

Barriers to Accessing Formal Concessional Loans for the Poor

Pham Thi Minh Khuyen

¹(Industrial Economic Faculty, Thainguyen University of Technology, Vietnam)

Abstract: Capital is an important factor to promote production development at both the national and regional levels and for each household. The poor are those who face many difficulties in life, so preferential loans play an even more important role to assist them in accessing inputs, developing production and business. However, due to many difficult factors due to qualifications, lack of experience, requirements in loan conditions and procedures, etc., poor households have access to official concessional loans from various sources. Banks are not many. The article synthesizes previous studies to identify barriers to accessing formal concessional loans for the poor, thereby designing a case study in Thai Nguyen city. Results show that all element: Elements of Bank, Local factors and trust organizations, Personal characteristics; Macro factors are considered by Thai Nguyen poor households as barriers that make it difficult to access official preferential capital from banks, in which, Macro factors are the most effective.

Keywords – Access loan for poor, barriers, formal concessional loans, state bank.

I. INTRODUCTION

Capital plays a very important role in production development, creating new industries, restoring traditional craft villages, creating jobs for many workers and increasing household income. For poor households, loans have helped boost production, change the structure of crops and livestock according to seasons, continue to expand industries to increase income and improve living standards. Using good loans effectively, the household's economy will develop, on the contrary, if it is not used well, it will not only cause difficulties for households but also directly affect credit institutions lending capital.

Thai Nguyen city is the administrative center of Thai Nguyen province. The city has 32 administrative units including: 11 communes, 21 wards, with 8 ethnic groups living together. The rate of poor and near-poor households according to the multidimensional approach by the end of 2021 is 1.31%; The poor are those who face many difficulties in life, so preferential loans play an even more important role to assist them in accessing inputs, developing production and business. However, due to many difficult factors due to qualifications, lack of experience, requirements in loan conditions and procedures, etc., poor households have access to official concessional loans from various sources. Banks are not many. The article synthesizes previous studies to identify barriers to accessing formal concessional loans for the poor, thereby designing a case study in Thai Nguyen city.

II. LITERATURE REVIEW

1. Formal loan for poor

Pande et al (2012) conducted a study on whether poor people's access to formal banking services increases their incomes in 152 low- and middle-income countries and territories jar by using data in 226 related articles (from 10,274 original citations) from electronic databases, journals, websites of national banks in developing countries, NGOs in the 1980s. The study focuses on assessing the access to formal banking services in terms of credit, savings and formal payment and this access has brought results for many households in various fields/areas: income, investment, wealth accumulation, consumption, poverty alleviation and welfare.

Research results show that access to formal banking services has helped the poor to increase their income, but this depends on policies, government intervention and the provision of services by the poor. official banks.

Ofoegbu (2013) conducted a study on poverty in rural Nigeria and the role of microcredit with the following results: (1) Nigeria has a very high proportion of poor people, about 69.4% of the population (112 million poor/163 million people). According to the forecast of the National Bureau of Statistics, this rate will increase very high if the government's anti-poverty and job creation intervention programs do not reach these people. (2) To develop the national economy, Nigeria has focused on building a social model with economic development by establishing a series of banks: people, community, agricultural insurance corporation industries, ... develop programs and policies: strengthening the family economy, hunger eradication and poverty alleviation, agricultural settlement plan, river basin development agency, afforestation scheme, ... in order to promote provide capital and create jobs for rural workers. (3) Most of the rural poor in Nigeria are illiterate and therefore do not have access to official microfinance sources, so they have to teach them literacy and open many rural bank branches in order to offers credit at low interest rates. (4) Microfinance loans, used for the right purposes, will help better reduce poverty, and the provision of microfinance will promote business, increase income, increase savings and reduce poverty. (5) Household size has a significant influence on income growth of poor households and (6) Microfinance from associations, businesses, and non-governmental organizations has a significant impact on family income. increase incomes of the poor and improve household welfare, etc., thereby encouraging overall social activities, improving learning and helping with family financial planning.

