

Remittances and policy implications to attract remittance flows to Vietnam

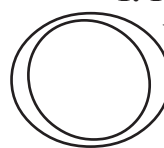
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Vietnam is one of the largest recipients of remittances worldwide. In 2012 it was ranked the ninth on the World Bank's list of the 10 countries that attracted the most remittances. Importantly, remittances have represented one of the largest sources of external private finance for Vietnam. Furthermore, remittances have been more stable in comparison with other financial flows such as foreign direct investment (FDI) and official development assistance (ODA). In some years, the share of remittances in gross domestic product (GDP) is larger than that of FDI in GDP. Notably, between 2002 and 2013, the remittances to GDP ratio far exceeded the ratio of ODA to GDP. Therefore, remittances have played an important role in promoting the Vietnamese economy.

Based on the country's situation, this paper proposes policy implications in order to attract more remittances flows to the country. The rest of this paper is organized as follows Section 2 discusses remittance flows to the country from 2000 to 2013; and Section 3 provides policy implications.

1. Remittance flows to Vietnam

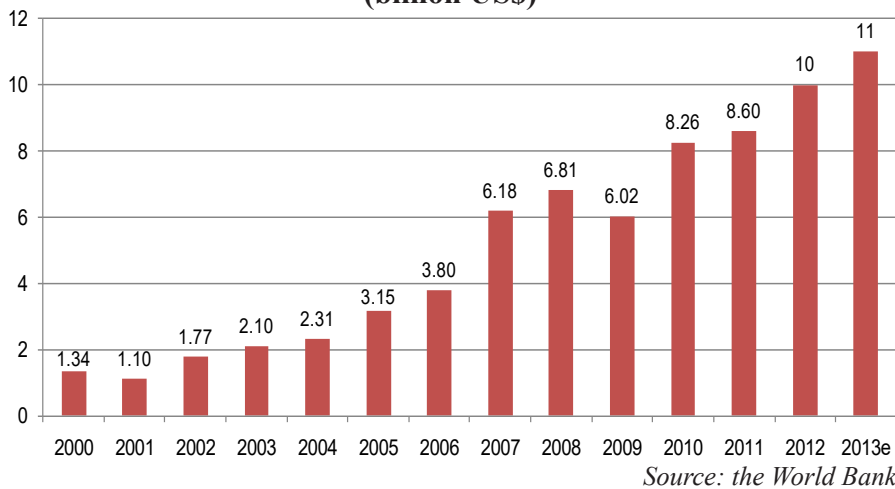


wing to historical and economic factors, more than 4 million Overseas Vietnamese (*Viet Kieu*) or close to 4.5 percent of the country's population and around 500,000 Vietnamese workers now are living abroad. Vietnamese migrants have regularly sent substantial sums of money back home;

and roughly 80 percent of them reside in developed countries. These numbers have been steadily increasing because of the government's labor exporting policy as well as government policies towards the mobilization of *remittances*. Figure 1 presents remittance flows to Vietnam from 2000 to 2013. Remittance flows have recorded an impressive growth rate since



Figure 1. Remittance flows to Vietnam in the 2000–2013 period (billion US\$)



2000. They increased sharply, by around eight-fold, from US\$ 1.34 billion in 2000 to a peak of US\$ 11 billion in 2013. It may be noted that remittances went up significantly by US\$ 2.38 billion in 2007 compared to 2006. Moreover, due to the economic recession caused by the global financial crisis, the year 2009 saw remittance flows to the country decreased slightly, by US\$ 0.79 billion in comparison with 2008.

The sharp growth in remittance flows to the country from 2000 to 2013 can partly be explained by a fundamental change in policies as well as creation of a legal framework to encourage these flows. For instance, the labor exporting policy has been implemented for encouraging Vietnamese people to work abroad. In addition, the government issued a series of legal documents to promote *Viet Kieu* as well as migrant workers to send money back; for example, a tax incentive was adopted by removing a 5 percent tax and the personal income tax on remittances in 1997 and 1999¹, respectively. Furthermore, Decision No. 170/1999/QĐ/TTg allowed beneficiaries to withdraw remittances in local currency and foreign currencies or to maintain them in bank accounts in those currencies. In order to encourage investments by *Viet Kieu*, Decree No. 81/2001/ND-CP issued by the government allowed them

¹ Decision No. 170/1999/QĐ-TTg was released by the Prime Minister on August 19, 1999, and was amended and supplemented by Decision No. 78/2002/QĐ-TTg.

to purchase residential housing in Vietnam. A Joint Ministerial Circular (Circular No. 02/2005-TTLT-BKH-BTP-BNG-BCA²) reasserted that right of *Viet Kieu*, which also further loosened regulations investment by foreigners as well as *Viet Kieu*³. Moreover, Decree No. 71/2010/ND-CP was issued in 2010 to provide “more transparent

procedures and the step-by-step procedures needed to purchase homes⁴”. By issuing that Decree, the government tried to foster remittance inflows to the country through *Viet Kieu* investment.

