

SOME ISSUES OF CREDIT LOAN PROGRAM FOR STUDENTS IN VIETNAM NOWADAYS

NGUYỄN THỊ THANH THÚY^(*)

Perform academic credit loans have become one of the supporting methods in the system of supporting students of many countries around the world including Vietnam. After many years of survey, investigation, and learning experience of other countries and learning from experience through the pilot periods of academic credit loans, so far our country has been formed and is adjusting policies to fit the social-economic development throughout the country. This article generalizes situation of implementing credit loan program for students (Hereinafter called the Program), through which summarizes the achievements and remain problems of this program in the current period.

1. Overview of the implementation process of the credit loan program for students

Government's program has been implemented since 1995 to date and can be divided into four stages as follows:

Stage 1 (from 1995-1998): Borrowers are poor students who have academic results from good and excellent (point average of 7.0 or higher). Vietnam Joint stock Commercial Bank for Industry and Trade

is assigned to implement at the 20 universities and colleges across the country. This pilot period is appreciated successful. In three years of program implementation, until the late of 1998, there were 1,945 poor students to get loans with the total amount of 4.9 billion (1).

Stage 2 (from March 1998 to 2002): Since the success of the pilot period, on 2nd March 1998, The Prime Minister issued Decision No.51/1998/QĐ-TTg about establishment of training credit funds, and on Sep 26th 2001, the Governor of State Bank issued Decision No. 1234/2001/QĐ-NHNN on promulgating loans regulations apply to students at universities, colleges, vocational secondary schools and vocational training schools.

- *About the Borrowers*: Borrowers are students at universities, colleges, secondary vocational schools and vocational training schools who has academic performance is average of 5 points or higher for students at the region 1; 6 points or higher for the region 2; 7 points or higher for the region 3. With this loan conditions, the

^(*) M.A., Hanoi University.

students can get loans after the first semester of freshman year. Level of borrowing is 200,000 VND per month per students.

- *In terms of lending:* Students are the persons who directly borrow from Vietnam Joint stock Commercial Bank For Industry and Trade, which is located near the school. Loan term is the period from the date which students first get the loan until the end of the course, including time which students are permitted to be off for a term or for reserving study results (if any). Repayment period is calculated by number of years which students borrow from the bank during the period of attendance at school

- *Interest rates* are lower than the one of the commercial banks during the same period. Students have to pay principal and interest loan in the first time within 6 months from the end of the course. In case of they change school, drop out of school, be removed from the students' list, or after the end of the course at the school without paying on time or do not pay off the debt when the final repayment period comes, then the person who commit to alternative pay must implement the repayment obligations.

Results after 8 years (1995-2003), ending the two period, with borrowers mostly university students, Vietnam Joint stock Commercial Bank For Industry and Trade has *outstanding loans* is of 76 billion VND in 39,059 students in which, overdue debt is 9.9 billion VND (1).

Stage 3 (from October 2002 to before September 2007): Vietnam Bank for

Social Policies was established on December 4th 2002, Decision No. 107/2006/QĐ-TTg on credit for Students on May 18th 2006 and Circular No 75/2006/TT-BTC guiding the implementation of the above decision, are the outstanding features of the program at this period. Learning from the actual allocation, debt recovery is not high of the previous period, the Government established and assigned Vietnam Bank for Social Policies implement allocation and debt recovery for the program. Some new features have been added, namely:

- *On the borrowers:* Students of poor families, poor households and family policy (Students are disadvantaged) who are at universities, colleges, secondary vocational schools and vocational training schools which has training time from 1 year or higher. Borrowers are in accordance with objectives of the program, removing criteria based on academic results.

- *On the amount of loan:* 300,000 VND per students per month to pay tuition fees, increase 100,000 VND compared to the previous decision.

- *In terms of lending:* through Vietnam Bank for Social Policies, with a network covering 63 provinces and is supported interest by the state. Lending through the household replace for giving direct loans to students, are an effective solution to debt recovery. Because as the first stage, many students after college do not have relationships with banks, families with loan children do not want to declare the places where they are working, no serious sanction mechanism, no have

self-awareness to pay debt that has led to the revolving fund of the program in trouble. According to statistics, to end of the day December 31st 2005, outstanding loans reached 110 billion, with over 52,000 students, to September 2007 this number up to 290 billion with over 99,000 students who are already lent and are being lent.

