

# Some Measures to Enhance Performance of Long An-Based Commercial Banks

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## I. FACTS OF LONG AN-BASED COMMERCIAL BANKS' ACTIVITIES

### 1. Achievements

Long An is a potential province in the Mekong Delta so it requires essential motivations to tap its resources. One of these important motivations is to

commercial banks in Long An Province have made great efforts to attract deposits and offer loans to local businesses. Their outstanding loans soared year by year, especially in recent years (1998-2003), registered an average growth rate of 30% per year. For example, it was

growth posted 4.5 times by December 31, 2003. This shows the provincial commercial banks have recorded significant achievements over the past years.

The above table indicates a steady increase in provincial banks' outstanding loans, the following are more details about this

In the early years of changing into the market economy and complying with regulations of the Ordinance on State Bank, and the Ordinance on Credit Institutions and Cooperatives, the medium and long-term capital source was limited, thus, the ratio of medium and

Table 1: Commercial banks' short, medium, long-term outstanding loans from 1990 to 2003 (VND billion)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Short term	127	156	219	261	348	460	499	641	691	811	1,101	1,367	1,877	2,660
Medium and long term	19	22	22	43	41	40	106	170	243	251	325	501	1,011	1,516
Total	146	178	241	304	389	500	605	811	934	1,062	1,426	1,868	2,888	4,176

Source: Reports of the Long An Branch of Vietnam State Bank

Table 2: Outstanding loans by business forms from 1996 to 2003 - (VND billion)

Year	1996	1997	1998	1999	2000	2001	2002	2003
1. State businesses	274	347	405	293	360.4	395.9	478	369
2. Cooperatives	4	4	4	4	0.3	0.3	n/a	1
3. Private businesses and limited companies	16	25	32	55	88.3	230.1	512	329
4. Family and self-employed businesses	311	435	493	710	977	1,241.7	1,898	3,477
Total	605	811	934	1,062	1,426	1,868	2,888	4,176

Source: Reports of the Long An Branch of Vietnam State Bank

Table 3: Outstanding loans by economic sectors from 1996 to 2003 - (VND billion)

Year	1996	1997	1998	1999	2000	2001	2002	2003
1. Agriculture, forestry and fisheries	313	442	579	665	1,075	1,166	1,445	2,183
2. Manufacturing	73	89	136	141	119	132	225	279
3. Construction	93	162	76	81	57	99	198	282
4.	51	55	60	80	162	456	1,016	706
5. Others	75	63	83	95	13	15	4	726
Total	605	811	934	1,062	1,426	1,868	2,888	4,176

Source: Reports of the Long An Branch of Vietnam State Bank

increase banks' loan capital to meet the province's socio-economic development. Over the past years,

34% in 2000, 31% in 2001, and 55% in 2002. Therefore, as compared to December 31, 1998, the

achievement.

1.1 Increased ratio of medium and long-term loans

long-term loans always stayed low, only reaching 13% 9 from 1990 to 1997.

Since the promulgation of the Law on State Bank and the Law on Banking Institutions until now, the business climate of credit institutions have been more favorable. Along with rising growth of outstanding loans, the share of medium and long-term loans has seen a promising change (an average rate of 28% from 1998 to 2003); especially from 2000 until now (29% in 2000, 26% in 2001, 35% in 2002 and 36% in 2003). The medium and long-term outstanding loans reached only VND19 billion at the end of 1990, but rocketed to VND 325 billion in 2002 and 1,516 billion in 2003. This shows banks loans have been focused on intensive investments.

1.2 Loans by economic sectors

Local banks have implemented the Government assistance policy for the development of different economic entities, indi-

cated by positive changes in providing loans. Bank credit has been evenly distributed to various sectors.

The above table indicates outstanding loans of various economic sectors (not including cooperatives) are increasing steadily over year. Local commercial banks have strived for finding new clients and expand investment portfolio to different sectors in the province.

1.3 Bank credit helps implement local economic structuring:

The above table reveals the outstanding loans of manufacturing, trade and service sectors increase over year. Although the agriculture, forestry and fisheries sector still takes the better part, but the province has tried to change this situation and promote the ratios of other sectors.

1.4 Regarding market shares of credit investment:

The province's branch of Vietnam Bank for Agri-

ing Development Bank (recently established in late 2001) are enlarging their investment portfolio. On the other hand, several HCMC-based commercial banks are expanding their market shares to provinces including Long An. As a result of this, Long An commercial banks will encounter increasingly harsh competition in the credit market.

It is noteworthy that the competition between credit institutions in the province is stimulated to bring interests from financial services to customers. However, this competition must be under control to prevent tricks and violations of common regulations which lead to turmoil in the banking system.

#### 1.5 Credit quality:

With the motto of safety, practicalness, and efficiency in operations, commercial banks have built their plans in accordance with each bank's characteristics in order to

2.1 Commercial banks have not yet used enough forms of bank credit to make the best use of their advantages: Over the past years, the provincial commercial banks' operations have been focused on only capital mobilization and loan offer. They have not implemented effective measures to encourage and attract clients to use other services including: discount, guarantee, document credit, finance leasing with the aim to diversify capital allocation.

2.2 Local banks have step by step expanded their branch networks. However, they sometimes did not satisfy customers' requirements for capital in production and business on time, especially those living in remote areas.