In addition, by issuing Decision No. 878/2002/QĐ-NHNN in 2002, the SBV allowed other companies to operate in a formal remittances market besides commercial banks and money transfer operators. This Decision therefore promoted competition in the remittances market, thus leading to decreased *transaction costs associated with receiving remittances*, and consequently increased remittance inflows through formal channels.

In 2004 the Communist Party of Vietnam enacted Resolution No. 36/NQ-TW on Overseas Vietnamese affairs which identifies the *Viet Kieu* diaspora community and its potential in considerably contributing to the country’s development. Furthermore, the main objective of the Resolution No. 36 is to persuade *Viet Kieu* to be effective in supporting the country in all sectors such as the economy, science and culture. The Resolution, as a result, has had positive impacts on remittance flows to the country.

² BKH, BTP, BNG and BCA are the Ministry of Planning and Investment, the Ministry of Justice, the Ministry of Foreign Affairs and the Ministry of Public Security, respectively.

³ Sakr, 2006

⁴ Pham, 2010



Moreover, Ordinance on Foreign Exchange No. 28/2005/UBTVQH11 was effective in June, 2006⁵ and gradually liberalized capital transactions, and therefore, positively influenced remittance inflows. Since the Ordinance allows a resident, being an individual, to undertake foreign borrowing, *Viet Kieu* can remit money to their relatives in the country through loan contracts. In addition, most remittance inflows to the country are determined by portfolio considerations⁶, so the improved investment climate in the 2000–2013 period was an important factor enabling the country to attract remittance inflows as the same manner as FDI inflows.

Furthermore, Vietnam officially became a member the World Trade Organization (WTO) in January, 2007; as a result, the Vietnamese government was expected to implement correctly the commitments of WTO membership. Joining the WTO was seen to improve the investment climate and promote institutional reforms in the country

Additionally, real estate and stock markets were booming in the period 2007–2008, thus attracting more remittances inflows to the country.

2. Policy implications to attract remittance flows to the country

2.1. Shifting from informal to formal transfer systems

Remittances channeled through an informal sector have less impact on the development of recipient countries since these flows have smaller multiplier effects than those sent through formal channels. Remittances through a banking system can deepen a financial sector since they can be used to fund economic activities in recipient countries⁷. Ratha (2007) indicates that “encouraging remittances through banking channels can improve the development

impact of remittances by encouraging more saving and enabling better matching of saving with investment opportunities”. In addition, remittances received in cash tend to be less saved than those sent through the banking system.

By investigating the Canada–Vietnam remittance corridor, Hernandez-Coss (2005) reveals that informal channels are widely used in that corridor, and have competitive advantages over formal ones in cost, speed, reliability and cultural familiarity. Moreover, rural areas are still poor and their access to formal financial services is limited, and it is estimated that only 15 percent of Vietnam’s population has a bank account⁸. The commercial banks and other financial institutions that are allowed to provide remittance services have tried to promote their accessibility to their clients.

In order to encourage remitters and recipients to use the formal channels, the State Bank of Vietnam (SBV), which is the financial sector’s primary regulator under the *Law on the State Bank of Vietnam*⁹, needs to guide a remittances market to enhance competition and transparency in that market. For instance, the SBV should allow alternative financial institutions to be involved in the remittances market. Furthermore, the SBV should make an effort to reduce the proportion of unbanked households in the country. By doing that, the costs associated with remittance services may be reduced, thus attracting *Viet Kieu* and migrant workers towards the formal channels. The government should provide pre-departure training and orientation for temporary workers about using the formal channels to send their income back to the country.

Additionally, the financial institutions need to create remittances-based financial products along with remittance services to attract and direct remittances toward productive usage. From the experiences of foreign countries, saving accounts, credit, insurance products,

⁵ In March, 2013, the National Assembly promulgated Ordinance No. 06/2013/UBTVQH13 to amend several articles of the Ordinance on Foreign Exchange No. 28/2005/UBTVQH11.

⁶ Sakr, 2006

⁷ Agunias, 2006

⁸ KPMG, 2013

⁹ Law on the State Bank of Vietnam taking effect on January 1, 2011



product packages¹⁰ and other products should be designed to meet the needs of the remittance senders as well as recipients, thus promoting attractiveness of the formal channels in order to direct remittance flows to those channels. The World Bank (WB) survey of 40 central banks in developing countries across different regions in *the world* released in 2005 reveals that offering special deposit accounts at commercial banks is one of the most popular incentives in developing countries for attracting remittances. Migrants are given preferential interest rates on these accounts and have an option to hold accounts denominated in foreign currencies¹¹.

