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Credit Policy for Students in Vietnam

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Abstract

Student loans are a major initiative that many countries worldwide implement to financially support capable learners in pursuing their educational dreams. This not only ensures social welfare but also enhances the quality of human resources and boosts each country's economic development. Thus, student loans carry significant humanitarian value. However, depending on each country's circumstances, different policies, programs, and loan arrangements for

students vary in terms of eligibility, procedures, content, and levels of support. This article explores the current state of student loan policies in Vietnam, highlighting the achieved results as well as the limitations encountered in implementing these policies. From there, it proposes solutions to enhance the effectiveness of student loan policies in Vietnam moving forward.

Keywords: Credit Policy, Students, Vietnam

1. Introduction

Providing credit for students is a highly humane activity, embodying the spirit of mutual empathy and support. It helps students in difficult circumstances to access the education system fairly, contributing to improving the quality of human resources for the country. In Vietnam, the state's implementation of a credit support program for disadvantaged students is an objective and essential societal need.

Credit for students in difficult circumstances helps alleviate financial hardships during their education and training. Learning is a need for everyone, aiming to update knowledge, build skills, professional qualities, and ethics to pursue a career and support themselves and their families. Students are typically young people without jobs, dependent on parents or relatives. However, the cost of education is not insignificant. On the other hand, the investment cost for education tends to increase due to the application of increasingly modern technology and higher living standards. The state budget cannot meet the demand as the number of students increases and society's demand for high-quality education also rises. Therefore, tuition fees at educational institutions are increasing. World Bank statistics show that in universities, the proportion of students from farming backgrounds has significantly decreased, with some years only accounting for 20%. Students from high-income families make up more than half of all students. In reality, many families have to borrow heavily to provide money for their children's education. This increases the burden of debt.

Credit for students is a tool for the government to achieve the goal of developing high-quality human resources. For any country to avoid falling behind and losing out in the inevitable process of globalization, it's crucial to prioritize education and training to secure high-quality human resources and talented individuals. This is necessary to absorb, develop, master, and timely apply human knowledge into socio-economic activities. Providing credit for disadvantaged students is essential in reducing dropout rates, fostering knowledge, and training talents to meet the demands of industrialization and modernization of the country.

Contributing to reducing inequality in education, implementing policies to alleviate poverty, and ensuring social welfare. The ultimate goal of our country's social policy system is to bridge the gap between the rich and the poor, aiming for a society where conditions are fair to ensure economic growth and development. In reality, at higher levels of education, the proportion of students from wealthy families is increasing, while the proportion of students from disadvantaged families is decreasing, meaning inequality is on the rise. Developing education has a positive effect on poverty reduction. Given that education is a public service, learning is both a right and a duty of every citizen and our state is "of the people, by the people and for the people", there needs to be appropriate priority policies to ensure fair development of education across regions and among different groups. Credit support policies for students are an effective tool that helps students access educational services, unleash their inherent abilities so they can participate in social production and generate income to support their own lives and their families.

2. An Overview of Student Loans

The Concept of Student Loans

The World Bank's perspective: "Cost sharing cannot be implemented fairly without a student loan program that can support all students who need to borrow for their education....the reasonable coordination of the form of student financial support proposed by the government is to ensure student loans, not grants". The foundation of this viewpoint is to ensure efficiency and social fairness.

In the US, the central bank, the Federal Reserve (FED), has set up a model student loan program known as the Federal Perkins Loan Program. This initiative offers low-interest loans to American students facing financial difficulties, who are studying at universities and colleges, helping them cover their educational expenses. This policy doesn't limit who can apply for these loans and is open to all students willing and ready to borrow and repay their debt.

The Student Credit Program is a state-sponsored initiative, facilitated through the Social Policy Bank, aimed at students. It offers highly favorable interest rates and terms, specifically for students facing economic hardships. The funds borrowed are intended to be invested in education, enhancing skills and preparing a high-quality workforce for the future. The Social Policy Bank is a state-owned credit institution that operates with the goal of eradicating poverty, fostering economic development, and ensuring social stability, not profit-driven.

3. Credit Provisions for Students

Mobilizing Credit Funds for Students

The funding structure of the student credit support program is primarily formed from the state budget, with the remainder mobilized from other sources. To increase the number of borrowers and the loan amount for students, first and foremost, the social policy bank must create a large capital source by mobilizing low-interest or interest-free funds such as ODA capital, mobilizing savings deposits in the poor borrowing community, sponsorship funds.

