

Services for Small and Medium Enterprises by Bank for Agriculture and Rural Development

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In recent years, the Companies Law has helped increase the number of concerns. The large number of SMEs established after this law has become a market for

equitization also gave birth to many concerns of small and medium size, creating a more level playing ground for them.

The Bank for Agriculture and Rural Development

classes of clients, including SMEs. In the years 2001-06, its total loan increased by 300% and financial leasing rose by hundreds of times.

Data about its lending

The investment portfolio of the BARD changes over years. Its investments in SMEs become bigger and more diverse. BARD loan to SMEs in 2001 amounted to some VND2,300 billion equaling 3.83% of its total loan. These figures in 2006 were VND63.100 billion and 35.6% with a growth rate of 110% per year.

Main clients for its financial leasing service are also SMEs. This proves to be a positive solution to the shortage of capital. The number of SME clients increased quickly. In 2001, some 5,000 SMEs were its clients. By the end of September 2006, 20,065 SMEs used capital and 1,916 bought financial service from the BARD, along with 173,932 family businesses that borrowed money from BARD branches.

The structure of its products is diverse while long- and medium-term loan account for 33% of its total loan. Loan in foreign exchange also rises steadily, part of which is put in projects run by investment companies.

When supplying loans to SME, BARD has distributed its capital in more and more industries. However, its

Table 1: Sources of capital mobilized by BARD in 2001-2006 (VND billion)

Indicator	2001	2002	2003	2004	2005	Sep. 2006
Total capital	67,385	92,848	129,858	158,629	190,657	219,652
Mobilized capital	54,571	80,816	115,668	142,364	175,651	211,643
Trust deposit	3,845	4,602	7,487	6,010	6,465	6,759
Loan capital	8,969	7,430	6,703	10,255	8,431	1,250

credits and investment from banks. Decree 90/2002/ND-CP dated

development (BARD) has realized potential clients among SMEs and

ing in the past five years show that the average growth rate

Table 2: Loan from the BARD in 2001-06 (VND billion)

Indicator	2001	2002	2003	2004	2005	2006
Total loan	60,030	81,357	113,894	142,293	161,105	177,418
- to SMEs	2,303	9,193	20,347	35,960	49,088	63,074
- as % of total loan	3.83%	11.3%	17.86%	25.27%	30.46%	35.56%
Financial leasing	563	971	1,726	2,833	3,766	4,176
Bad debt	0.7%	2.3%	1.3%	1.74%	2.3%	2.81%

Note: Total loan didn't include investments in the inter-bank market.

Nov. 23, 2001 provided an important policy to develop SMEs by creating a favorable environment for increases in the number and improvement in operation of the SMEs. The privatization and

adopted policies to serve this market in the past five years.

Fast and firm increases in mobilized capital allow the BARD to supply more credits, change its investment portfolio and serve more

stayed around 25%. This is a high level in comparison with other commercial banks. This means that the BARD can meet the increasing demand for capital of the market, especially SMEs and rural areas.

Table 3: Loan to SMEs by industry up to Sep. 30, 2006 (VND billion)

Industry	Gross loan to SMEs	Including			
		Short term	Long- and medium term	Domestic currency	Foreign currencies
Farming and forestry	3,786	2,805	981	3,569	217
Fishery	1,588	1,144	444	1,384	204
Construction and manufacturing	21,009	11,161	9,878	19,005	2,009
Trading and service	27,261	20,378	6,524	25,262	2,000
Others	9,430	5,780	3,649	8,937	492
Total	63,074	41,628	21,446	58,157	4,917

investment in businesses with good comparative advantages such as processing and preserving farming, forestry and aquatic products is still limited.

1. On achievements and shortcoming

a. Achievements

BARD branches have been aware of the role of SMEs to the economy and the Bank as well, and they have made efforts to establish contact and offer more services to SMEs. Many branches have specialized in serving SMEs, such as Quảng An branch in Hà Nội where 100% of its loans were supplied to SMEs; Hoàng Mai 96% and Đông Anh 70%. Many others achieved the target of supplying more than VND2,000 billion to SMEs, such as Hà Tây 2,421 billion, Mạc Thị Bưởi (HCMC) 2,146 billion and Chợ Lớn (HCMC) 2,064 billion while some others in Hà Nội, Bình Dương and HCMC met the target of 1,000 billion worth of loan.

Before 2001, BARD only paid attention to the supply of credit to peasants and state-owned companies and it was reluctant to do business with private companies. Five years after, however, its loan to SMEs has amounted to VND63,100 billion (up to Sep. 30, 2006) equaling 35.6% of its total loan, its financial leasing service was worth some 4,000 bil-

lion and over 22,000 SMEs have become its clients. This means that its business strategy has experienced a basic change, which leads to improvements in its performance.

