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Debunking the Informal Credit Myths: Is Credit Liberalization the Magic Solution to Loan Sharking?

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EXECUTIVE SUMMARY

- Moneylending is widespread in Vietnam. Popularly labelled ‘black credit’, it involves unlicensed operations, high interest rates and strong-arm recovery methods.
- Black credit is currently of serious concern in Vietnam. This is reflected in extensive daily media coverage and the numerous efforts made by the government and financial community to fight it.
- Black credit is often conflated with other more socially beneficial forms of informal credit.
- The main solution envisioned to neutralize black credit, and more broadly informal credit, is by expanding formal credit.
- Current debates about black credit and its magic solution, credit liberalisation, do not reflect thoroughly enough on the pros and cons of formal and informal credit.

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INTRODUCTION

The arrest of Quang Rambo in Hanoi on August 13 was the latest publicized police operation against black credit in Vietnam. This notorious moneylender is the epitome of the usurer. His brawny chest is covered by a colourful tattoo of a dragon, he sports a huge gold medallion around his neck and the expression on his face is one of severity. A quick look through his Facebook page shows photos of fancy vehicles, flashy jewellery, stacks of cash and an extravagant lifestyle¹.

However, behind the bling and swank lurks the darker side of the moneylending business in Vietnam, what the media and authorities call ‘black credit’. This is a nationwide phenomenon popularly associated in the media with unlicensed operations, exorbitant interest rates and strong-arm recovery practices, or in other words, with loan sharking. It has raised serious public concern over the past three years.

Extensive and sensationalizing media coverage about the abuse that unscrupulous moneylenders inflict upon vulnerable borrowers is stirring public indignation and a call for strong political action. By way of remedy, the government is promoting rapid credit liberalization to curb black credit and, in the long run, informal or unregulated credit. Drawing upon 170 news clips on black credit in Vietnam and interviews with 10 moneylenders and 20 borrowers in Ho Chi Minh City, this article interrogates this solution.

THE BLACK CREDIT PHENOMENON

The Vietnamese term *tin dụng đen* or ‘black credit’ is a synonym of the pejorative expression ‘loan shark’ in English, which refers to a moneylender who charges very high rates of interest under illegal conditions. However, the term ‘black credit’ has no legal definition in Vietnam unlike that of ‘usury’, which according to the article 201 of the 2015 Penal Code, refers to the provision of a loan at an interest rate that is five times higher than the maximum interest rate prescribed in the Civil Code for a profit ranging from VND30 million to VND100 million (US\$1,290-4,300). Article 468 of the 2015 Civil Code states that the interest rate of a loan must not exceed 20 percent per year, unless prescribed by a relevant law. A civil loan is therefore usurious when its annual interest rate amounts to or exceeds 100 percent and earns an illegal profit that is over VND30 million. Many loans proposed by moneylenders reach up to 1,000 percent per annum. Legally speaking, however, they cannot be considered usurious if they generate less than VND30 in profit. Yet people will label them as ‘black credit’ if they are provided by moneylender gangs that employ harsh recovery methods.

Media narratives about black credit involve three main actors: banks, borrowers and moneylenders. State or private commercial banks are blamed for perpetuating financial exclusion, in particular for imposing cumbersome procedures on loan applicants and requiring collateral (house and land certificate) and paperwork (household registration, ID card, employment contract, salary slips) that not all applicants can provide.² Borrowers increasingly need capital for consumption and investment, yet many remain financially

excluded.³ The most affected are poor farmers with little or no land to use as collateral, ethnic minorities living in remote areas,⁴ factory workers,⁵ urban precarious workers, gamblers,⁶ sex workers and street vendors.⁷ These borrowers are often described as financially illiterate and thus unable to spend and save wisely, to grasp the terms and rates enforced by moneylenders, and to design effective loan repayment strategies especially when they borrow to cope with setbacks and economic shocks.⁸