Stage 4 (From September 2007 to present): To continue focusing resources for the training of human resources in the new period, especially to create equal opportunities for students who are children of the disadvantaged families with poor circumstances, on Sep 27th 2007, the Prime Minister issued Decision No. 157/2007/QĐ-TTg of credit for students, replace the Decision No. 107/2006/QĐ-TTg, with many changes:

- Borrowers: expand and create more conditions for the objects who are students with poor circumstances about finance in the poor households and families because of accidents, illness, natural disasters, fires, epidemics, can get loans to study at universities, colleges, secondary vocational schools and vocational training schools, regardless of training type (public or private) and training time in a year or less than one year.

- Lending rates increased sharply: from 300,000VND per month per students to 800,000VND per month per students. From August 2009, it increased to 860,000 VND per month per students and from November 15th 2010 it increased to 900,000 VND per month per students.

- Loan interest rate is low with 0.5% per month, lower than interest rates for loans of poor households 0.65% per month. During the time studying at the school plus a year of leaving school, students do not pay the debt, the interest, and there is reference with cases of early repayment.

- Flexible loan method: Apply loan method through household based on set of savings and loans groups in villages, hamlets, mountain village, small village with the management and supervision of other socio-political organizations.

- Lending terms, debt recovery is longer, if before students who graduate school after 6 months start paying the debt, but now is 12 months. For short-term vocational training students, the maximum repayment period by two times of the study period.

- Funding for the program is arranged separately for credit capital with students based on Decision No. 319/QĐ-TTg dated March 25th 2008 on credit sources for students. Every year, the state budget allocated from the 6,500 to 7,000 billion VND to lend, total funding for the program to turnover will be 30,000 to 35,000 billion VND.

2. Some achievements

Since transferred to Vietnam Bank for Social Policies in charge of managing, providing academic credit for students, the program has made significant achievements. The outstanding loans which is handed over from Vietnam Joint stock Commercial Bank For Industry and Trade is 76 billion, but until to 30th Sep 2007 when started

implementing the Decision No 157/2007/QĐ-TTg decided by Prime Minister, total outstanding loans is 298 billion VND. Within three months after the implementation of Decision 157/2007/QĐ-TTg, outstanding loans was 2,807 billion VND, increased more 2,500 billion VND compared with the amount on Sep 30th 2007. Until June 30th 2008, loans reached 5,356 billion VND, loan collection reached 132 billion VND, total outstanding loans of the program reached 5,300 billion VND with 710 thousand households with loans for study costs for 750 thousand students, higher than in 2007 is 2,493 billion VND. To Sep 30th 2010, there were nearly 1.9 million students from 1.7 million households who have difficult circumstances with the amount of loans outstanding were 23,736 billion. By February 2011, total outstanding loan is 26,138 billion VND; the number of overdue loan is 39,158 million VND with 1,759,896 borrowed households of (2).

From these figures can be seen that since the implementation of Decision 157, the outstanding loans of the program keeps growing, the number of students who have difficulties to get loans of up to 1.9 million. It is seen that the significance of implementing the credit program does not just mean in economic terms but also political and social one. Investment in human resources development, especially human resources in rural and disadvantaged areas to advance the goals of alleviating poverty in Vietnam through loan programs, including this programs, has helped students of poor family or households with financial

difficulties to get loans to cover the academic fees, continue to have the opportunity to attend universities, colleges, secondary vocational schools and vocational training schools serving for the country.

Learn from experience in the management and lending in the early stage, in the difficulties to recover debts of Commercial Bank For Industry and Trade, in conflicts between the interests of the parties (the school, banks, state) and the set out objectives of the program (bold policy nature), the State has established Vietnam Bank for Social Policies - the banks not serving for profit, implementing programs replaced for Commercial Bank For Industry and Trade (take profit to be the main target). The management of Vietnam Bank for Social Policies with program of supporting policy of the capital, the interest rate... helps the provision of loans and debt collection become more convenient and consistent. Along with that is the positive solution to direct, as specified on the responsibilities of the ministries involved in implementing, guiding and arranging capital for loans... has helped achieve significant efficiency.

The implementation of this program helped many poor families with children who will, has been studying at the school enjoy the preferential policy loans, reducing the immediate financial burden and pay-off in the future. Although with the current level of loan is 900,000 VND per students per month 100% is not enough to meet minimum spending requirements (according to a

recent survey of Vietnam Bank for Social Policies is 1.2 million per month) but helped students somewhat less burden of money" (3).

The extension of repayment period from 6 months after graduation to a year will help students have time to seek jobs, and have income initially, reduce pressure due to quick time payment, has not found a job as new graduation, starting with low salary, making students cannot pay, or extended repayment period...

So, thanks to the timely adjustment of the Party and State, many students in economic circumstances difficulties who are at risk of quitting school have access to funding incentives. Through a survey of university, students and parents who are getting loans, generally observed that "it can reduce the burden on families and helps them concentrate all on notebooks and exams" (3). Training credit policy has really created the trust of the people.

