether the credit is an ordinary loan or a surtax loan. In general, interest rates have edged up, particularly for the surtax loans, and maturities decreased during 1960-67.

The interest rate on ordinary loans since 1957 has generally been about 5 to 7 per cent per annum. In 1962, most of these credits were extended at 5 or 6 per cent. By 1966 the rate on ordinary loans was a flat 5 per cent plus a commission charge of 0.5 to 2.0 per cent, bringing the effective rate to 5.5 to 7.0 per cent. In October 1967 the new maximum recommended rate for the IDC was set at 6.5 per cent plus a commission charge of 0.5 to 1.0 per cent, for a total charge of 7.0 to 7.5 per cent. Prior to 1967, overdue loans were charged 8 per cent, and in 1967 the overdue rate was increased to 9 per cent.

The maturity on both ordinary and surtax IDC loans has generally ranged from 3 to 7 years. In recent years most maturities have been 3 to 5 years, and a 7-year maturity is now relatively rare. In late 1967 about 80 per cent of the IDC's credits were 5-year loans and the rest had shorter maturities.

The interest rate on the surtax loans has increased steadily through the years. The rate rose from 2 per cent in 1962 to 3 per cent in 1963 and to 5 per cent in 1965. Since mid-1966 most of these surtax loans have been repaid.



The IDC requires certain types of collateral for its industrial loans. These may consist of a guaranty issued by a commercial bank, or a pledge in the form of land, buildings, or securities, or some combination of these. Collateral is accepted by the IDC only up to a certain proportion of its value. For buildings or constructed property, it is 75 per cent, or less, of the cost or current market value, while for land it is 100 per cent of the current market value. For equipment and machinery of imported origin, it is up to 50 per cent of the c.i.f. value, but for local equipment it is from 35 to 50 per cent of the cost to the purchaser.

Borrowers from the IDC must meet several requirements. One condition is that they provide at least one-third to one-half of the total investment cost of the project themselves, and submit papers to substantiate this. Another condition is that they pledge collateral of the type indicated earlier. A detailed loan application must also be filed with the Secretariat of the IDC, and the project itself must be creditworthy. Only a few unsecured loans have been made, and these have mainly been to government-owned companies such as SONADEZI. The IDC, for example, has extended at least VN\$60 million to SONADEZI for its use in financing the construction of factories at the Bien Hoa Industrial Estate.

The volume of IDC lending has increased in recent years and was very large in 1967. The trends in approval and disbursed credits are indicated in Table 7 below. In general, the IDC does not release its funds for approved loans on equipment until the imported goods arrive.

Table 7. Vietnam: Industrial Development Center  
(In millions of VN\$)

<u>Year</u>	<u>Industrial Credits Approved</u>	<u>Industrial Credits Disbursed</u>
1958	23.7	n.a.
1959	123.8	n.a.
1960	101.7	n.a.
1961	97.0	n.a.
1962	293.9	n.a.
1963	96.2	194.2
1964	297.8	108.4
1965	296.7	148.1
1966	497.3	165.5
1967 (Jan.-Oct.)	801.8	682.3

The volume of disbursements in 1967 was particularly large for several reasons. A relatively large number of projects which were started in 1965-66, matured and came up for financing in 1967. There was also an acceleration in developing the Bien Hoa Industrial Park and imports were greatly liberalized in mid-1966. Also, in January of 1967, the Government waived the VN\$30 per U. S. dollar tax on the importation of industrial equipment with Government of Vietnam foreign exchange, and this further stimulated the financing of imported equipment.

From 1958 through 1966 the IDC also purchased VN\$1.1 billion in equity participations in Vietnamese industrial enterprises. During 1965-66 the main participation was in Sico Vina (Vietnam Cotton Industry Company), which at the end of 1966 amounted to VN\$370 million.<sup>1/</sup>

#### Other Services and Publications

Most of the other non-credit services performed by the IDC were indicated earlier in the part on IDC's organization. In addition to making project studies and providing technical assistance and informational services, the IDC also selects equipment for its customers and in some cases actually buys it for them. The IDC also guarantees commercial bank loans for approved borrowers.

In addition to all the services already indicated, the IDC also publishes a substantial amount of informational material for businessmen. Some of these are published in the form of investors' guidebooks, and others in the form of monographs.<sup>2/</sup> The IDC has also

1/ Report on the 1966 Activities of the Industrial Development Center Vietnam and Outline of the 1967 IDC Activities Program, Industrial Development Center, Saigon, 1967, p. 3.

2/ The guidebooks for investors include such publications as: Official Documents on Investments in Vietnam, April 1967, 3rd edition; Industrial Growth Incentives in Vietnam and Some Developing Countries, 1967; and The Present-Day Taxation System in Vietnam and the Industrialists, 1966. Ten monographs were completed in 1966 and covered such topics as the foreign exchange rate, foreign technicians' salaries, the paper industry, and market studies of motor bike tires, and other products.

published Organization and Functions of the Industrial Development Center (September 1965, 32 pp.) and Survey of the Development Banking System in Vietnam (1967, 19 pp.). The IDC also publishes an annual report on its activities.<sup>1/</sup> Monthly internal reports are also provided by the Director to the Administrative Council.

#### Supervisory Aspects

The IDC is subject to relatively few statutory restraints in its operations. Although it extends credits, it is not required to establish and maintain a "bad debt" or a similar type of reserve fund. Since it does not maintain deposit liabilities and is not considered legally to be a bank, it is not subject to central bank legal reserve requirements against deposit liabilities.

It is, however, subject to an interest rate limit on its credits. The ceiling is established by the monetary and financial authorities and late in 1967 was set at 6.5 per cent. One of the factors influencing the level of the ceiling is the interest rate charged by the Industrial Development Refinancing Fund on its credits to IDC, the main principle being that the differential between the two rates should not be too large.

The IDC is not examined by the central bank, but the United States aid mission does send an auditor annually to check over the IDC's operations, and occasionally the IDC is examined by an officer from the Department of Finance. Monthly reports on outstanding loans are sent to the central bank. In addition to the regular internal audit of its operations, the IDC also has an external audit, which is carried out by a firm selected by the IDC from a list of authorized public accountants.

#### Some Conclusions

In the field of medium-term industrial credits, the IDC has clearly been the most important loan agency in Vietnam. Its volume of lending has substantially exceeded that of SOFIDIV, the other main agency also engaged in medium-term industrial finance. The commercial

1/ Report on the 1966 Activities of the IDC..., *ibid.*

banks have generally avoided this type of financing, except for some credits extended by the Commercial Credit Bank of Vietnam. This disinterest in medium-term industrial finance was reinforced in the mid-1960's when the rate of inflation accelerated.

There is little doubt that the IDC has helped to finance industrial enterprises which otherwise might have floundered for lack of sufficient financing. A substantial number of firms are now operating in Vietnam, largely because of the financial assistance provided by the IDC.

Since 1957 the record of loan repayments has been relatively good. Only a few companies have run into difficulties. Some loans made prior to 1957 by the IDC's predecessor organization have not been repaid on schedule, particularly the loans made to borrowers in areas that later became unsecure. These loans have already been written off as bad debts.