Moneylenders take advantage of these circumstances to develop their operations. They hide behind legitimate businesses including pawnshops⁹ and financial and car rental companies¹⁰. They advertise their services online – a Google search with the keyword ‘borrow money’ shows hundreds of sites which cannot be distinguished from sites of legitimate financial companies – and through posters glued on city walls with enticing messages like ‘hello, there is money’ and ‘borrow money quickly’. To circumvent the law, moneylenders use verbal agreements and written documents that specify a legal interest or no interest at all, and fake receipts for the purchase of goods and services. The key to their success is that they provide quick and easy unsecured loans without requiring fees or paperwork except, in some cases, copies of the borrower’s ID card, household registration and driver’s license. However, they employ aggressive methods to enforce recovery: they enter borrowers homes to seize their assets, to watch TV and play music loudly, they control the movements of the occupants by locking their main door and installing surveillance cameras, they follow their debtors’ children to school and throw rotten eggs at them,¹¹ they throw shrimp sauce on the front doors of their clients,¹² they send them coffins and obituary notices,¹³ they deceive and harass relatives,¹⁴ they block borrowers’ iCloud accounts,¹⁵ and in rare cases, they resort to kidnapping, torture and murder.¹⁶ These harsh tactics leave many borrowers no option but to sell their assets and borrow from elsewhere to repay their creditors, or to run away with their family.¹⁷ In the worst cases, they commit suicide.¹⁸

FORMAL CREDIT TO THE RESCUE

The visibility and magnitude of black credit have prompted the government to take action. The priority is to eliminate black credit without disrupting rising credit demand. The first line of action is repression. Since 2018, the police have tightened controls on suspicious businesses and pawnshops and handled nearly 2,000 cases of black credit, although only 34 have led to trials.¹⁹ A few publicized operations have been praised, like the dismantling of Nam Long Finance in Thanh Hoa, a company with 26 branches nationwide which employed barbaric methods to discipline clients and employees.²⁰

The main weapon against black credit is credit liberalization, though. The government and financial actors assume that a gradual shift in borrowers’ preference for formal lending, legally binding contracts and regulations against unfair practices will deter moneylenders and, in the long run, suppress informal credit. Achieving this goal requires efforts from public and private financial actors. Recently, the State Bank of Vietnam has requested Agribank, the biggest state-controlled bank in the country, to open new branches, propose micro-financing services in remote areas through mobile banking, extend lending programmes for the agricultural sector, and develop consumer lending with unsecured

loans. At the same time, the Bank for Social Policies has introduced consumer lending packages in its poverty alleviation programmes.²¹

In addition, the consumer lending market has grown rapidly over the past decade, driven by a favourable demographic and a steady increase in income and consumption among a young and aspirational population. Major players include FE Credit, a consumer finance branch of VPBank which holds 48.4 percent of market share, Home Credit (15.7 percent), HD Saison (12.3 percent) and Prudential Finance (8.1 percent).²² Attracted by growth opportunities, foreign investors like Japan's Credit Saison and Korea's Lotte Card and Shinhan Financial Group have started to invest in consumer lending. Financial companies rely on credit cards and financial technology to improve credit access and render the lending experience faster and easier. FE Credit, for instance, has issued one million cards, provided eight million loans and compiled a database of 25 million customers since 2010. Lately, it launched \$NAP, an automated lending platform that digitizes the loan application process and shortens the time for approval and payment to 15 minutes.²³ Moreover, financial technology start-ups are betting on the strong internet penetration in Vietnam to reach consumers and overcome distrust in the banking system. Companies like Vaymuon, Tima and HuyDong are proposing peer-to-peer lending,²⁴ whereas MoMo, ViettelPay and ZaloPay are developing mobile payment systems and e-wallet apps that provide financial services.²⁵ Microfinance players also participate in the expansion of consumer lending. Some players include Microfinance Organization Limited, the Fund for Women and EVN Finance.²⁶ To smoothen financialization, the State Bank of Vietnam is also promoting financial education in line with initiatives implemented by the Vietnam Bank for Social Policies, HSBC, Home Credit and Visa International.²⁷

DEBUNKING THE MYTHS OF INFORMAL CREDIT

This all-out race for credit liberalisation rests on the superiority of a formal credit sector over an archaic informal one typified by the unscrupulous moneylender. However, this depiction of the informal credit sector is unfair, as shown by my research on moneylenders and precarious borrowers in Ho Chi Minh City.