Ngo Manh Chinh (2018), "Credit of the Vietnam Bank for Social Policies to the Poor", focuses on three main contents: 1) Model to evaluate the effectiveness of loan use through the ability to increase the income of the poor; 2) Model to evaluate the effectiveness of loan use through the ability of the poor to repay loans on time; 3) Factors affecting the poor's ability to access credit from the Bank for Social Policies. In which the thesis implements regression according to Ordered Probit Regression model. The research results show that, out of 9 proposed factors, there are 3 factors that have a negative impact on the poor's ability to access capital, namely limited loan sources, negative costs, and poor judgment loans, the remaining 6 factors that have a positive impact on the poor's ability to access capital are the service attitude of the lender, the development of a loan plan, the education level of the poor, the loan procedure capital, the willingness of society to help, and propaganda. The study was carried out in all 3 regions of Vietnam with a large sample size (1994 samples) in 116 communes of 29 districts (15 provinces) representing 8 regions in Vietnam – areas with a high percentage of households which high poverty and rapid poverty reduction results, ensuring high representativeness and reliability.

2. Barriers to accessing formal concessional loans for the poor

Macro factors

State and local policies, laws, and regulations

Access to formal banking services has helped the poor to increase their income, but this depends on policies, government intervention and the provision of services by formal banks (He and Li, 2005; Pande et al., 2012).

Impact of natural disasters and epidemics

When borrowing capital to invest in production development, sometimes poor households face impacts such as natural disasters, epidemics, fires, floods, droughts, harsh natural conditions... production patterns of poor households, while the ability of poor households to withstand unexpected events is low (Vo Trong Hoa, 2015).

Local factors and trust organizations

Local infrastructure

The expansion of the state-run banking sector in rural areas has increased the supply of banking services, reduced poverty, increased incomes for farmers, and helped them expand agricultural investment. The expansion of this sector has made it possible for the poorest to access banking services and without the high interest rates found in the private banking sector or external usury Pande et al. 2012).

The process of reviewing the local poor households

Research by some domestic authors shows that the transparency of the local poverty review process has an impact on the poor's ability to access concessional loans (An Duong, Ernoiz Antriyandarti 2022).

Activities of associations receiving credit trusts from the bank

The provincial bank is coordinating with Farmers' Unions, Women's Unions, Veterans' Associations and Youth Unions at all levels to carry out entrusting activities and support loans to people. The activities of associations receiving credit trusts from bank were shown to have a positive impact on the ability to access concessional loans from bank.

Working attitude of officials of associations receiving credit entrustment from bank

Attitude and support of officials of associations have lots of effect on if poor household can get the loan and how long they can get, how long they have to paid for the loan.

Negative cost

Negative costs are unregulated costs, the higher this cost, the harder it is for the poor to access preferential loans (Nguyen Viet Cuong, 2008; Ngo Manh Chinh, 2018).

Elements of the Bank

Loans

When the bank's loan capital is limited, it is not possible to meet the capital needs of all customers or to meet their loan requirements, so the ability to access bank credit is not enough. Social policy goods of the poor are low, so the bank must be proactive in capital sources to fully and promptly meet the capital needs of the poor. Therefore, for many years, this has been considered as one of the factors limiting the poor's ability to access preferential loans (Nguyen Viet Cuong, 2008; Ngo Manh Chinh, 2018).

Interest rates

The lending interest rate of banks is always lower than that of commercial banks and credit institutions to make it easier for the poor to repay their loans. In some studies, interest rates have had the opposite effect. to access to concessional capital for the poor (Assogba et al., 2017; Hung and Huong, 2022)

Lending time, loan limit and loan procedures of Banks are three factors that many studies have shown are the factors that negatively affect the ability to access concessional capital for the poor (Anane et al. associates, 2021; Ngo Manh Chinh, 2018; Hung and Huong, 2022).

Bank's support service

An Duong, ErnEBEBoiz Antriyandarti, 2022 pointed out that banking support services provided to poor households are still a major barrier to the poor's ability to access preferential credit because of the quantity and quality of services. Support is quite limited.

Small Bank Network

The authors also find that the availability of informal and formal/semi-formal funds at the village level increases the amount of household borrowing. This finding has a very important implication that in order to help rural households access formal credit sources, the banking network must be extended to the villages (Hao, 2005).

Factors from poor households

The factors on the poor side affecting the ability to access concessional loans as shown by previous studies are: The willingness of poor households to participate in loans; Participation of poor households in social work organizations (Ikenna and Ofoegbu, 2013; Assogba et al., 2017); Education level of households (Ikenna and Ofoegbu, 2013; Hung and Huong, 2022; Ngo Manh Chinh, 2018); Household land and property ownership (He and Li, 2005; Hao, 2005; Assogba et al., 2017); The household's ability to Household land and property ownership (Hung and Huong, 2022). In which, factors that have a positive influence include education level, material, mortgage / home ownership, land; Credit size, credit source, credit debt are likely to affect credit access, however, age, family size, ethnicity, interest rate, amount paid are factors that can affect credit access have opposite effect.