Furthermore, importantly, in the context of Vietnam, banks' ability to allocate resources to the most promising borrowers may not be fully reliable. Hence, raising the efficiency of the banking sector needs to be achieved for remittances channeled to the formal sector to be productively utilized.

Microfinance institutions (MFI) are strongly supported by many international organizations and scholars in stimulating the productive uses of remittances¹². Because of the deficiency of formal financial institutions in rural areas, MFIs with their characteristics can meet the financial needs of families with remittances in those areas. Furthermore, according to Bagasao (2003), a connection between remittances and MFIs may facilitate business advice and capital accession for remittance-recipient households. Carling (2005) points out that by providing supporting programs such as training and marketing, MFIs can promote recipients' capacity to invest their additional income from remittances in productive projects in destination countries. Moreover, it is expected that MFIs may still be attractive even when remittances are not channeled through the formal sector¹³.

However, MFIs may confront noticeable barriers in the remittances market. For instance, since MFIs have small-scale and limited resources, they find it difficult to meet regulatory requirements to provide international money transfer services¹⁴. In addition, ability to compete with commercial banks in providing products and services related to remittances and ability to manage daily cash flows are also major concerns of MFIs when they consider involvement in the remittances market¹⁵.

Vietnam has around 50 MFIs, and they have played a critical role in the country's financial sector as well as in the economy. These MFIs, nevertheless, are not allowed to participate in the remittances market. Owing to increasing trends in remittance flows to the rural areas together with the lack of official financial institutions in those regions, MFIs can provide remittance services as well as financial services for the remittance receivers. As a result, the SBV may consider stimulating the roles of MFIs in the provision of remittance services, and importantly, MFIs which want to participate in the remittances market need to review *obstacles facing them to decide whether to enter the remittances market* or not.

2.2. Improving the investment climate to attract and use remittances productively

A country's investment climate is an important factor for attracting investors, irrespective of their ownership status. Vietnam is facing a steady decrease in competitiveness in comparison with similar regional economies¹⁶. In Global Competitiveness Index 2012–13, Vietnam's macroeconomic environment pillar was ranked 106th out of 144 economies¹⁷. To put it another way, the investment environment of the country is less attractive than those in neighboring countries. Furthermore, Sakr (2006) indicates that most remittance flows to the country

¹⁰ Comstock, Iannone and Bhatia, 2009. Three examples are transfer + saving, savings + credit and credit + insurance

¹¹ Martínez, 2005

¹² Bobeva, 2006

¹³ *ibid.*

¹⁴ Carling, 2005

¹⁵ Bobeva, 2006

¹⁶ The WB, 2014, East Asia Pacific Economic Update

¹⁷ The World Economic Forum, 2012



are influenced by portfolio decisions. The government therefore should improve the climate for investment and create the best possible conditions to attract more foreign capital (in this case, remittance flows). The Law on Investment enacted in 2005 should be revised towards promoting transparency and competitiveness in the country's investment climate. For example, discrimination between domestic and foreign investors needs to be eliminated to provide equal competition among businesses or investors regardless of their ownership status. Moreover, administrative procedures need to be reformed to create a favorable environment for attracting external capital. A one stop shop, for instance, needs to be established for business registration procedures as well as tax registration, in order to decrease costs and the time required of businesses in complying with administrative procedures. If such a measure is achieved, potential investors can engage in the market earlier.

Some countries such as "Malta and Estonia have offered investment promotions for migrants as a part of their FDI policies, while in a number of countries, remittance policy has been constituted in the framework of small and medium enterprise (SME) development policy"¹⁸.

Some countries provide incentives such as tax breaks in certain years towards migrants and migrant returnees- potential investors to encourage them to invest in their home countries. In India for instance, returnees get preferential access to capital goods and raw material imports¹⁹. However, these potential investors may lack information about the investment environments, business opportunities and legal and institutional systems in destination countries. Hence, for those investors instructions are provided to help overcome the difficulties facing them when doing business in their home countries²⁰.

If the Vietnamese government considers

offering similar policy measures to attract more remittance flows, it should take into account certain issues. For example, preferential treatments provided to *Viet Kieu* or return migrants may create discrimination between these potential investors and other investors including domestic and foreign investors, and consequently damage the country's investment climate. In addition, fiscal and tax incentives are expected to attract more remittance flows to the country, but such measures may generate a high burden on public finance.

2.3. *Securitization of remittance flows*

Similar to other future receivables, remittances can be used for cash flow securitization, and remittance-backed securities may be considered as a means to tap the development potential of remittance flows²¹. In developing countries, a number of domestic banks have used securitization techniques to borrow hard currencies from the international market. During the last decade, Brazil, Jamaica, Kazakhstan, Mexico, Peru and Turkey mobilized over US\$ 15 billion from the international market through securitization of future remittance flows with the average maturity of the loans being from 5 to 15 years²².