Proportion of bad debt is kept under the standard limit. This limit set by the SBV is 5%. The BARD highest level was 2.81% (in June 2006) and the lowest one was 0.7% (in 2001). This result has made the BARD management more determined to serve SMEs as its most important group of clients.

BARD has invested in all stages of production by SMEs, from purchasing raw materials, processing and exporting their finished products. This approach allows the Bank and SMEs to establish better cooperation in controlling the use of capital and improving their business performance. Up to Sep. 30, 2006, 1,931 SMEs have used BARD loans for their export and import businesses.

Most SMEs have maintained long-lasting relations with BARD after becoming its clients. At present, 9,492 SMEs borrowing a total loan of VND5,102 billion have been BARD clients since the days they were only private persons or family businesses. These relations turned them into trustworthy clients to the BARD.

BARD has expanded its international cooperation in supplying credit to SMEs. BARD is now carrying many projects trusted by the WB, ADB and AFD to provide loans to SMEs in rural areas up to over VND500 billion and 5.5 million euro.

Increasing the supply of loans to SMEs means expanding the range of services offered because SMEs, unlike peasants or family businesses, tend to use many other services besides borrowing money, such as making local and international payments, bank guarantee, advisory services, etc.

b. Shortcomings

- Some policies adopted by the Government are slow to be carried out or lack consistency, such as policies on land leasing, taxation, accounting system and financial reports. For example, the Decision 193/2001/QĐ-TTg dated Dec. 20, 2001 made by the PM on establishment and operation of the Fund for Credit Guarantee – a good solution to the cooperation between banks and SMEs – failed to produce intended results after five years of implementation. And as a result, SMEs still meet with difficulties in securing bank loans while banks couldn't find as many feasible and profitable projects as expected.

- Policies adopted by the BARD failed to dif-

ferentiate between big companies, SMEs and private persons, which makes it difficult for branches to classify their clients and implement lending policies because many SMEs couldn't meet requirements based on standards for big or state-owned companies.

- The system of supplying information about trustworthiness is not adequate. Information from the SBV credit information service is not exact and detailed enough while internal information service of BARD hasn't been fully developed.

- Limitations in SMEs also hinder them from securing bank loans: their real assets are usually lower than their registered capital; their accounting books are not transparent enough; ownership of assets in many SMEs is not clear; their business plans are not properly worked out; some SMEs show signs of fraud, speculation or deception, etc. These facts discourage potential investors.

2. Measures to improve loan quality in serving SMEs

a. Strategic targets

- Working out targets of the supply of loans to SMEs by identifying sources of capital mobilized for them, their share in the total loan supplied, or conditions for them to get preferential treatments, etc.

- Developing package services for SMEs in cities, industrial parks, or rural areas.

- Building a mechanism for controlling risks by perfecting professional operations, working managerial limits and measures to distribute risks; preserve assets; and maintain disciplines in observing administrative and financial regulations.

b. Professional mechanism for serving SMEs

- The operating machinery must be specialized by establishing a system comprising an SME Board at BARD Head Office and SME departments in its branches. The SME Board will study policies and operations, and set targets in terms of capital and products for SMEs; and SME departments are responsible for marketing and supplying products to SME clients.

- More training courses in business administration, law, risks handling, and people skills should be given to BARD employees in order to help them serve SMEs more effectively.

- A pilot scheme to build branches specializing in SMEs in cities, industrial parks and traditional guilds could be carried out.

c. Standardization of mechanisms and procedures for supplying services to SMEs

- Client policies based on strategic objectives should be clear and consistent, and materialized in investment lines, interest rate, preservation of assets, risks settlement, etc. for each market segment.

- Procedures and operations must be appropriate to each class of clients and compliant with ISO standard.

- In delegating authority to the branch management, responsibility for processing information and approving applications for loans within the time limit, etc. must be made clear. The delegation of authority must be linked with direct supervision by the head office through IPCAS system.

e. Product package for SMEs

Different packages suitable for different

SMEs must be worked out because they operate in various industries and differ from one another in managerial skills. This effort may help the bank get access to more SMEs.

f. A system for rating the creditworthiness

The system can rate different clients in terms of creditworthiness according to different scales, and SMEs could be estimated according to factors relating to business owners rather than financial indicators.

g. Systems supporting the management

- The internal information system must help the BARD Head Office keep a close watch on SEM clients after going on the loan schedule and the information could be sent to branches when necessary.

- On the BARD website, sources of information needed by SMEs (lending policies, banking products, procedures, sales promotion campaigns, etc.) must be available.

h. Better relations

- The Bank should beef up its relations with trade associations of SMEs in order to gather information about their needs and business performance, and help them deal with difficulties if need be.

- The BARD can secure financial support from international financial institutions to provide SMEs with more long- and medium-term loans.

- Policies to give preferential treatment to clients based on their track records and seniority could be worked out and made known to SMEs. ■



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