First, the frequent conflation of informal credit with black credit is questionable. Since the launch of the Renovation reforms in 1986, informal credit has served – and continues to serve – as a powerful tool for development. In particular, small, unsecured and short-term loans have been critical in funding the needs of modest borrowers and entrepreneurial ventures. Research shows that households,²⁸ fish²⁹ and garment traders³⁰, and migrants,³¹ to name but a few actors, continue to rely extensively on informal credit. As a result, the rapid disappearance of this sector is unlikely to happen anytime soon. Furthermore, informal credit cannot be reduced to moneylending, as it is but one of its many diversified sectors. While moneylenders like Quang Rambo apply high rates and use harsh tactics, others provide cheaper, valuable and needed services to a clientele in their proximity under more lenient conditions. In my sample, neighbourhood moneylenders demarcate themselves from 'evil' black credit gangs from Northern Vietnam that make the headlines. They also stress their more lenient conditions and ambivalent motives for lending which are expressed as a

combination of profit seeking and a desire to help the community. While some try to make a living out of moneylending, others just aim at making ‘pocket money’ and help people in their circle.

Second, formal credit is often praised for being cheaper than informal credit. Yet this claim is disputable. Many banks and financial companies are actually charging annual interest rates of 40-50 percent on consumer loans.³² Although this rate is lower than that applied by moneylenders, it is irrelevant for many borrowers who take short term loans that are payable within a few days, weeks or months. One of my research informants complained that a US\$560 loan from FE Credit ended up costing US\$1,550 over three years: ‘This amount is too much so I don’t want to borrow from them. Paying in three years is too long for me. For the loans I get from moneylenders, I can pay it off faster. And if I can pay it off fast, it won’t cost as much money.’ An additional problem is that many borrowers have a hard time figuring out the real cost and the terms of consumer loans, which is often described in the fine print of the contract that not all borrowers read prior to taking a loan. This problem is aggravated by automated and depersonalized lending technologies such as \$NAP by FE Credit, which make the borrowing experience fast and easy but at the expense of clarity and transparency with regards to the terms and conditions of the loans.

Third, formal credit is described as being free from harsh recovery practices. However, research conducted in Europe shows how debt collection services harass defaulters in subtle ways to prompt repayment, carefully combining persistent calls, letters and visits that inflict stress and compromises the borrower’s mental health and family and social life.³³ In my research, some informants who borrowed from FE Credit and Home Credit complained about aggressive recovery methods involving harassment, disdain and threats, akin to those used by black credit operators. According to a moneylender in charge of a black credit operation involving pawnshops and debt collection services whom I interviewed, some banks and financial companies hire debt-collecting businesses to recover their debts for them. The irony is that some of these businesses are set up by the very same moneylenders involved in black credit operations. This explains why some borrowers are under the impression that financial companies and black credit gangs use similar harsh recovery practices. As an informant explained, ‘outlaws don’t work as hired debt collectors or assassins but set themselves up as debt collecting companies. When you borrow money from the bank and you don’t pay, the bank hires these people to collect the money from you. So basically, it’s like the bank was hiring an outlaw to recover debt. But it’s legal because the outlaw is hired by a legal company.’

Fourth, formal credit is meant to be more accessible than informal credit. However, this might only be the case if citizens are able to regularize their administrative situation. Currently, 5.6 million people or more lack household registration, including 36% of the population of Ho Chi Minh City and 18% in Hanoi according to the World Bank.³⁴ Many unregistered citizens are internal migrants who represent 13.6 percent of the population according to the UNFPA. The household registration is required to secure permanent registration and access to public services including subsidised credit and other types of consumer loans.³⁵ The reason is because policy-makers fear that internal migration will strain public services and finances. Overall, this perpetuates financial exclusion,

vulnerability and reliance on informal credit. It also prevents the rapid expansion of consumer lending aimed at neutralizing black and informal credit.