According to Ketkar and Ratha (2009), structure of securitization of remittances is believed to reduce the usual sovereign transfer and convertibility risks, and thus enables remittance-backed securities to be rated above the sovereign credit rating. As a result, these securities are attractive to a broad range of investors, and the issuing banks are able to raise funds from the international market at advantageous rates and with longer maturities²³. Notably, Hughes (2011) points out that even in crisis time, a remittance securitization transaction still performs well, and allows remittance-recipient countries to access foreign capital.

Ketkar and Ratha (2009) state that potential

¹⁸ Bobeva, 2006

¹⁹ Agunias, 2006

²⁰ Bobeva, 2006

²¹ Hughes, 2011

²² The WB, 2010 cited from Ketkar and Ratha, 2009

²³ Ratha, 2007



for remittance-backed securitization of Vietnam was US\$ 0.5 billion in 2007 since the country was rated BB- by Standard & Poor's, and the estimated 2007 remittance flow was US\$ 5 billion. In spite of the considerable size of potential for securitizing future remittance flows to raise hard currencies for development, like other remittance-receiving countries, Vietnam faces certain obstacles such as lack of legal infrastructure to regulate securitization activities and absence of formal accounting treatment of such transactions. Appropriate legal frameworks and flexible accounting rules therefore need to be established.

It is noted that there has no single measure to direct a significant part of remittances to investments, and policy measures offered to promote remittance flows should balance their costs and benefits. No policy measures are able to help attract more remittances towards investment purposes, if economic and political environments are not stable and attractive to remittances senders and recipients – potential investors. Furthermore, “good remittance governance is that which is based on the

initiatives and involvement of local businesses, local credit and financial institutions, local communities and government”²⁴.

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²⁴ Bobeva, 2006

SUMMARY

Kiều hối và chính sách thu hút kiều hối vào Việt Nam

Trong những năm gần đây, Việt Nam là một trong những quốc gia tiếp nhận kiều hối lớn nhất trên thế giới. Đặc biệt, năm 2012 và 2013, theo Ngân hàng Thế giới, Việt Nam xếp thứ 9 thế giới về thu hút dòng kiều hối. Kiều hối là một trong những nguồn vốn tư nhân lớn nhất; ngoài ra, dòng vốn này ổn định hơn so với các nguồn vốn ngoại khác như đầu tư trực tiếp nước ngoài (FDI) và nguồn vốn hỗ trợ phát triển chính thức (ODA). Ở Việt Nam, trong một vài năm, tỷ lệ kiều hối so với GDP lớn hơn tỷ lệ của FDI so với GDP. Đáng chú ý, giai đoạn 2002- 2013, tỷ lệ kiều hối so với GDP vượt xa tỷ lệ ODA trên GDP. Vì vậy, dòng kiều hối ngày càng trở nên quan trọng đối với sự phát triển nền kinh tế của Việt Nam.

Dựa trên tình hình thực tế của Việt Nam, bài viết đề xuất những hàm ý chính sách để thu hút nhiều hơn dòng kiều hối về Việt Nam. Ngoài phần mở đầu, bài viết bao gồm: Tổng quan dòng kiều hối vào Việt Nam trong từ năm 2000 đến năm 2013 và các hàm ý chính sách để thu hút dòng kiều hối phục vụ cho phát triển kinh tế - xã hội.

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vi, mưu kế của những kẻ hoạt động tín dụng cho vay nặng lãi. Ở đây cần nhấn mạnh vai trò của các phương tiện thông tin đại chúng, của cấp ủy, chính quyền địa phương, mặt trận tổ quốc và các tổ chức chính trị, đoàn thể xã hội. Đối với ngành ngân hàng, tiếp tục đẩy mạnh công tác tuyên truyền, phổ biến pháp luật và đào tạo, nâng cao trình độ nghiệp vụ, ý thức trách nhiệm, tư tưởng chính trị và đạo đức nghề nghiệp của cán bộ ngân hàng. ■

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SUMMARY

Usury in Vietnam- Origin, consequences and solutions

Usury, or black credit, is a term used to describe lending between individuals or organizations which bypass the official credit system. Black credit lending usually occurs underground and quietly. The most fundamental characteristic of usury is lending with super high interest rate and often are prohibited by the laws. The consequences of black credit collapsing affect the life of many people, breaking social orders and causing social unrest, inhibiting production, negatively impact the performance of credit institutions and businesses and creating many other social issues. Therefore, most laws and regulations strive to stop the development of black credit.

This article study the origin, situation as well as the consequences of black credit in Vietnam, laws and regulations on black credit and on that basis, make recommendations to restrain and repel black credit operations.

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