The IDC's experience in operating a branch in Danang is interesting. As was indicated earlier, this branch opened in 1958 but was closed down in 1964. Specialists in many different fields were maintained on the payroll during these years, but the volume of loan applications in their particular fields was not adequate to keep them fully employed. This indicates that for an efficient operation, the opening of branch activities should be approached cautiously. If a branch office is opened, careful consideration should be given to whether it should be limited to a liaison representative, or whether a much larger staff should be employed.

Although the IDC has already made a substantial contribution in stimulating industrial investment, there are additional policies that might be considered for adoption to further improve the IDC's usefulness to the economy. One of these is the question of deposits, and the other involves interest rate policies.

Since the beginning of its operations, the IDC has not been authorized to accept any type of deposits, whether demand, time or savings. It therefore has not been able to use this facility as a source of new loanable funds. Consideration might be given to passing new legislation which would permit the IDC to accept deposits, and thereby to tap new sources of funds for medium-term lending. The IDC might also sell its own debentures. Both moves would help facilitate the mobilization of the savings and a channeling of these savings into productive capital investment. These moves would also permit the IDC to reduce its reliance on the national government and the central bank for new loanable funds.

Another policy that might be considered for adoption relates to interest rates. There are strong indications that the rate of interest charged by the IDC on its loans is unrealistically low. This is substantiated by the very large differential that exists in comparison with interest rates charged in the unregulated private money market, by the strong demand for funds from the IDC in relation to the amounts available, and by the high rate of inflation in the mid-1960's. Most officials in the financial community in late 1967 would not deny that the interest rates charged by commercial banks and government financial institutions were unrealistically low in relation to prevailing market conditions. Abnormally low rates constitute a form of subsidy to the borrower and reduce the pressure on him to use his resources efficiently. Thus more realistic interest rates tend to benefit the consumer in the long-run in that they promote more efficient production.

Realistic interest rates would also be appropriate for deposits. Not only would a large volume of existing funds be channeled through the IDC and thus made available for medium-term industrial credits, but also there is a high probability that the rate of savings in relation to income will increase, given sufficiently attractive rates on deposits.

It would be appropriate, under the circumstances, for the IDC to offer somewhat higher interest rates on two- three- and four-year deposits, than were offered by the commercial banks on shorter-term deposits. In this way, the IDC could help protect itself from the danger of lending long-term but obtaining its funds on a short-term basis.

#### The Vietnam Development Bank

The Vietnam Development Bank, known prior to September 1967 as SOFIDIV,<sup>1/</sup> is a younger, sister-organization to the Industrial Development Center. Although it began its operations in 1961, its volume of lending only increased to relatively substantial amounts in 1967. The Bank is mainly privately-owned, unlike the government-owned IDC, but both institutions have basically the same objectives, viz., to provide both technical and medium-term financial assistance to industrial enterprises.

1/ SOFIDIV is an acronym for Société Financière pour le Développement de l'Industrie au Vietnam, i.e., Financial Association for the Development of Industry in Vietnam.

### Establishment and Objectives of the Bank

The Bank was established by a consortium of 10 Saigon commercial banks and was formally incorporated in Saigon on November 22, 1961.<sup>1/</sup> Legally the Bank is a joint stock company, incorporated under an old French law of July 24, 1867, for sociétés anonymes. One of the main reasons for the consortium approach was to spread the risks involved in providing medium- and long-term industrial credits.

In the fall of 1967, several steps were taken to permit a continued expansion in the institution's activities, and to delineate more clearly its role in promoting the country's economic development. The name of the organization was formally changed on September 26, 1967, from SOFIDIV to the Vietnam Development Bank, and at the same time, the Bank's capital was substantially increased.

The main objective of the Bank is to contribute to the establishment and development of private industrial enterprises in Vietnam. To this end, the Bank has extended medium-term industrial credits and invested in the equities of certain enterprises. It has also provided various forms of technical assistance in the financial and managerial fields, such as advice to borrowers on how to improve their financial records and to maintain properly their plant and equipment. The Bank has the power to guaranty loans and/or obligations.

The Bank also has several other objectives. These include: stimulating foreign investment in Vietnam; promoting quality improvements and cost reductions; introducing new techniques of production; and encouraging the general public to purchase shares in industrial companies. Throughout its operations the Bank is expected to make a profit so as to provide a fair return to the owners and to build up capital reserves.

### Organizational Arrangements

The highest policy-making body of the Bank is the Administrative Council. This group is elected annually by the General Assembly of shareholders in the Bank. Members nominally hold office for four years, but this is not strictly enforced. Prior to the transformation of SOFIDIV into the Vietnam Development Bank, the Council had 16 members, <sup>1/</sup> For a list of the original founders and the size of their capital contributions, see Development Banks in Asia, Japan Development Bank, Tokyo, 1966, pp. 154-55.

but this was reduced to only five to nine members after the transformation. In late 1967, the President of the Saigon Association of Banks was serving as President of the Administrative Council.

The main staff officers of the Bank consist of a General Manager and the heads of the different departments. The General Manager is appointed by the Administrative Council and serves at the pleasure of the Council. He is in charge of the general operations of the Bank, supervising the different departments and the presentation of loan applications to the Council.

At the time of the transformation of SOFIDIV into the Bank, the departmental structure was streamlined and reduced from five to three departments, viz. the Credit, Technical, and Administrative Departments.<sup>1/</sup>

In addition to the Departments, the Bank also has a Study Group. It consists of the President and four members of the Council, plus the General Manager and officers of the Bank. It acts as a loan committee for the Bank, rejecting those applications not found suitable for financing, and submitting the acceptable applications to the Council. Decisions in the Council are decided by a two-thirds vote on the basis of the number of shares held.

The Bank is relatively small when measured in terms of the size of the staff. In late 1967 the Bank had about six professional people and ten other employees, or a total of 16.

Since the organization first began in 1961, it has been in Saigon and it has not established any branches.

#### Capitalization and Other Sources of Funds

The Bank's initial capital was VN\$200 million, consisting of 20,000 shares of stock at VN\$10,000 per share. Although these shares were completely subscribed in November 1961 by the 10 banks mentioned earlier, the paid-in capital was spaced out over 1961-66. One-fourth of the capital was paid-in on November 22, 1961, another one-fourth on January 31, 1964, and the balance on August 31, 1966. Consequently the Bank did not have a very large amount of funds at its disposal during the early years of its operation.

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<sup>1/</sup> The previous five departments were: Finance, Accounting, Technical, Economics, and Personnel.

Although the Bank is generally regarded as a private institution, this is not completely correct. Approximately 37 per cent of the stock is held by the Commercial Credit Bank of Viet-Nam which is completely government-owned. However, the Development Bank is supposed to operate like a private institution, and to be profit-oriented. Its managers feel that it is very important that the Bank preserve its private character.