III. METHODOLOGY

1. Sample

The survey subjects of the study are households with low income and have a certificate of being poor or near-poor according to Decision No. 59/2015/QĐ - TTg issued by the Vietnamese Prime Minister. The sample will be randomly selected without repetition from the statistical list of households and workers satisfying this criterion.

The selected research sites include Cao Ngan, Linh Son and Huong Thuong communes, which are the three communes with the highest poverty rate in 2021 in Thai Nguyen city.

Because the size of the population is not too large, the author chose to survey all 161 poor households in 3 communes: Linh Son (71 households); Huong Thuong (45 households); Cao Ngan (45 households).

2. Collect, process and analyze data

Conduct the survey based on the list of households that have been classified by direct interview method.

After collecting the answer sheets, they are checked, basic information is processed on the form system, and then encoded information, entered information into the computer and used Spss 22.0 software for processing.

Descriptive statistics method is used to analyze the loan situation of poor households from official loan sources.

The linear regression method is used to assess the influence of factors and identify barriers to the poor households' ability to access formal concessional loans in Thai Nguyen.

IV. RESULTS

1. Reliability test Cronbach's Alpha

From after literature review, research model includes 20 proposed elements, Table 1 shows that Cronbach's Alpha of all groups after second time analyze are both more than 0.700 so these group factors reliability are acceptable in Academic research.

Of all 20 elements indicators, 18 elements indicators have Corrected Item - Total Correlation > 0.300 are accepted to remain in model and 2 elements indicators have Corrected Item - Total Correlation < 0.300 are deleted, including: PC4: Household land and property ownership and LC2: The process of reviewing the local poor households. This situation can be explained by the fact that i) the survey area is a rural area of Thai Nguyen city, where the majority of people own a large amount of land; ii) Thai Nguyen is a province highly appreciated for its transparency in reviewing and publishing the list of poor households.

TABLE 1
Scale analysis results for the independent variables

Factor	Element	First time		Second time	
		Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
PC	PC1	.598	.541	.630	
	PC2	.604	.540	.628	
	PC3	.345	.659	.400	
	PC4	.062	.752	Deleted	
	PC5	.562	.552	.553	.693
	Reliability	Cronbach's Alpha=.673		Cronbach's Alpha=.752	
EB	EB1	.670	.883		
	EB2	.668	.874		
	EB3	.783	.855		
	EB4	.721	.867		
	EB5	.680	.872		
	EB6	.774	.857		
	Reliability	Cronbach's Alpha=.888			

LC	LC1	.802	.685	.848	.824
	LC2	.154	.890	Deleted	
	LC3	.783	.686	.849	822
	LC4	.671	.686	.732	868
	LC5	.601	.752	.615	907
	Reliability	Cronbach's Alpha=.797		Cronbach's Alpha=.890	
SF	MF1	.657	.695		
	MF2	.681	.667		
	MF3	.571	.783		
	Reliability	Cronbach's Alpha=.793			

Source: Research result

2. Explore Factor Analysis (EFA)

KMO coefficient = 0.776, ensures the requirements that $0.5 < KMO < 1$; with significance level Sig. = 0.000 meets the conditions Sig. < 0.005 (Table 2).

TABLE 2

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.776
Bartlett's Test of Sphericity	Approx. Chi-Square	1444.684
	Df	136
	Sig.	.000

Source: Research result

With a rotation matrix 4 total factor model explained approximate 67,96 % of the variation of total factor. Rotation matrix result of converging factors warrant the request of Factor loading: With 161 samples, Factor loading samples of the elements must be greater than 0.55 (According to Hair and et al), and as result on Table 6, all factor in the model have Factor loading more than 0.55 and they are remained.

After analyzing the explore factor by SPSS, all items are grouping in 4 factors: EB: Elements of Bank; Local factors and trust organizations; Personal characteristics; Macro factors (Table 3). The representative value of these items created by SPSS will be used to the regression process

TABLE 3
Rotated Component Matrix^a

	Component			
	1	2	3	4
EB3-Time lending	.874			
EB6- Small bank network	.851			
EB5-Lack of bank's support service	.824			
EB4-Loan procedures	.745			
EB2- Interest rates	.708			
EB1- Limitation of the Loan	.638			
LC1-Local infrastructure		.924		