2.3 Although medium and long-term loans have increased over year and reached a high ratio (about 36% of total outstanding loans by December 31,

which result to rather large risks:

- Several banks have not yet made strict inspections over the aim of using loans, and offered loans without complying with basic principles, conditions and procedures. This is very dangerous to commercial banks because they are more likely to lose capital or increase overdue debts.

- Banks have not scrutinized borrowers' mortgages and assessed their value impractically. As a result, when liquidating these mortgages, they could not retrieve their loans, both principal and interest. In addition, the mortgages sometimes do not belong to the borrower...

- Customers used one bank's loan to pay to the other bank. Bank officers have not yet understood customers' financial position.

- Overdue debts have been given repayment extension many times, and the extended time was longer than the loan term.

- Loans have been offered to wrong targets. Banks sometimes gave loans to customers doing business not in compliance with their license.

- The loan term was not appropriate to the borrower's real demand.

## II. SOME BASIC MEASURES TO ENHANCE COMMERCIAL BANKS' PERFORMANCE

In recent years, the provincial commercial banks' activities have been exposed to potential risks, especially in credit investment. As such, the study to enhance their performance is extremely important and decisive to their survival and development.

### 1. Measures to expand and improve credit performance of commercial banks

Source: Reports of the Long An Branch of Vietnam State Bank

culture and Rural Development always keeps a market share of 55%, the branch of Vietnam Bank for Industry and Commerce 17%, and the branch of Vietnam Bank for Investment and Development 10%. The two remaining banks – the branch of the Mekong Delta Housing Development Bank and the Rach Kiến Joint Stock Commercial Bank for Rural Development – take only 18% of market shares. Nevertheless, at present, the provincial branch of Vietnam Bank for Industry and Commerce and the branch of the Mekong Delta Hous-

secure their capital source. Table 4 shows the provincial commercial banks' overdue debts, on the whole, always remain in the limit permitted by the Vietnam State Bank.

Nevertheless, recently overdue debts and bad debts tend to soar and arise in all credit institutions. The reason is that credit investment in state-owned enterprises has revealed a lot of risks. On the other hand, loans given to the agricultural sector are also faced with many dangers out of expectation.

### 2. Restrictions

2003), capital invested in the manufacturing and construction sectors remains low (10% of total outstanding loans by December 31, 2003).

2.4 The structure of credit investment in various economic sectors has been compatible with the provincial growth rate. However, loans given to the farm economy have still stayed too low (1% of total outstanding loans by December 31, 2003) and the cooperative sector has almost received no investment from 1996 until now.

2.5 Credit activities also reveal shortcomings

1.1 To continue expanding the networks with the aim to meet capital requirements in the province's industrialization and modernization as follows:

- To build branches in residential areas concentrated in industrial parks, towns, market places...

- To use mobile banking network (home banking) even in villages, hamlets, economic units...

- To expand and strengthen the network of commission service agents to villages, communes, towns, economic entities...

1.2 To fully utilize investment forms of bank credit, including loans, discount, guarantee document credit, finance leasing...

1.3 To diversify loans such as loan for each item, loan according to credit limit, syndicate loan, loan for installment (loan for spending), loan according to reserve limit or over-drawing limit...On the other hand, the diversification of loans should be attached to the enhancement of loan efficiency both in the two fields: short-term loans and medium and long-term loans.

## 2. Measures to prevent, restrict and settle risks

### in credit activities of commercial banks

2.1 To differentiate customers and decide credit investment: Due to professional requirements, the establishment of corporate profiles and classification of borrowers have specific features. The bank has to monitor financial position of each customer, and depend on records and their business performance, especially their suppliers of goods and materials and their markets to classify customers on an impartial basis. This is extremely important information for banks' offering loans.

2.2 To promote credit quality:

- To regularly review each loan:

+ Regularly or randomly consider customers' production and business efficiency.

+ Regularly scrutinize and inspect legal documents, mortgages with the aim to soon discover shortcomings in the implementation of lending process and determinedly carry out proper settlement and overcome these shortcomings.

- Mortgage is a major tool to secure bank loans

and help banks make bold decisions in offering loans.

### 3. Prevention of risks

The market economy always holds risks, especially in the money market and credit activities. To prevent risks in banking activities, the following measures should be taken:

- To complete and heighten efficiency of the center for credit information:

+ The central bank should learn experience and continue perfecting the regulations on the center for credit information. This institution's activities must be practical and effective in such fields as: collecting information, analyzing, assessing and rating enterprises and storing information; and providing information at enterprises' request.

+ Commercial banks and the center for credit information should fulfill their roles and responsibilities in providing information concerning customers as well as keep secret all information in compliance with the State Bank's regulations.

- To implement registration of assurance transactions in compliance with

Decrees 08/2000/NĐ-CP dated March 10, 2000.

- To scatter risks: Local commercial banks have to co-finance each specific project and business. Initially, the Long An Branch of State Bank may preside in studying, learning experience and implementing the banks' co-financing.

- To promote efficiency of inspection and internal auditing.

### 4. To settle debt arrears

This is a thorny problem. However, it is still solvable if the machine of law enforcement is strong enough.

In short, over the past years, local banks have revealed certain restrictions, so their competitiveness is not high. They are required to implement the following measures to boost up their performance: to build a strategy for credit activities, improve credit management; restructure the banking system, renovate the personnel task; apply information technology; enhance the inspection, supervision and internal auditing; at the same time, to classify customers, diversify loans, promote credit quality; prevent risks and settle debt arrears. ■