Although the Bank was allocated a second source of funds, this source was never utilized. This was the VN\$200 million Trust Fund provided by the Government that was to be used only for equity investments. By the end of 1963, VN\$100 million of this long-term Fund had been released to the Bank, and the balance was to have been released during the first half of 1964. But the Bank felt that the conditions for use of the funds were too stiff, and the funds were never utilized.

Three additional sources of funds have also been made available to the Bank. These include governmental loans, credits from the Industrial Development Refinancing Fund, and an increase in the Bank's capital.

During 1967 the Government authorized VN\$400 million in long-term loans at a rate of 3 per cent per annum to the Bank. A contract for the first VN\$200 million was signed on March 24, 1967, and another contract for an additional VN\$200 million was signed on August 30, 1967.

By November of 1967, the Bank had reached agreement with the Industrial Development Refinancing Fund (IDRF) for VN\$242 million in refinancing credits. At that time, the Bank was also negotiating to receive an additional VN\$95 million in credits from the IDRF.

On September 26, 1967, a special session of the central government's General Assembly approved an increase in the Bank's capital from VN\$200 million to VN\$350 million. New shares totaling 15,000 and priced at VN\$10,000 each were issued, and completely subscribed as of November 9, 1967.

Assuming that the Bank obtains all of the resources indicated above, it would have total funds of VN\$1,087 million. These would consist of VN\$350 million in capital, VN\$400 million in governmental loans, and VN\$337 million in credits from the IDRF.

The Viet-Nam Development Bank does not maintain deposit liabilities and therefore has not been able to depend on this type of facility as a source of funds. Retained earnings have been minimal or non-existent since 1961, and hence have not served as a source of funds either.



### Activities Undertaken by the Bank

The Bank's main activity has been the extension of medium-term loans. These credits have largely been to finance the purchase of equipment and machinery from overseas or domestically. Financing can be extended either in connection with the establishment of a new factory, or in expanding or modernizing an existing factory. The Bank does not make short-term loans, such as for working capital or purchase of materials, and it generally has the borrower himself arrange for any necessary financing in connection with the construction of the plant or purchase of land. Most of the Bank's individual credits have been relatively large at VN\$30 million or higher. Borrowers needing smaller credits are referred to the Industrial Development Center.

The Bank has approved credits for a rather diversified group of enterprises. These include paper manufacturing, textiles, glass products, plastics, electric wires and cables, and steel fabrication.

The Bank has also purchased equity participations in certain firms. These have generally been in those firms where the Bank has taken the initiative in establishing the business, and the firm needs the Bank's purchases of shares in order to meet certain minimum capital requirements. In late 1967 the total amount of equity participation was relatively small, being less than 10 per cent of approved credits.

Although the Bank did provide loan guarantees prior to 1967, this was mainly when it had relatively large uncommitted resources. This type of activity was discontinued in 1967 as the increase in loan authorizations reduced the availability of uncommitted resources.

There are several activities that the Bank is interested in undertaking, but has not yet been able to do so. These include the underwriting of issues of securities, the extension of loans convertible to equity shares, and the establishment of a pre-investment service unit that would help the investor carry out any feasibility studies. For various reasons, including the relatively small size of the Bank's staff, these activities have had to be deferred.

### Requirements of Borrowers and Credit Terms

Prospective borrowers from the Bank must fill out a detailed questionnaire relating to the project, and also file a loan application containing basic information on the project's technical, economic, commercial and financial aspects. Before any loan disbursements are made, the borrower must pay in a certain minimum amount of equity capital. The minimum amount varies, depending on the project, but it is generally higher than one-fourth of the authorized capital. As indicated earlier, projects involving a credit from the Bank of less than VN\$30 million are usually referred to the Industrial Development Center.

As to the credit terms, the Bank has charged 7.5 per cent on its loans since the beginning. This consists of 6.5 per cent interest and 1.0 per cent commission. There have been, however, a few credits extended at 6.0 per cent (5.0 per cent interest plus 1.0 per cent commission), but these have been for very creditworthy borrowers that might have turned to the IDC in the absence of financing from the Bank.

Most loans have a maturity of four to seven years, with the average maturity being about five to six years. Borrowers are generally given an 18-month grace period.

### Volume of Activity

The Bank extended relatively few credits during 1961-66, but in 1967 there was a sharp acceleration in its activities. At the end of 1965 the Bank had loans totaling VN\$37 million and had purchased VN\$19 million in equity participations. By the middle of 1966 the volume of loans outstanding had increased to VN\$49 million, with equity participations unchanged.

Precise data are not yet available for 1967, but during the year the Bank reportedly authorized loans of up to VN\$850 million including VN\$250 million to be obtained from the Industrial Development Refinancing Fund. By November of 1967, however, only about VN\$100 million had actually been disbursed. The main reason for the increased authorizations was a change in government officials, with the new officials taking a more active role in providing governmental resources to the Bank and in promoting an increased volume of authorization.

### Supervision and Publications

The Bank is subject to very few, if any, financial restraints in its operations. It is not required by law to build up minimum reserves of any type, nor is it subject to interest rate ceilings on its credits. The only limitation on the amount of total credit extended is the availability of loanable funds.

The Bank is not audited or examined by the central bank and the Ministry of Finance. The 1867 law under which the Bank was incorporated, requires the Bank to retain a certified public accountant (commissaire aux comptes) to examine briefly the Bank's accounts once a year.

The Bank has not published any reports on its operations. It hopes, however, to be able to put out informational papers from time to time.

### Some Conclusions

Although the Bank has the potential to play an important role in medium-term industrial financing, its role was only modest until 1966, and it still appears to be too early to assess the relative importance of the upsurge in loan authorization in 1967. Part of the problem has been a scarcity of loanable funds, with only one-fourth of the capital being paid in from November 1961 to January 1964.

There also appear to have been some problems in following through on loan and equity participations authorized by the Bank. By mid-1964, the Bank had approved VN\$185 million of equity participations in three investment projects and had "started three new industrial projects" involving investments of VN\$140 million.<sup>1/</sup> By late 1967, none of these projects had ever been completed and only one was expected to actually materialize. One of the factors which may have hindered the bringing to fruition of these projects is the relatively small size of the Bank's staff.

Like the IDC, the Development Bank has probably had to forego having a larger volume of loanable funds as a result of not being able to accept deposits. If time or savings deposits could be accepted, and attractive rates of interest paid on these deposits, it is likely that Bank would have a greater volume of resources for carrying out its lending and investing activities.

<sup>1/</sup> For details, see Development Banks in Asia, op. cit., p. 156.

It would also be helpful if an annual report, even if very brief, could be published by the Bank. This could help to increase the public's confidence in the bank, as well as that of potential investors and borrowers.

SONADEZI:<sup>1/</sup> National Company for the Development of Industrial Estates

SONADEZI is a completely government-owned, autonomous authority engaged in the development of industrial estates. In addition to planning integrated industrial complexes, it also supervises the construction of economic infrastructure facilities, and extends credits to the businessmen that utilize the industrial estates. Its credits are limited to plant construction costs, however, and are not for purchases of equipment.

