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## Factors Affecting Banking Policies and Solutions for Banks in Agricultural Development in Vietnam

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**Abstract:** In this study we will categorize both macro factors and micro factors that affect banking policies in agricultural development in emerging market such as Vietnam. We use qualitative analytical methods including synthesis and inductive methods, together with statistic data analysis. Our study shows results that agricultural development is much affected by macro factors such as GDP growth, land area and inflation and micro factors effects such as advice from experts and hi-tech application. Then, we also present results for bank policies for agricultural development on the country. Last but not least, we believe these findings could be used by banks, companies and borrowers in agriculture.

**Keywords:** Banking policies, Agricultural development, Vietnam.

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### INTRODUCTION

The country's agricultural and rural development credit policy has played an important role in opening credit flows into the agricultural and rural areas, contributing to promoting production and economic restructuring. With the ceiling interest rate for short-term loans lower than other sectors, suitable credit packages are offered for each sector, industry, many forms and solutions to support loans boosted ... has helped credit growth in the agricultural and rural sectors always be higher than the credit growth of the entire banking system.

Looking at and analyzing micro and macro factors that affect agriculture activities will enable us to propose suitable policies for growth of agriculture sector in the nation.

The paper is organized with introduction, research questions literature review, main results, discussion and conclusion.

### CONTENTS

#### Research Questions

Question 1: What are economic factors that affect Vietnam agricultural development?

Question 2: What are management implications and policies for agricultural development?

### LITERATURE REVIEW

First, Kehner and Pinschke (1986) stated that agriculture credit is important for agriculture development in most market-oriented developing countries.

Second, Duval (2003) pointed Agriculture, like all sectors of the economy, needs credit for its development. Experience in OECD countries demonstrates that in a competitive financial environment, profitable agriculture can obtain the credit it needs. Due to the difficulties faced by farmers in transition economies in obtaining access to credit, the OECD has periodically called upon member and transition experts to reflect upon the issues at stake and to share relevant lessons and best practices in the field of agricultural finance and credit infrastructure.

Third, Winhua and Miling (2014) found Bank income much affected by macro effects.

Fourth, Krirnsa (2015) mentioned that Between stock price and macro factors there are causal relation.

Fifth, Gunaratha (2016) said that whereas firm size negatively impacts on the financial risk, financial leverage and financial risk has positive relationship.

And Ngozi (2016) also showed that Commercial Bank Credit to Agricultural sector (CBCA) and Agricultural Credit Guarantee Scheme Fund Loan to Nigeria's Agricultural sector (ACGSF) were significant to Agricultural sector output percentage to gross domestic product (ASOGDP) the dependent variable, thereby alleviated the poverty rate and induced to economic growth in Nigeria, that there exist a longrun relationship among the variables in Nigeria under the study period. In the light of the research findings, the researcher recommended

that there is the need for the Central Bank of Nigeria to reduce the cash-reserve ratio. However, funds that accrue from such policies must be added to the agricultural credit portfolios. There is the need to review the land use decree to enable Nigerians have free access to land. This will consequently increase the farmers that could eventually serve as collateral for credit facilities from the banking system.

Last but not least, Hami (2017) specified that financial depth has been affected negatively by inflation in Iran during the observation period.

Then, Soediro et al (2017) specified that The financing in the agricultural sector in South Sumatra is relatively effective for farmers both in terms of increasing their financial gains and in terms of expanding the agricultural property. The results of this study are expected to give the significant figure about how far the financing product of the banks contributes to the increase of productivity of the agricultural sector in South Sumatera.

Finally, Meutia and Adam (2019) mentioned that effectiveness of financing provided by conventional and Islamic banks to Micro Small Medium Enterprises in the agricultural sector in South Sumatra. The study uses multiple linear regressions to identify the effect of financing on productivity. Research respondents are farmers who have been or are getting loans either from conventional banks or from Islamic banks. This study found that neither simultaneous nor partial types of banks and loan amounts were not proven to significantly affect productivity. These findings indicate that the behavior of Islamic and conventional banks in disbursing loans to the agricultural sector is no different.

## **METHODOLOGY AND DATA**

We use both quantitative and qualitative analytical methods, with synthesis, inductive and dialectical materialism methods.

## **MAIN RESULTS**

### **Overall Analysis**

According to the government regulations, there are 7 areas of lending for agricultural and rural development, including: 1- Lending costs incurred in the production and business process of agricultural products from production to purchasing, processing and consumption; Loans for industrial production, trade and service provision in rural areas; 3. Loans for the production of seeds in cultivation, husbandry, aquaculture, afforestation and the supply of products and services in service of agricultural production; 4. Loans for professional development in rural areas; Providing loans for the National Target Program on New Rural Construction; 6. Providing loans for the needs of people living in rural areas; Providing loans under the Government's economic programs related to the agricultural and rural sectors.