Identifying Student Loan Borrowers

In a situation where funding is limited and the number of students is increasing, coupled with insufficient capital recovery, identifying the right borrowers and loan purposes becomes necessary and challenging. In Vietnam, the chosen beneficiaries are students in difficult circumstances. Therefore, the concern of programs aiming to provide loans to these students is whether the funds really reach those who are truly in need. Lending to this group not only requires setting standards for eligibility (usually based on household income) but also the ability to verify the accuracy of the information provided by the loan applicants. If the information is inaccurate, the program could be exploited and students who are not actually poor might receive subsidized loans. This would defeat the purpose of the program.

The Loan Term, Loan Amount, and Interest Rate

- Loan term: The credit loan term for students is based on their study duration. The debt repayment period depends on the loans taken. When students borrow in a fixed-term manner, the debt repayment is carried out over a set period and is usually paid monthly.
- Loan Amount: Three essential factors to ensure the appropriateness of the loan amount are: sufficient funding support, information on the financial needs of

students, and fair allocation policies. The loan amount should be periodically adjusted through surveys of students' spending needs and consumer price index to ensure adequate support. If the loan amount is low, it negatively affects the decision to borrow or not, or whether students continue their studies or drop out.

- Loan Interest Rate: The issue of determining the interest rate for student credit programs is a hot topic of debate. What's the fair interest rate for loans? Some believe that loans should be given at market interest rates. This way, students will strive harder in their studies to escape poverty. It also expands the pool of borrowers. Others argue that loans should be given at preferential rates, as students are a vulnerable group. With preferential rates, the burden of debt repayment on students will be lessened. The regulated interest rate should be lower than the market rate, but higher than the deposit rate. This viewpoint is implemented in most countries, including Vietnam. The government has a policy to subsidize interest rates.

Debt Recovery and Risk Management

Debt recovery is a crucial aspect to enhance the effectiveness of capital. In this context, banks need to find debt recovery solutions that align with the unique borrowers of the program. This also paves the way for more students to benefit from the state's preferential credit program. However, it's important to ensure the preferential nature of the borrowers when students have not graduated or have graduated but are unemployed.

4. The Current State of Student Credit Policies in Vietnam

With the determination that "no student should drop out due to financial difficulties", the Prime Minister issued Decision No. 51/1998/QĐ-TTg on March 2, 1998, to establish the Education Credit Fund. The purpose of this fund is to provide loans at preferential interest rates for students studying at professional secondary schools, and vocational training centers. The State Bank was tasked with appointing a commercial bank to manage the Education Credit Fund. On October 4, 2002, the government issued Decree No. 78/2002/ND-CP on credit for the poor and other policy beneficiaries, including financially disadvantaged students studying at universities, colleges, professional secondary schools and vocational training centers. On May 18, 2006, the Prime Minister issued Decision No. 107/2006/QĐ-TTg on credit for students in difficult circumstances.

Up until now, the subjects for the student credit policy have been defined in the following documents:

- Decision No. 05/2022/QĐ-TTg dated March 23, 2022, by the Prime Minister on amending and supplementing some articles of the Decision dated September 27, 2007, by the Prime Minister on credit for students. The credit policy for students is applied to support students in difficult circumstances, contributing to covering the costs of studying and living expenses of students during their time at school, including: tuition fees; costs for buying books and learning tools, food, accommodation, and transportation. 157/2007/QĐ-TTg.
- Decision No. 09/2022/QĐ-TTg dated April 4, 2022, addresses credit for students from disadvantaged families to purchase computers and equipment for online learning. Accordingly, students can borrow up to

10 million VND per person at an interest rate of 1.2% per year to buy computers and equipment for online learning. The condition is that they must be members of a household that falls into one of the following categories: poor households, near-poor households, households with an average standard of living as prescribed by law, or households facing difficulties due to the impact of the COVID-19 pandemic (with a father or mother or both parents lost due to COVID-19); without a computer or equipment capable of meeting online learning requirements and have not yet benefited from any form of policy support for computers and online learning equipment.

- Decision No. 09/2016/QĐ-TTg dated March 2, 2016, by the Prime Minister regarding credit for medical students and graduates during their practice at health examination and treatment facilities to obtain professional certificates.

Eligible Loan Recipients

Students, both school and university level, who are facing hardships and are studying at universities (or equivalent), colleges, professional secondary schools, and vocational training institutions established and operating under Vietnamese law include: students who have lost both parents or just one parent but the remaining one is unable to work. Students who are members of households classified as poor or near-poor, living an average lifestyle as per the law. Students whose families are financially struggling due to accidents, illnesses, natural disasters, fires, epidemics during their study period with confirmation from the People's Committee of the commune, ward or town where they reside.