LC3 - Working attitude of officials of associations receiving credit entrustment from bank	.923		
LC4- Activities of associations receiving credit trusts from the bank	.853		
LC5-Negative cost	.751		
PC2-Participation of poor households in social work organizations		.798	
PC1-The willingness of poor households to participate in loans		.794	
PC5-Historical payment for loan/dept		.688	
PC3-Year of education		.633	
MF2- Impact of natural disasters and epidemics			.863
MF1- The clarity of State and local policies, laws, and regulations			.853
MF3 -Socio-economic development of the living area			.792

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Source: Research result

3. Regression analysis

With $df = 4$, the result of regression analysis showed that the value in ANOVA test of $F = 20.146$ and Sig statistically significant = 0.000 less than the α critical index (0.05), so we rejects the hypothesis that the study elements are heterogeneous and concludes that there is statistical difference between the independent variables and the dependent variable.

The results of regression are provided in Table 4. Multiple regression analysis by Enter method was used to test relationship with independent variables and the dependent variable.

TABLE 4
Regression analysis

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Beta		
1 (Const)	3.856		79.949	.000
EB-Elements of Bank;	.197	.265	4.071	.000
LC-Local factors and trust organizations;	.203	.273	4.186	.009
PC-Personal characteristics;	.229	.308	4.731	.000
MF-Macro factors	.238	.321	4.910	.000

Source: Research result

As in Table 4, all elements have Beta valuable > 0 ; each of these factors has values of statistical significance Sig less than the α - critical value (0.05) shows that all the factors are statistically significant. In which, Macro factors (MF) are the most effective on ability to access the formal concessional loans for the poor in Thainguayen City..

V. CONCLUSION

Base on the results, all four elements: EB-Elements of Bank; LC-Local factors and trust organizations; PC-Personal characteristics; MF-Macro factors are considered by Thai Nguyen poor households as barriers that make it difficult to access official preferential capital from banks, In which, macro factors such as the ambiguity and completeness of the policy to support loans for the poor, epidemic factors and socio-economic underdevelopment in the living area are the main factors. have the greatest impact on their access to capital.

VI. Acknowledgements

The author would like to thank the Thainguyn University of Technology - Thainguyn University for sponsoring this research.

REFERENCES

- [1] Pande R, Cole S, Sivasankaran A, Bastian G, Durlacher K, *Does poor people's access to formal banking services raise their incomes? EPPI-Centre, Social Science Research Unit, Institute of Education, University of London* (2012).
- [2] Ofoegbu, D.I, "Rural Poverty in Nigeria. The Role of Microfinancing. International", *Journal of Economic Practices and Theories*, 3 (2013), 203-226.
- [3] Ngo Manh Chinh, *Credit from the Vietnam Bank for Social Policies for the Poor*, Doctor thesis in Vietnamese, Ho Chi Minh City University of Economics (2018).
- [4] He, Guangwen, and Lili Li, *People's Republic of China: Financial Demand Study of Farm Households in Longren/Guizhou of PRC*. ADB Technical Assistance Consult's Report. Project Number: 35412. Guiyang: ADB (2005).
- [5] Vo Trong Hoa (2015), Improving the quality of preferential credit for poor households at the Bank for Social Policies, master thesis in Vietnamese, Ho Chi Minh City University of Economics (2018).
- [6] Nguyen Viet Cuong, "Is A Governmental Micro- Credit Program For The Poor Really Pro- Poor? Evidence From Vietnam", *The Developing Economies, Institute of Developing Economies*, vol. 46(2) (2008), pages 151-187.
- [7] An Duong, Ernoiz Antriyandarti, "The impact of the Vietnam Bank for Social Policies preferential credit on household welfare in Vietnam: a panel data analysis", *Journal of Economics and Development* Vol. 24 No. 1 (2022), pp. 18-32.
- [8] Anane, Isaac, Yue Zhang, and Fengying Nie, "The Sources of Microfinance Capital and its Effects on Farmers access to Credit in Ghana", *SVU-International Journal of Agricultural Science* 3 (2021): 112–28.
- [9] Assogba, Perceval Noel, Sènakpon E. Haroll Kokoye, Rosaine N. Yegbemey, Jonas André Djenontin, Zacharie Tassou, Joanna Pardoe, and Jacob A. Yabi, Determinants of Credit Access by Smallholder Farmers in North-East Benin, *Journal of Development and Agricultural* 9 (2017): 210–116
- [10] Quach Manh Hao, *Access to Finance and Poverty Reduction: An Application to Rural Vietnam*,” Ph.D. diss., University of Birmingham, (2005).