Origins and Objectives of SONADEZI

SONADEZI was established on the basis of a governmental decree of December 26, 1963, and it began operations in early 1964. The organization is basically the result of a joint effort by the Industrial Development Center and the Port Authority of Saigon. Their purpose in establishing SONADEZI was to promote the planning of integrated industrial complexes that utilized the existing transportation system.

The founders hoped to achieve several objectives in establishing SONADEZI. By concentrating all of the needed industrial infrastructure facilities in one area, they hoped to obtain substantial economies in operation. Also, by concentrating the industries in one area--at least in the beginning--they expected to be able to provide a more effective and easier channeling of technical and financial assistance to the industrialists. The program also has had the aim of relieving the overcrowded industrial regions in Saigon-Cholon and discouraging the flow of the rural masses into those areas.

Originally SONADEZI was not established to provide financing to the industrialists, the main thrust of its operations being planning, supervision and technical assistance. But as developments progressed, SONADEZI found that it had to provide some credits if the projects were to be completed without undue and long delays, particularly in those cases where industrialists had difficulty in obtaining financing.

1/ This acronym is derived from the title of the organization in French, which is Société Nationale pour le Développement des Zones Industrielles.

SONADEZI began its operations with VN\$40 million of paid-in capital. Half of this, or VN\$20 million, was subscribed by the Industrial Development Center, and the other half by the Port Authority of Saigon. SONADEZI also has the power to sell additional shares to other public entities. It was not, however, set up to be a profit-making organization.

In addition to its basic paid-in capital, SONADEZI also received appropriations from the Government's capital budget. These totaled approximately VN\$100 million during 1964-67, broken down as follows: 1964, VN\$20 million; 1965, VN\$20 million; and 1966-67, VN\$60 million. These appropriations were for financing economic infrastructure facilities and not for construction of plants. SONADEZI has not received any loans from the central bank, or the Treasury.

#### Organization and Relation to IDC and SOFIDIV

SONADEZI operates under the basic control of a Board of Directors, which--according to the establishing decree--can consist of two to eight members. In recent years there have generally been eight men on the Board. The two top positions on the Board, both ex officio, are held by the Minister of Economy, and the Minister of Industry and Handicrafts. Representing the two main sponsoring organizations are the Director-General of the Port Authority of Saigon and the Managing Director of the IDC. Four other members are appointed every two years by decree of the Prime Minister. Three of these are to be prominent industrialists and the fourth, in actual practice, has been the chief of the Province of Bien Hoa where SONADEZI's first, and so far only, industrial estate is located.

A general manager is in charge of the day-to-day operations of SONADEZI. He is appointed by the Prime Minister on the basis of a recommendation from the Board of Directors. SONADEZI is divided into two departments: the Administrative and Finance Department; and the Technical Department. Late in 1967 SONADEZI had a total of about 25 employees.

The IDC and SONADEZI are to some extent, designed to be complementary to each other. The IDC, which preceded SONADEZI, was established to promote the growth of industries through providing both financial and technical assistance. SONADEZI, on the other hand, was mainly set up to provide services and to supervise the construction of the infrastructure facilities. Its original purpose, as indicated earlier, was not to extend credits. SOFIDIV, even more so than the IDC, was set up to provide medium- and long-term financing for industrial projects, and to earn some profits for its private sponsors.

### Type of Activities and Credit Terms

SONADEZI has mainly been involved in planning, supervision, technical assistance and financing. The planning activities have included the Bien Hoa industrial park, transportation and other infrastructure facilities, and the plants themselves. Supervision has involved overseeing the construction of roads, sewers, water facilities, etc., both in and adjacent to the industrial park. Much of the technical assistance provided has included advising the potential industrialist on plant operations, machinery, materials, etc.

Drawing both on its original capital and funds borrowed from the IDC, SONADEZI has provided loans to many of the industrialists now in the Bien Hoa industrial park. In general, SONADEZI has extended to qualifying industrialists, credits for up to three-fourths of the cost of the building. The borrower is required both to pay the other one-fourth himself, and also to hypothecate the building as collateral for the SONADEZI credit.

SONADEZI does not maintain deposits, either time or demand, and thus is not able to utilize deposits from the public as a source of funds. Since SONADEZI is not free to use the government's capital appropriations as it wishes, the main funds over which it has control are its own capital, and credits from the IDC.

Borrowers from SONADEZI are given an 18-month grace period and have 10 years over which to repay the loan. An interest rate of 8 per cent per annum is charged, and this rate is established by the Board of Directors. Through November 1967 these were the only terms that had been applied to SONADEZI credits.

Borrowers are required to submit data on the project, financial statements, and also proof that financing has been arranged for the equipment. A substantial part of the equipment financing has been extended by the Industrial Development Center. All projects that are financed by SONADEZI are to be profit-making enterprises.

In the case of the Bien Hoa Industrial Park, SONADEZI worked out the plan for the entire park. Plans for individual plants are sold by SONADEZI to prospective users of the park if they want them. SONADEZI also helps to resolve any operating problems that may arise with the Government.

### Extent of Progress

SONADEZI's main project has been the development of the Bien Hoa Industrial Park. The data below indicate the extent of progress in developing the park.

<u>Year</u>	<u>Number of Enterprises Approved</u>	<u>Capitalization of Enterprises (Millions of VN\$)</u>	<u>Amount of Land Allocated thousands of (Square Meters)</u>	<u>Built-up area thousands of (Square Meters)</u>
1964	10	VN\$488	603	50
1965	26	VN\$606	448	31
1966	48	VN\$759	480	42
(Sept.) 1967	21	VN\$1,515	168	n.a.

As of September 1967, 97 firms had been admitted to the industrial park. These firms had a commercial capitalization of VN\$3,168,500,000 and had been allocated 1,960,875 square meters of ground area.

Although SONADEZI began to operate in early 1964, it did not begin to extend credits until about mid-1966. During the last half of 1966 about VN\$25 million was disbursed, and in 1967, about VN\$35 million.

In late 1967, 14 factories were actually operating in the Bien Hoa Industrial Park and 30 more were under construction. Altogether SONADEZI at that time had financed about 15 factories, extending VN\$4 million in credits on the average to each factory.

At least 26 different types of industries have been admitted to the Bien Hoa Industrial Park. Some of the largest include spinning and weaving mills, rubber plants, paper factories and glass manufacturers.

#### Supervision and Reports

SONADEZI is subject to relatively few statutory restraints. It does not have to set aside reserves for bad debts, nor is it subject to central bank examination even though it is a lending institution. It does, however, maintain an internal audit of its operation and is subject to an external audit by the Ministry of Finance.

The Board of Directors normally meets monthly, and an internal report is prepared for each monthly meeting by the officers of SONADEZI. No annual or other reports have been published by the organization, although an information brochure was being planned in late 1967.

#### Some Conclusions

SONADEZI has helped to fill a gap in the Vietnamese financial system by providing long-term credits. Commercial banks had been reluctant to provide this type of credit and the inflation in 1965-67 also

served to inhibit long-term lending. In the absence of this type of financing, it is doubtful that very many of the Bien Hoa industrialists would have been able to raise the necessary capital.