CONCLUSION

Overall, current debates about black credit in Vietnam and its magic solution, credit liberalisation, should reflect more thoroughly on the role of informal credit. They should also protect borrowers from predatory practices in the formal credit sector and prevent the accumulation of bad debts and non-performing loans. This requires regulating formal credit markets. The State Bank of Vietnam has already taken this step by issuing numerous decrees and circulars to set ground rules on transparency and culpability, and by circulating a recent proposal to limit unsecured personal loans in cash by consumer finance companies. It also requires renewed effort to be made towards registering Vietnamese citizens and future borrowers, in particular long-term migrants who form the bulk of the population of Ho Chi Minh City's and its surrounding industrialised provinces.

¹ The photos can be seen here:

https://www.google.com/search?q=quang+rambo&hl=fr&tbm=isch&source=lnms&sa=X&ved=0ahUKEwjLlurt7MLkAhXA63MBHTeWCFsQ_AUICigB&biw=1952&bih=881&dpr=2, All links have been accessed on 27/08/2019.

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³ Vietnam News Agency. *Consumer Credit Boom Expected in Next Five Years*. Voice of Vietnam. 14/01/2016. <http://vietnamnews.vn/economy/280957/consumer-credit-boom-expected-in-next-five-years-in-viet-nam.html>.

⁴ Giang Huong. *Tin dụng đen tràn về vùng sâu, vùng xa* [Black Credit Flows to Remote Areas]. Dai Doan Ket. 26/12/2018. <http://daidoanket.vn/dan-toc/tin-dung-den-tran-ve-vung-sau-vung-xa-tintuc426341>.

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⁶ An Ninh Thu Do. *Những ngón đòn uy hiếp con nợ của tín dụng đen* [Black Credit's Ways of Terrorizing its Debtors]. VietnamNet. 18/01/2017. <https://vietnamnet.vn/vn/kinh-doanh/tai-chinh/voi-bach-tuoc-tin-dung-den-nhung-ngon-don-uy-hiep-con-no-352547.html>.

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⁹ Tuoi Tre News. *Pawnshops Hives of Criminal Activity in Ho Chi Minh City: Exposé*. Tuoi Tre News. 18/05/2016. <https://tuoitrenews.vn/society/34814/pawnshops-hives-of-criminal-activity-in-ho-chi-minh-city-expose>.

¹⁰ Sy Truyen, *Đồng Nai: 'Tín dụng đen' bủa vây các khu công nghiệp* [Dong Nai: Black Credit Surrounds Industrial Parks]. BNews. <https://bnews.vn/dong-nai-tin-dung-den-bua-vay-cac-khu-cong-nghiep/104639.html>.

¹¹ Phan Du. *Ám ảnh ‘sợ đến già’ của người vay tín dụng đen* [Obsession that Frightened the Black Credit Borrowers to Death]. VNExpress.net. 06/02/2019. <https://vnexpress.net/phap-luat/am-anh-so-den-gia-cua-nguoi-vay-tin-dung-den-3877160.html>.

¹² Thanh Trung. *Tín dụng đen giăng bẫy* [Black Credit Springing Traps]. Phap Luat Plus. 08/08/2019. <https://www.phapluatplus.vn/phap-luat-plus/tin-dung-den-giang-bay-d104019.html>.

¹³ Chi Tach. *Làm cách nào để nhận diện tín dụng đen và giải pháp phòng ngừa ngăn chặn?* [How to Identify Black Credit and Preventive Solutions?]. Saigon Giai Phong. 13/12/2018. <http://www.sggp.org.vn/lam-cach-nao-de-nhan-dien-tin-dung-den-va-giai-phap-phong-ngua-ngan-chan-565250.html>.

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²⁰ Vietnam News. *VN’s Biggest Ever Illegal ‘Black Credit’ Discovered*. Vietnam News. 30/11/2018. <https://vietnamnews.vn/society/481129/vns-biggest-ever-illegal-black-credit-discovered.html#hbR0gLKoOJDjQzFx.97>, Phuong Nguyen, *Arrests Raise Loan Sharks Higher on Social Agenda*.

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