### **Factors that Affect Banking Policies**

#### **• Macro Factors Impacts**

GDP growth increases or declines will have impacts of agriculture development. Structure and ratio of agriculture and industrial and services economics in the country also affect growth of agriculture.

The available land using for agriculture is also among concerns when they tend to be sold for real estate projects and other industrial purposes and housing and commerce.

Next, CPI or inflation increase will affect price of agricultural products such as rice.

Beside, Interest rate increase also cause problems for higher costs in agriculture loans and for farmers.

Last but not least, trade policies or international trading also motivate quantities of agricultural products toward favorable export policies.

#### **• Micro Factors Effects**

First, that is level of applying technology or hi-tech in agriculture and planting. This will help farmers to increase outputs and productivity.

Second, advice from agricultural experts in local organizations and universities, as well as from overseas. This will go together with high quality agricultural products.

Third, expanding markets for agricultural products. Normally using experts from overseas will go together with signing agreement for expanding markets and export our agricultural products to foreign markets.

Fourth, hiring local labor workforce with competitive salary is also an advantage to make higher profits in farming and increase income for farmers.

## **DISCUSSION AND FURTHER RESEARCHES**

Here we compare banking policies in several Vietnam banks for agricultural development as below:

**Table 1: Comparison bank policies for agriculture (source: Vietnam commercial banks)**

Agriculture Bank (AGRIBANK)	Other Banks (private bank)
<p>For enterprises, cooperatives and unions of cooperatives to borrow under the linkage model: Enterprises, cooperatives and unions of cooperatives sign supply and consumption contracts with organizations and individuals directly engaged in agricultural production and are considered by Agribank to provide loans without dark collateral. is equal to 70% of the project's value, the loan plan under the linkage model. Enterprises, cooperatives and key cooperative unions (hereinafter collectively referred to as focal organizations) sign contracts to implement value chain linkage projects in agricultural production with organizations and individuals. Direct agricultural production is considered by Agribank to consider lending without collateral up to 80% of the value of the project, production and business plan under the linkage model.</p>	<p>SCB Bank: AGRICULTURAL AND RURAL DEVELOPMENT LOANS Capital support to meet the purpose of investment in fixed assets such as investment in barns, animal husbandry or additional capital for cultivation, animal husbandry ... CONDITION From 18 - 65 years old. Having a production and business location or a contract to lease a business location in the same area of operation as SCB. No bad debt within 12 months and no group 2 debt within 3 months at the time of borrowing. SECURITIES NEEDED Real estate. Or deposit account.</p>
<p>For enterprises, cooperatives and unions of cooperativesss to borrow loans under the model of agricultural production with high technology application: Customers who have production and business projects, plans in agricultural zones applying high technology, agricultural areas applying high technology, are considered by Agribank to give loans without collateral up to 70% the value of the project, the plan. Agricultural enterprises applying high technology are considered by Agribank to consider lending without collateral up to 80% of the value of the project, production and business plan applying high technology in production. Agriculture. Enterprises have not been granted the certificate of agricultural enterprises applying high technology but have production and business projects with high technology application in agriculture that are not in hi-tech agricultural zones or agricultural areas. High-tech application is considered by Agribank where the lender is to provide loans without collateral up to 70% of the value of the project or plan.</p>	<p>Sacombank (STB): Meet all capital needs for agricultural production (agriculture, forestry, salt production and fisheries), including:  <ul style="list-style-type: none"> <li>• Additional capital for agricultural production.</li> <li>• Investment in assets being land for production, machinery, equipment and special means of transport to expand production scale.</li> <li>• Additional capital for trading agricultural products.</li> </ul>                     Characteristic  <ul style="list-style-type: none"> <li>• Amount, loan term: unlimited, based on business plans, capital needs, debt repayment ability</li> <li>• Loan payment / loan repayment method: Diversified, suitable to the cash flow, needs and repayment ability of the Customer</li> <li>• Collateral: Real estate, means of transport, machinery, equipment, goods, raw materials, semi-finished products, finished products ...</li> </ul> </p>

**CONCLUSION AND POLICY SUGGESTION**

Credit from the banking sector to agriculture sector has experienced strong growth. In the past, only the Agriculture and Rural Development Bank provided loans to agriculture and rural areas, now there are 70 commercial banks, and Social Policy Bank participate in lending this field. Mobile banking model of the Bank for Agriculture and Rural Development and the Bank for Social Policy transaction offices are located in most communes, villages, and villages of 63 provinces and cities with financial support. and providing banking services to the vast majority of people nationwide, including people in remote and isolated areas.

Lending interest rates in agriculture normally lower 1-2% compared to other sectors, this will enable farmers to invest more and expand agriculture land area and more hi-technology.

**Management Implies**

Board of bank management need to construct suitable model to manage better lending programs for agriculture sector and cooperatives under macro effects and macro policies.

For farmers, in agriculture cooperatives might be effective and work well which is going with hiring experts and expanding markets or exports activities to overseas markets.

**Limitation of Research**

We can expand our research model to other markets.

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