Although the VN\$60 million in credits extended in 1966-67 is quite small in relation to total bank credits, the amount is nevertheless not completely insignificant. Assuming that SONADEZI had VN\$60 million in credits outstanding at the end of 1967, this would have been 0.2 per cent of the total credits outstanding to the private sector extended by the commercial banks.

When SONADEZI first began its operations in 1964, it was concerned that it might not be able to find enough suitable industrialists, but by late 1967 the problem had changed to one of having too many industrialists seeking to begin operations in the industrial park. This heavy demand may be due in part to the relatively low, and hence attractive, interest rate of 8 per cent charged by SONADEZI on its loans.

Unless SONADEZI receives new capital funds as it proceeds, it may have difficulty continuing its financing of firms. This is partly because with a 10-year repayment period it will take a long time for the capital to be built up again from loan repayments and because the value of SONADEZI's loan assets has been steadily eroded by inflation. The interest rate of 8 per cent is clearly inadequate to prevent this, particularly in view of the rate of price increase prevailing in recent years.

#### The Industrial Development Refinancing Fund

The Industrial Development Refinancing Fund is a relatively new organization established by the Government of Vietnam to finance industry. The Fund is ostensibly an autonomous institution, but in actual practice is basically under the control of the central bank. The Fund uses some of the offices and facilities of the central bank for its operations, and certain central bank personnel devote either part or all of their time to the work of the Fund.

#### Purpose and Organization

The main purpose of the Fund is to facilitate the extension of two- to seven-year, low interest credits to industry through refinancing at the central bank. The credits are to facilitate either the creation of new enterprises, or the expansion of existing ones. Through its refinancing activities the Fund hopes to further extend the scope of activities of the existing industrial credit system, and to expand the lending capacity of both the medium-term credit institutions and the commercial banks.



The Fund was authorized by a Decree Law of September 3, 1966,<sup>1/</sup> and it began operations on January 16, 1967.<sup>2/</sup> So far the Fund does not have any branches or agencies.

Control of the Fund is exercised by a six-man committee. The Chairman and Deputy Chairman of the committee consist, respectively, of the Governor and Deputy Governor of the National Bank. A third member of the committee is also an officer of the central bank who serves as both Rapporteur for the committee and Director of the Fund. A fourth member is the Director General of the Commercial Credit Bank, the government-owned commercial bank which also carries out its operations on the central bank's premises. The last two members consist of a representative from the Ministry of Finance and one from the Ministry of Industry.

The staff of the Fund is very small consisting of only six people. These are the Director, the Controller, two officers in charge of case studies and two secretaries. The Director of the Fund is the chief officer and he is chosen by the Governor of the National Bank.

#### Sources and Uses of Funds

The Fund's sole source of finance for its operations so far has been a VN\$600 million advance from the National Bank of Vietnam. The Fund does not accept deposits, and it has not received any budget subsidies or loans from the Treasury. The Fund is allowed to issue "public loans," but has not yet done so.

Although the Fund is authorized to refinance commercial bank's medium-term credits, it has not received any requests for refinancing from the commercial banks. Consequently, all of the Fund's credits during 1967--its first year of operations--were extended to the country's two special, medium-term financing agencies, viz., the Vietnam Development Bank (VDB) and the Industrial Development Center.

The Fund's credits are aimed at assisting mainly those industries engaged in the transformation of raw materials or semi-finished products into finished goods. Priority is given industries using local raw materials and manufacturing for export. During 1967 the Fund extended

1/ Decree Law 020/SLU of September 3, 1966.

financial assistance for the production, among other things, of glass, paper, wool and rayon yarn, and textiles.

Although the Fund is authorized to extend credits up to a maximum maturity of 7 years, the actual maximum during 1967 was 5 years. The most frequent maturities were 4 and 5 years, and the Fund has not made any short-term (i.e., one year or less) loans. The Fund charges 3 per cent per annum for its credits, payable quarterly, while the VDB and the IDC in turn charge 5 to 6 per cent on these relent funds. Usually the Fund requires some form of loan guaranty, for example, the VDB and IDC have endorsed the promissory notes of the ultimate borrowers.

Only relatively large projects are eligible for refinancing by the Fund. More specifically, industrial projects involving total investment outlays of under VN\$20 million are not eligible. Another requirement is that the borrowing companies finance at least one-third of the total cost of the project out of their own funds. The Fund, in turn, limits the extent of its financing to one-third of the total cost of the project, with this financing being extended for plant and/or equipment. For the other one-third the borrower may obtain a commercial bank short-term credit (up to two years) rediscounted at the central bank. In no case should refinancing exceed 40 per cent of the total cost of the project or 50 per cent of the value of fixed assets, such as equipment and buildings, that are likely to be hypothecated.

Before extending its refinancing facilities to applicant institutions, the Fund requires from the borrower: (1) a loan application; (2) an engineering study of the project; (3) an economic and financial study of the project; (4) the articles of association of the borrowing firm; and (5) a draft loan contract.

Through mid-November of 1967, the Fund had approved about VN\$400 million in credits and about VN\$100 million had actually been disbursed. As the original capital is exhausted, it is expected that the central bank will advance additional funds as needed.

#### Supervision of the Fund's Operations

The Fund is subject to relatively few financial restraints. There are no limits on the Fund's own borrowing, other than the central bank's willingness to provide additional capital. Because of its special nature, the Fund is not subject either to legal reserve requirements or to maximum limits on the amount of its credits.

The Fund is limited as to the maximum interest rate it can charge on credits. Although the central bank has currently decided this will be 3 per cent per annum, the managing committee of the Fund can change the limit if it so desires.

Since the Fund, for all practical purposes, is considered a part of the central bank, the Comptroller General of the National Bank supervises the auditing of the Fund. He has appointed a Controller to maintain supervisory control over the Fund.

The Fund is required to submit an annual report to the Chairman of the Fund's committee. The Fund itself has not yet published any periodic reports, but it has issued a compilation of the regulations and forms for its loan operations which can be used as a kind of manual by loan applicants.<sup>1/</sup> The Fund and its operations have also been described briefly in two other sources.<sup>2/</sup>

### Some Conclusions

The operation of the Fund is still relatively new, hence any conclusions regarding its operations must of necessity be somewhat tentative. However, it does appear clear that the Fund has provided additional funds for medium-term industrial financing beyond those readily available from existing institutions. If the borrowing companies prove to be economically viable, the operation could prove a net gain for the economy in spite of the subsidy element in the below-market-level interest rate charged by the VDB and IDC.

On the other hand, the program has so far not been successful in attracting commercial bank participation. Some of the factors accounting for this relate to profits, personnel, and work load. Because of the relatively narrow interest rate spread, i.e., borrowing from the Fund at 3 per cent and lending at 6 per cent, the profit possibilities for the banks are not so attractive as for regular, short-term commercial loans. The banks also tend to lack the experienced loan and other personnel that are usually needed in order to evaluate proposed projects. As indicated earlier, loan applicants are also required to submit a relatively large amount of documentation when applying for refinancing, and this may also have discouraged the banks. In addition to these factors, the inflation experienced by Vietnam in 1967 also tended to discourage medium-term lending, with the commercial banks especially reluctant to provide any of their own funds for part of the financing of an industrial project.