Medical students and trainees facing hardships, after graduating from universities, colleges, and vocational schools, and those at specialized medical training institutions established and operating under Vietnamese law, get the chance to practice at healthcare facilities. This experience allows them to earn their professional certificates as per the regulations of the Vietnamese Healthcare Law.

Lending Methods

Students living legally in local households where loans are granted must meet certain criteria: First-year students need to have an admission notice or a confirmation of enrollment from their school. For students from the second year onwards, they must have a confirmation from their school that they are currently studying and have not been administratively penalized for behaviors such as gambling, drug addiction, theft, or smuggling.

Medical students, after graduation, can secure loans through their families. The family representative is the one who directly borrows the money and is responsible for repaying the debt. Orphaned medical students, whether they've lost both parents or just one, but the remaining parent is unable to work, can directly borrow from the Social Policy Bank at their school or medical practice where they complete their residency.

The Loan Amount

The maximum loan amount is 4,000,000 VND per month per student. The Social Policy Bank sets specific loan limits for students based on the tuition fees of each school and living expenses by region, but it does not exceed this

prescribed loan limit.

Loan Interest Rate

The interest rate for student loans is 0.5% per month. The overdue interest rate is calculated at 130% of the lending rate.

Loan Term

The loan term is the period calculated from the day the borrower starts receiving the loan until the day all debts (principal and interest) are paid off, as stated in the credit contract. The loan term includes both the disbursement period and the repayment period.

Organizing Disbursements

The social policy bank is the entity that provides loans to students. The social policy bank disburses funds twice a year during each academic term. The amount disbursed each time is based on the loan amount and the number of months per academic term (5 months/1 term).

Regarding Capital Usage

The Social Policy Bank utilizes its capital to lend to various entities. According to the Social Policy Bank's report, as of June 30, 2022, the implementation of the student credit policy is as follows:

- The lending volume since the program's inception until June 30, 2022, reached 63.929 trillion VND. On average annually, the lending volume is about 3.600 trillion VND per year. The lending volume for the first six months of 2022 was 471 billion VND, and the total lending volume for 2022 is expected to reach around 1.000 trillion VND.
- Since the program's implementation until the end of June 2022, the debt collection revenue reached 54.290 trillion dong. The first six months of 2022 alone accounted for 1.870 trillion dong, with the total revenue for the year 2022 estimated around 3.500 trillion dong.
- The outstanding debt as of June 30, 2021, was 9.639 trillion dong, a decrease of 2.005 trillion dong compared to the end of 2020. Of this, overdue debt was 121 billion dong, accounting for 1.25% of the total student loan balance. It is projected that by December 31, 2022, the outstanding debt will be 8.009 trillion dong (a decrease of 2.531 trillion dong compared to the end of 2020).

Achievements

- The program has provided over 3.6 million students with loans, and currently, there are 438,000 households still borrowing for about 484,000 students.
- Loan volumes have been decreasing in recent years, while debt collection volumes have been increasing. Fewer students are taking out loans, however, there isn't a specific evaluation of the cause of this situation yet.
- Generally, departments, localities, and their people believe that the current borrowing mechanism of the program is quite suitable and effective. The program has helped to quickly and timely transfer preferential credit capital, while mobilizing the combined strength of political-social organizations, promoting the role and responsibility of society, families, and students who are the direct borrowers.

Limitations

The rate of overdue debt remains high, some students have not used the borrowed capital for its intended purpose.

The debt collection and interest recovery of the student credit program are facing some challenges. Many families and students are still unable to repay their debts on time. The reason is that after graduation, students don't have jobs, while their families are struggling financially. This creates certain difficulties for the Social Policy Bank in debt collection and interest recovery. Moreover, with the current situation of increasing tuition fees and the escalating market prices, the current loan level still can't meet the actual needs of students. Students lack the awareness to repay their debts, resulting in overdue debts for many years now. Students after graduation do not return to their hometowns, families do not provide information; there are cases where they did not clearly declare their original address when borrowing money so they can't be located; students after graduation do not commit to repaying the bank. so far there is no solution. Therefore, capital recovery to continue lending is very difficult and greatly affects the total capital source as well as the bank's payment capacity.

There's a big disparity in the lending structure among different training systems.

A variety of students, from different fields and educational systems ranging from university, college, intermediate to vocational training both above and below one year, have access to loans. However, it's easy to spot a significant disparity in the loan balance structure divided by training fields.

The lending level is still low and does not meet the needs of students, with a phenomenon of scraping the surface when it comes to loan amounts.