3. The problems in implementing the program

Besides the achievements, the program also faces many challenges.

- *Capital sources:* this is one of the policy credit programs which the State authorized to Vietnam Bank for Social Policies implement. Funding loans for students is raised from the state budget and mobilized capital and borrowed capital. According to statistics, the state budget disbursement for program is high percentage of current lending capital. The raising resources from issuing bonds which are guaranteed by the State are not high. According to the appreciation of the relevant levels,

particularly banks, which is responsible for disbursement, the most difficult to implement the program is loan funds. As originally planned, the program disbursed within five years should have 30-35 trillion VND, but when program is implemented halfway, the number of outstanding loans reached nearly 24 trillion VND. So to make the program must be at least 40 trillion VND, much larger than originally planned.

The funds allocated for the 2007-2008 school year is late, passive. Information from the Treasury every year shows that, if funding is not stable, not clear it will be difficult to implement program which has bold characteristics of policy and long term. The program is sustainable or not depends on its capital.

- About the borrowers: Since the implementation of Decision 157/2007/QĐ-TTg, borrowers has constantly expanded, but the identification of poor households, near poor households and disadvantaged households about finance at local still inadequate. Inequality between the poor and the near poor are unclear, many households are not the poor households but have children in school will become the poor. Criteria of disadvantaged households about finance not have specific instructions that make communal People's Committee confuse in the confirmation. Therefore, current practice in rural areas if having wish to borrow funds for children in school, they are all certified and placed into the list of households have difficulties on finance by the communal People's Committee.

- On the term of repayment: term of repayment is Repayment periodically (but not more than 6 months) as signed between the borrower (parents of students) with Vietnam Bank for Social Policies. Based on the experience of some countries, students borrow credit loans will be paid in the form repayment periodically or repayment based on percentage of income. With repayment periodically is divided into a repayment periodically with fixed amount of money and repayment periodically with the increasing amount of money. Obviously, the method of repayment is one important factor in the recovery of debts. In Vietnam, even though borrowers are the guaranteed by the State during the study period without paying interest, and only have to pay interest at rate of 0.5% per month after one year of graduation. But in reality, the future income and family circumstances of the borrower is different, so research the different repayment methods suitable to the borrowers is one of the measures to reduce repayment pressure, avoiding the conditions of many reasons, the borrower does not repay on time, ensure the revolving capital of the program

4. Conclusion

Along with the sharing of training costs between the state, schools, students create equal opportunities in access to education and human resource development to serve the country, the program has been applied and implemented in 60 countries in the world. Of course, in each country, the political situation, economic development strategy will provide

various different policies. But undeniably, the application of methods of credit loans for students is one of the effective methods added to support systems for students of nations.

Clearly, the gradual adjustment of lending policies in Vietnam, in every period is always closely monitored and adjusted appropriately by the State and Vietnamese Communist Party. From the above analysis can show that Vietnam still lacks a long-term strategy, the implementation of the program relies heavily on state budget as today will face many difficulties.

According to the evaluation of financial, banks experts, raising additional capital from other sources outside the state budget for this program is fully realizable. Through the group of commercial banks with 100% state-owned or state funds account for the dominant, the State Bank can take measures to require banks under this group to spend certain percentage in loans capital structure serving for the study of students who is not subjects lending of Vietnam Bank for Social Policies, the lending level and borrowing time on demand, interest rates reasonable with mobility interest rates but not higher than interest rates for business and production. Also, the State Bank has policies to encourage commercial banks and other credit institutions participating in this program, thereby, increasing financial resources, expanding borrowers of the program.

Beneficiary subjects of credit loans are identified as students who have disadvantaged circumstances on finance,

or households who have temporarily financial problems. The determination of the financial difficulties based on the criteria given by the State for the poor families, near poor households and throughout the investigation of the total income of individuals in households as assets and income... However, with the characteristics of the program, except rely on the criteria above, The State should add criteria of the number of children enrolled at all levels because many households are not in the above criteria, but they are public servants, the households in rural areas have two children studying at university, or vocational training, which also means that they will also be subject to borrowing, particularly in period of high inflation as at present.

With the credit loan program for students without collateral built on imperfect personal credit system of our country today, the awareness of the loan repayment of the borrowers is one factor determining the sustainable development of the program. Besides monitoring the use of loans through channels such as school, family or school loans software of the Ministry of Education and Training or the propagation and dissemination to improve the awareness

of students, the creation of students' jobs when having just graduated is an important factor in promoting the recovery of debts on time, quickly and efficiently, ensuring sustainable development of the program.

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