<sup>1/</sup> See "Caisse de Refinancement pour le Developpement de l'Industrie," Industrial Development Refinancing Fund, Saigon, 1967.

<sup>2/</sup> See Survey of the Development Banking System in Vietnam, Industrial Development Center, Saigon, 1967, pp. 11-13; and Bulletin Economique, National Bank of Vietnam, January-February and March-April, Saigon, 1967, pp.

### The Saigon Savings Bank

Vietnam has only one savings bank which is located in Saigon. In French it is called the Caisse d'Epargne, and it is patterned after institutions of the same name in many French cities. Although it accepts deposits from the private sector, it normally does not make any loans, placing all of its funds instead with the National Treasury. Basically a governmental institution, it is operated by the municipal government of Saigon.

#### Origins and Purposes

The Saigon Savings Bank was started by the French and has been operating since 1887.<sup>1/</sup> It does not maintain branches, but it does accept money deposited by mail from customers outside of Saigon.

The basic purpose of the institution is to provide both a safe place for citizens' funds and also a small rate of return on deposits, thus encouraging thrift. The use of the deposited funds to finance city government expenditures has generally not been an objective of the institution.

#### Organization

The Bank is supervised by a ten-man Council of Administrators, with the Mayor of Saigon serving as the presiding officer. The Council consists of the Mayor, three city deputies, three prominent citizens, and three representatives from the Ministries of Interior, Finance and Economy. Meetings of the Council are held monthly.

The Bank itself is run by a Manager and a relatively small staff of 18 employees. Because of the small size, there is no formal departmental division of the Bank.

#### Sources and Uses of Funds

Savings deposits are the Bank's one main source of funds. A very small amount of funds are also obtained from annual net profits,

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<sup>1/</sup> The system of city savings banks in France began in the early 1800's. They were established by the city governments in order to provide the town people with a safe savings outlet. To assure the safety of the institutions, they were usually placed under the direction of the mayor and various prominent citizens.

but these are placed into a reserve account. The Bank has not obtained funds from other potential sources such as the Government, the central bank or through issues of capital stock.

The rate of interest on the Bank's savings deposits is 2.0 per cent per annum. This is paid once a year, sometime after the end of the calendar year.

In general, the Bank has placed most of its available funds in deposits with the National Treasury. The yield on these deposits is 2.75 per cent per annum. The Bank also has some assets in France which yield 4 per cent, and it has a small amount of cash for working capital purposes.

Normally the Bank does not extend any loans, but there was one exception to this general principle. In early 1967 the Bank extended a medium-term, 3.0 per cent, loan to the Saigon municipal government's low-cost housing office. This office is also supervised by the Mayor of Saigon and the loan is regarded as being both special and temporary.

#### Restraints and Checks on the Bank's Operations

The Bank is regulated by the Ministry of Finance on the basis of an old Classe d'Epargne regulation, approved when Vietnam was under the French colonial administration. Although known as a Bank, it is not subject to the Decree Law on Banks and Establishments of Credit, and does not, for example, have to maintain minimum legal reserve requirements against its deposit liabilities. It does, however, protect its financial position by placing its annual net profits into a reserve account.

The Bank is audited at least once a year by both the Municipal Finance Department and the Ministry of Finance. The Mayor, himself, also examines the accounts. It is not, however, examined by the central bank.

The Manager of the Bank has to submit a monthly financial report to both the Council of Administrators and the Treasury. While the Saigon Savings Bank does not publish any data on its operations directly, some data are available in both the bi-monthly Bulletin Economique of the National Bank of Vietnam,<sup>1/</sup> and in the Statistical Yearbook of Vietnam.<sup>2/</sup>

<sup>1/</sup> See, for example, the data on the Caisse d'Epargne de Saigon in the Bulletin Economique, July-August, 1967, p. 116.

<sup>2/</sup> See, for example, Table 233 in Statistical Yearbook of Vietnam: 1964-65, National Institute of Statistics, Saigon, 1966, p. 277.

### Slow Deposit Growth and Minor Role

The Savings Bank has had a steady increase in depositors since the mid-1950's. At the end of 1954 there were about 27,000 depositors' passbooks issued and by the end of 1965 this had increased to about 45,000.

The volume of deposits outstanding has increased, although this has been more irregular. During three periods (1955-57, 1961-63 and 1965-67), the volume of deposits outstanding registered little or no growth. But deposits did increase from VN\$69 million at the end of 1954 to VN\$214 million in August of 1967, or approximately threefold.

Deposits may have declined in the 1955-57 period because the interest paid on deposits was cut from 2.5 per cent per annum in 1955 to 1.5 per cent in 1956-57. Deposits also reached a high in the spring of 1966, and then fell to lower levels. This was a period when imports were liberalized and there was very heavy spending for imports, particularly certain consumer durables.

It is quite likely that the volume of deposits would have increased even faster since the mid-1950's if higher interest rates had been paid on deposits. The rates at commercial banks are higher, and the sharp inflation in recent years has made the rate of return on deposits in the Savings Bank even less attractive.

On a comparative basis, the Saigon Savings Bank has been playing a relatively minor and decreasing role in the financial system. The volume of deposits is quite small compared to those of the commercial banks, and in mid-1968 they were equal to only 0.8 per cent of the total. The Bank, however, continues to retain many of its old customers. They are used to the type of service provided, and they regard the Bank as being a relatively safe place for their funds since it is a governmental institution.

### The Civil Pension Fund <sup>1/</sup>

Unlike a few government pension funds in Southeast Asia, Vietnam's Civil Pension Fund is not a significant source of capital funds for the Government. In the first place, the pension scheme, which was begun in October of 1952, covers only a relatively small number of government employees. These are the commissioned civil servants at all levels of government who totalled only 48,000 late in 1967. The non-commissioned civil servants, who do not make contributions to the scheme, totalled about 100,000.

<sup>1/</sup> The Fund is formally entitled Caisse des Pensions Civiles, or in Vietnamese, Nha Huu-Bong Viet-Nam, and it is under the general supervision of the Minister of Finance.

A second factor that has reduced the amount of the fund is the 1960 reduction in the government's contribution to the Fund. During 1952-59, the Government contributed to the Fund an amount equivalent to 20 per cent of each employee's salary. But this was reduced to 10 per cent in 1960, and the rate has remained at that level. The government employee has contributed 6 per cent of his salary since 1952.

A third factor holding down the size of the Fund is that in recent years payments from the Fund have exceeded receipts. In 1966, for example, receipts totaled about VN\$300 million, but payments were about VN\$400 million. In 1967 it is estimated that about VN\$400 million was received, but VN\$700 million was paid out. Although a surplus had been built up earlier, largely because of the 20 per cent contributions made by the Government, the surplus has been dwindling and late in November of 1967 totaled VN\$207 million. This surplus was probably exhausted during the first half of 1968.