For students attending public schools, this loan amount can temporarily cover some living expenses like food and accommodation, thanks to the low tuition fees and the availability of dormitories. On the flip side, for those studying at private institutions with considerably higher tuition fees, the loan primarily meets their tuition needs. This reality shows that to pursue their educational dreams and establish a career, many impoverished or near-impoverished students still struggle, juggling studies with part-time jobs to make ends meet, especially those studying in major cities with high living costs like Ho Chi Minh City and Hanoi. This highlights the need to reconsider loan amounts suitable for each region and field of study.

The organizational work reveals many limitations that make credit operations difficult and reduce the effectiveness of the program.

Administrative procedures can still be time-consuming. The regulations are not yet unified, according to the government's rules, students who borrow from the Social Policy Bank during their study period don't have to pay interest. However, the Social Policy Bank still sends out notifications if families want to prepay interest, they need to submit a request for the Social Policy Bank to confirm. The responsibility is entrusted to the group leader to directly collect and submit to the Social Policy Bank. This creates an unfair situation for these group leaders as some households pay, some don't prepay interest, and some sign up for prepayment but don't have money to pay when the month

comes.

Recommendations

Review and adjust mechanisms and policies to facilitate the implementation of credit for students. The credit policy should be adjusted in the following direction:

We need to expand the borrowing audience: The first group, poor students according to Decision 05/2022/QĐ-TTg, should still have access to preferential interest rate credit. The second group, students from families that have recently escaped poverty and families with two or more children in school facing financial difficulties, should have access to loans without the need for collateral but at market interest rates.

Adjusting loan interest rates: The lower rate of the Social Policy Bank's interest compared to the market rate is calculated based on tax benefits and the mandatory reserve ratio at the state bank... In addition, grants are provided for students with good academic performance who borrow from the Social Policy Bank, such as interest rate reductions for students with excellent academic achievements.

Increasing credit capital for students: The funds available for student loans are still quite low. To meet the needs of all students in difficult circumstances who qualify for loans, there's a significant shortfall. Besides the capital provided by the state budget, the Social Policy Bank needs to proactively develop strategies to mobilize medium and long-term funds such as: interest-free voluntary deposits, grants, or low-interest sources like non-term savings, community savings of the poor, customer payment deposits, ODA sources according to programs and projects. These funds should make up a large part of the loan portfolio, gradually reducing interest rate subsidies from the state budget.

Enhance the operational capabilities and professional ethics of the team responsible for providing credit to students: It's important to prioritize and effectively carry out inspections to limit any negative occurrences, ensuring that policy credit funds reach the right beneficiaries. Establishing a monitoring system from the central to local levels also helps to promptly address any existing issues, making lending operations quick and stable. Inspections and monitoring can be conducted through various channels and in different forms. Alongside this, setting up a timely reward system encourages related departments to work in accordance with laws and procedures.

Streamlining business processes to enhance the efficiency of lending operations for students: Innovating procedures and improving administrative processes in policy implementation. Continually researching to improve business processes in a way that's simple yet legally compliant, making it easier for students to apply for loans and reducing the workload for loan officers. The simpler and more understandable the procedure, the easier it is for people to access bank funds.

Strengthening collaboration between departments, sectors, and related socio-political organizations involved in student lending: To ensure the loan program achieves its desired results, promotes sustainable development, and truly integrates into everyday life, creating more favorable conditions for students and their families to access the government's preferential credit sources, we need to strengthen collaboration between the Social Policy Bank and all levels of government, associations, and educational institutions. This collective effort aims to effectively

implement the objectives of the student credit policy. The Social Policy Bank, various institutions should not only assist students in difficult circumstances to access and process loans for their studies but also pay close attention to career guidance during their time at these institutions. They should provide training in skills, specializations, and instill a sense of responsibility for repaying loans. Guiding and supporting them towards career opportunities will enable them to repay their debts, fulfill their obligations to the state, credit organizations, localities, and educational institutions that have supported their educational goals and aspirations.

5. Conclusion

The credit program for students is seen as a humanitarian initiative, easing the burden of tuition fees for underprivileged students. Thanks to the flexible approach of the Social Policy Bank, this fund has become a companion, supporting students in difficult circumstances, providing better conditions for them to pursue their studies, and fueling their dreams of education, setting up jobs for the future. Over time, the preferential loan capital for students has always been guaranteed, meeting all borrower's needs. From this fund, many families of war invalids, sick soldiers, and households in sudden difficulties... have reduced the burden of costs at the beginning of the new school year, helping students confidently continue on their educational journey. The program has been effectively implemented, helping tens of thousands of students to study and secure stable jobs. The maximum loan amount is 4,000,000 VND per month per student. Especially, the repayment period is extended from the day when students finish their 12-month course as regulated; only then do borrowers have to repay the principal and first interest on the loan, allowing them to study with peace of mind.

6. References

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