The money accumulated by the Fund is mainly placed in a current account in the Commercial Credit Bank of Vietnam. Up to July of 1965 the Pension Fund received interest of 1 per cent per annum on these funds, but since then the rate has been only 0.5 per cent per annum. None of the funds have been placed in term deposits.

Although there is no law which specifies how the money received by the Fund should be invested, there is a Steering Committee which has the power to determine how the money is to be invested. The Committee includes the Minister of Finance, who serves as Chairman, a judge from the Ministry of Justice, the government's chief examiner (Inspecteur du Censurat), and one representative each from the employed civil servants and the retired civil servants.

The Fund does not publish any separate statement, but there are occasional reports on its activities which appear in the Ministry of Finance's monthly publication, Studies in Finance.<sup>1/</sup> The Fund is required to submit monthly reports to the Ministry of Finance and an annual report sometime after March to the Prime Minister.

1/ This is published only in Vietnamese and is entitled Nghiên-Cứu Tai-Chanh.

### The Postal Demand Deposit System

Vietnam is one of the five or six countries in Southeast Asia that does not have a postal savings system. But it does have a special supplement to the monetary media that is provided through the postal system. This supplement consists of postal demand deposits, and Vietnam is the only Southeast Asian country to provide such deposits.

Vietnam's postal demand deposits are similar to the demand deposits maintained by commercial banks. The main difference, so far as the making of payments is concerned, is that two types of checks, rather than one, are used in the Postal Demand Deposit System.

#### Origin and Purpose of the System

Vietnam originally had planned to establish a Postal Demand Deposit System in 1941, but the Second World War caused the plan to be shelved. On December 3, 1957, however, a decree was finally approved<sup>1/</sup> which authorized the establishment of a Postal Demand Deposit System.

On the basis of the authority provided by this decree, various people were sent to France to observe that country's 40-year old Postal Demand Deposit System before the introduction of such a system into Vietnam. The Vietnamese formally began their system on April 10, 1962, and on July 17, 1962, the Minister of Public Works signed an additional decree which details the organizational arrangements for the system.

The main purpose of the system is to enhance and stimulate a greater use of checks because of the many advantages of deposit money over currency. It is hoped that there will be a reduction in the relative importance of bank notes in the monetary system, possibly even to the point where deposit money increases at a faster rate than the money stock.

1/ This was Decree No. 505-CC/GT of December 3, 1957, entitled "Creation d'un Service des comptes courants et cheques postaux."



### How the System Operates

Operations of the Postal Demand Deposit System are centralized in Saigon. Thus any transactions between two cities outside of Saigon would have to be channeled through Saigon rather than be carried out directly between the two cities. Altogether there are about 80 post offices that participate in the system. Those post offices not participating are mainly the ones in small hamlets.

As indicated earlier, two types of checks are used in the system. One is a transfer check and the other is a payment check.

The transfer check, which is colored brown, is only used if the payee also has a postal demand deposit. In addition to this requirement, the payer must also know the payee's demand deposit account number as this has to be written on the transfer check. Under this operation, as the name implies, the Saigon Post Office merely debits one account and credits another.

The payment check, on the other hand, is used where the payee does not have a postal demand deposit. The payee can either take the check he has received to the post office and cash it, or deposit it in his bank like a regular bank check. Where two different cities are involved and the payee does not have a postal demand deposit account, a postal check service money order is also used in conjunction with a payment check. A payment check would also be used by a depositor for his own cash withdrawals. Where a postal money order is used, post office regulations do not permit an amount greater than VN\$50,000 (US\$424) to be transacted.

Depositors do not have to maintain any specified minimum deposit, and there is no limit on the amount of piasters that can be held in an account. As is often the case with demand deposits, no interest is paid by the postal authorities on these accounts.

Companies of all types, as well as individuals and the Government are eligible to use these accounts. The largest users of the accounts, as measured in piasters, are banks and businesses.

The Postal Demand Deposit System participates informally in the Saigon clearing house arrangements used by the commercial banks. Commercial bank checks received by the System are sent to the Postmaster General, who in turn receives a credit for them from the clearinghouse. Commercial banks in turn, have a claim on the System when they receive a payment check.

### Check and Money Order Charges

Deposits are not charged when they use transfer checks, but in the case of payment checks, there is a charge of 2 piasters for each VN\$5,000 paid. This applies to any fraction of a VN\$5,000 increment. Thus a payment check for VN\$22,000 would cost VN\$10.

The special money orders that are sometimes used in conjunction with payment checks are not as expensive as regular money orders. The charge is 10 piasters for each VN\$5,000 payment, or fraction thereof. Regular money orders, on the other hand, cost 35 piasters for any amount over VN\$1,000, and an additional 10 piasters for each additional VN\$1,000 or fraction thereof.<sup>1/</sup>

### Types of Depositors and Deposit Activity

About three-fourths of the postal demand deposit balances are held by private depositors.<sup>2/</sup> In mid-November of 1967 there were about 3,200 accounts with the majority of these being maintained by individuals. But as indicated earlier, the bulk of the transactions are carried out by banks and businesses.

The number of accounts outstanding increased about 400 per cent during the mid-1960's. About 40 to 50 new accounts are generally opened each month. The number of accounts as a proportion of total population is quite small, however, being only 0.02 per cent at the end of 1967.

Postal demand deposits increased substantially in 1964 and 1965, but they are still a relatively small proportion of total Vietnamese demand deposits. In 1966 and 1967, the rate of increase slackened. Detailed data are shown in Table 8.

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<sup>1/</sup> For lower amounts, the charges are as follows: up to 100 piasters, 15 piasters; 100.01 to 500 piasters, 20 piasters; and 500.01 to 1,000 piasters, 25 piasters.

<sup>2/</sup> In October of 1967, for example, of the VN\$416 million in deposits outstanding, about VN\$312 million were held by the private sector, and the balance by the governmental sector.

Table 8. Vietnamese Postal Demand Deposits  
(In millions of piasters)

<u>End of</u> <u>Year</u>	<u>Balance</u> <u>Outstanding</u>	<u>Increase</u> <u>During</u> <u>Year</u>	<u>Private</u> <u>Depositors</u>	<u>Total Deposits</u>		<u>Total Withrwl.</u>	
				<u>Made</u>	<u>:By</u> <u>Payment</u> <u>Check</u>	<u>Made</u>	<u>:By</u> <u>Payment</u> <u>Check</u>
1962	85.8	+ 85.8	n.a.	n.a.	n.a.	n.a.	n.a.
1963	98.3	+ 12.5	79.2	5,295	1,979	5,282	1,966
1964	153.4	+ 55.1	107.4	6,459	2,376	6,403	2,320
1965	282.7	+129.3	208.3	8,022	2,895	7,893	2,765
1966	385.1	+102.4	253.1	12,863	4,405	12,760	4,302
1967(Oct.)	416.2	+ 31.1	312 (est.)	n.a.	n.a.	n.a.	n.a.

SOURCE: Vietnam Statistical Yearbook: 1964-65, National Institute of Statistics, Saigon, 1966, p. 275; and Vietnam Statistical Yearbook: 1966-67, National Institute of Statistics, Saigon, 1967, p. 249.

As indicated indirectly above, about two-thirds of the deposits in, and withdrawals from, the accounts are made by means of transfer checks.<sup>1/</sup> During 1963-65, payment checks were used in making 36 to 37 per cent of the total volume of deposits to the accounts. During the same period, payment checks were used for effecting about 35 to 37 per cent of the total volume of withdrawals.

The bulk of the deposits received by the post offices are transferred to the National Treasury and the funds are used by the central government. The post offices, however, do retain a certain proportion of the deposits for working balances in operating the Postal Demand Deposit System.

#### Supervisory Aspects and Some Comments

The head of the Postal Demand Deposit System is the Director of Postal Check Services. He is aided by a deputy, and regular postal employees are used in operating the system.

The system is not required to maintain any legal reserves against its deposit liabilities, nor is it required to set aside each year any reserves out of retained earnings.

<sup>1/</sup> In addition to withdrawing by payment and transfer checks, a withdrawal can also be made by means of a charge to the account, with payment to the National Treasury.

The decree establishing the system did not provide for a special audit or examination of the system's operations. The accounts of the system, however, are presumably subject to the same supervision as those of the general post office.

Since the Postal Demand Deposit System is not a credit-creating institution, it cannot engage in monetary expansion. Increases in its deposits tend to be matched by decreases in currency in circulation,<sup>1/</sup> and in the deposit liabilities of commercial banks. Therefore, the institution tends to be neutral with regard to any changes in the amount of money stock.

It does, however, play a role in influencing the composition of the money stock. Thus, if currency is deposited in the System, the ratio of deposit money to total money stock rises, ceteris paribus. Since deposit money can generally be used with greater flexibility than currency, substantial deposits of currency into the System should help to facilitate the growth of trade and exchange.

While the Postal Demand Deposit System has undoubtedly been a useful facility for many depositors, the System is still of relatively minor importance in the aggregate. The data presented in Table 8 indicate that the outstanding balances have increased less rapidly since 1965. The precise cause of this slackening is not readily evident, but one factor has probably been the increased rate of inflation since 1965 which has made the holding of non-interest bearing deposits less attractive.

On the whole, the System has been a useful addition to the existing group of financial institutions in Vietnam, since it does provide a convenient instrument for transferring and paying funds in many parts of the country where commercial banks are not available and by means of an institution in which the people can have confidence.

#### Some General Conclusions

1. The contribution of the financial institutions to Vietnam's economic development leaves much to be desired. Only one sector of the Vietnamese economy is adequately served by the financial system, and this is commerce. There is adequate financing of foreign trade, and fairly good financing for domestic commerce in the large cities. Industrial financing, particularly for construction and equipment, is not yet adequate, although the special financial institutions established since the mid-1950's have helped to meet some of the demand. Agricultural finance also leaves much to be desired. The agricultural cooperatives

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<sup>1/</sup> Until the Government spends the funds received.

have been declining in importance and in recent years they have played a minor role. The NACO and its successor, the Agricultural Development Bank, have helped to meet some of the financial needs of agriculture, but the loan repayment record for NACO was poor and many farmers are still heavily dependent on private moneylenders.

Other Vietnamese financial institutions have not contributed very significantly to the country's economic development. The deposits of the Saigon Savings Bank are not lent to the general public but are merely deposited with the National Treasury. Although some urban credit cooperatives have been successful, the number is relatively small. Pawnshops have provided some credit, but this has mainly been to finance consumption. The insurance industry has not mobilized much capital, and the Postal Demand Deposit System, while helping to expand the use of checks, has merely been another source of financing for the government.

2. The interest rate structure in Vietnam has become increasingly unrealistic in recent years, with the result that it is creating distortions and hindering rather than helping the incentives to save. Funds are misallocated and there is an absence of pressure to use resources more efficiently.

On the supply side, the low deposit rates discourage the placement of funds with financial institutions, thus leaving the institutions perennially short of loanable funds. This in turn leads to an unhealthy overdependence on the central bank or the Government as a source of funds. Since deposit rates are not increased to sufficiently high levels to attract large savings and thus bring about a reduction in real consumption, the supply of funds from the central bank or the Government tends to be inflationary as real output generally does not increase as rapidly as monetary expansion.

On the demand side, the low level of lending rates actually constitutes a type of subsidy to the borrowers, permitting them to use their resources uneconomically and at the same time to reap windfall profits. Uneconomic industries are created and these are the ones that have financial difficulties when the country undertakes a stabilization program to restore both internal and external stability.

What is basically needed is an upward adjustment of both deposit and lending rates to realistic levels. The deposit rates, to be really effective, should offer a positive rate of interest, i.e., one which both preserves the purchasing power of the money and provides in addition a moderate rate of return. The lending rate could then be set several percentage points higher than the average deposit rate in order to assure profitable operations for the financial institutions.

3. Some of the financial institutions have been hampered by a legal prohibition on accepting deposits. This, of course, has reduced their potential volume of operations and has caused them to be heavily dependent on the central bank, the Government, or both. An example of this is the Industrial Development Center. If the Center had been allowed to accept deposits, and, as suggested above, to pay realistic rates on these deposits, it would have been able to mobilize a substantial volume of financial resources for industrial investment. By permitting institutions to attract funds through deposits or other instruments, faster progress can be made in mobilizing savings for investment and other productive purposes.

4. One important concomitant of the above points is the heavy dependence for funds of most of the incorporated financial institutions on the central bank, the Government, or both. Since the last half of 1966 the commercial banks, in particular, have become heavily dependent on the central bank for new loanable funds. This problem has been exacerbated by the high rate of inflation which has eventually made impossible the development and growth of a capital market.

This heavy dependence of the financial institutions on the authorities has several undesirable aspects. One is that the ratio of loans to the private sector, to deposit liabilities in the private sector has increased to relatively high levels, having moved up from 44 per cent at the end of 1965 to 96 per cent at the end of 1967. Banks pursuing sound financial operations normally limit loans to some fraction of the amount of their deposit liabilities.

Another undesirable aspect is that it creates distortions in the economy, particularly between sectors. The financial institutions providing credit to the private sector tend to lose their own internal viability and to become dependent upon government institutions for their long-run sustainability. This is not likely to be a healthy situation in the long-run, largely because of the inflationary impact of this type of financing.

5. Lastly, Vietnam could benefit from both the introduction of certain new financial institutions and reform of some of those already in operation. But if these institutions are to be economically viable, there would either have to be price stability or a change in the level of interest rates to bring them into line with the rate of inflation.

There is a need for housing finance and this is not being met by any building and loan societies or their equivalent. An institution to provide credits to very small businessmen at reasonable rates could also be established, recognizing, however, the higher per unit costs involved for loans of a relatively small amount.

Even more important for an agricultural country like Vietnam is the need to reform and to rejuvenate the agricultural credit institutions, particularly the cooperatives. The latter have degenerated to a very sad state and the Agricultural Development Bank is not able to assume the entire burden of agricultural finance.

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