

# SOME DIRECTIONS FOR SUPPLY OF BANKING SERVICES TO SMALL AND MEDIUM BUSINESSES

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**A**lthough the supply of banking services has witnessed many improvements in recent years, it was still concentrated in big cities and many concerns, especially small and medium businesses still meet with difficulties in securing banking services. There are various causes of this situation: many banks have no trust in private concerns, discrimination against the private sector is widespread, the legal infrastructure is imperfect, most banks have limited sources of finance, etc.

We want to present here some direction for the supply of banking services to small and medium businesses under current conditions.

## 1. Services for businesses

a. Settlement service: Some banks have introduced electronic settlement service and it is welcomed by customers. Certain state-owned and joint stock banks have issued credit cards and other electronic banking services. However, only a handful of banks engaged in the electronic settlement system and this service is still less common than the use of checkbooks. This situation is due to the following causes:

- The average personal income is still low with the result that most people, including employees of banks, aren't in the habit of using settlement service. In addition, procedure for making settlement through banks is still time-consuming and not flexible enough to persuade customers.

- The legal infrastructure for the electronic settlement isn't strict enough to ensure security for customers.

- Technologies applied by banks aren't customer-oriented, diverse and suitable enough to meet demand by companies and customers.

b. Mobilization of capital: Most local banks have considered the interest rate and quality of service as tools for attracting idle money from the public and companies. The supply



Photo by Hoàng Tuấn

of capital has been improved over years. The inter-bank market for capital in the domestic currency came into being in 1993 and the market for foreign exchange was operational in 1994. The trading volume rose steadily, from US\$58 million a month in 1997 to some US\$1 billion in 2000. However, the source of capital mobilized by banks didn't come up to expectations. In 1998, the mobilized capital equaled only 34% of the GDP while this figure in China was 117%, and over 90% in Thailand and Indonesia.

Causes of this shortcoming are as follows:

- Methods of attracting idle money are obsolete. Traditional services are lifeless while new ones are deployed inconsistently.

- The circulation of sources of finance on the money market is slow although many measures have been taken (reducing the required reserve ratio, exempting economic concerns from the obligation to sell foreign exchange to state-owned banks, increasing the band around the exchange rate, etc.)

- The open market operations have been launched but commodities

traded on this market are poor in terms of quantity, maturity and classes. Most of these commodities have poor liquidity while T-bills are considered as a shotgun solution.

- Personal saving is small which limits the bank's ability to mobilize idle money from the public.

c. Supply of bank credit: Besides traditional credits, many banks have supplied new kinds of credits (finance leasing, co-financing credits, etc.). In addition, new and open regulations introduced by the central bank and progressive policies adopted by the Government have paved the way for such new services as finance leasing or co-financing credit.

These new services, however, haven't produced intended results because they are new to local business circle. Up to now, they represent only a 0.2% market share.

Generally, the supply of bank credit contains many shortcomings:

- Most banks meet with difficulties in deciding whether a business plan is feasible or not. This indecision prevents them from extending more credits to companies.



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- Legal basis for assets of many companies isn't completed and couldn't be used as security for bank loans. Necessary solutions should be worked out to determine the value of assets of companies, especially land and factory buildings.

- Slow settlement of overdue debts affects badly the financial situation of banks. A measure that requires customers to promise safe transaction has been introduced but it is still very new to the public.

- Information about customers is very limited. Up to May 2002, the credit agencies run by banks have gathered information about some 117,000 customers while the General Department of Statistics could supply information about 3,500 out of 5,600 state-owned companies. The shortage of information also limits the supply of bank credit to companies.

- d. Advisory, underwriting and insurance services: Most banks haven't paid full attention to these services while they could help both companies and banks reduce risks. This situation comes from the lack of expertise from both banks and company customers.

## 2. Solutions for the problems

- a. Expertise in banking services: This problem seems simple but it is new to most managers. That is why they couldn't get access to banking services while they are badly in need of them. Under current conditions, small and medium companies find it difficult to recruit personnel with such a knowledge, so their manager have to feel free to ask for advisory services from banks and get ready to

pay for these services. In addition, training centers and universities must review their curricula with a view to developing high-quality human resource that meets the market demand.

- b. Full knowledge of legal matters: Knowledge of law and regulation could allow companies to protect their interest legally. Before making contact with banks, managers should study banking regulations and procedures. To meet requirements posed by banks means to secure bank credits because all banks need creditworthy customers and will try their best to maintain good relations with such customers. Many managers get into the habit of thinking that they have to do something under the table to get bank loans while the fair competition force the banks to make their business more transparent to attract more customers.

- c. Better services: Banking institutions must improve their services instead of paying too much attention to their requirements posed for customers without ensuring better services for them. Bank managers should study how to introduce new services and practices to local customers under the current conditions if they want to increase the number of creditworthy customers. With their expertise in banking services and laws, they can help companies to make the best use of available sources of finance. It's the financial strength of customers that ensure profits for banks.

Bank managers should modernize their banking facilities and technologies and training their personnel in these technologies because the qual-

ity of the personnel will decide the business success of banks.

Banks must pay more attention to non-public companies. While most state-owned banks tend to look for public investment and low-interest loans from the Government, companies in non-public sectors are badly in need of bank credits. A source of information from the Ministry of Industry said bank credit accounted for only 11% of planned investment made by 22 state-run corporations in 2002. Therefore commercial banks should know that their principal customers could only be found in non-public sectors. And their should think of this problem before foreign banks attract these customers.

- d. Macroeconomic environment: The Government, under the current conditions in Vietnam, always plays an important role through adjustments made to the macroeconomic environment.

- It should perfect the legal infrastructure and law enforcement as preconditions for healthy economic development. At present, two current Banking Ordinances prove unsuitable for the banking business and they need amendments.

- The Government should refrain from intervening into business of banks, including the state-owned ones. Intervention in the interest rate in recent years is a good example of such unnecessary intervention.

- The central bank must try its best to increase the working capital for the state-owned commercial banks in order to help them play well the leading role in the banking service, especially in cooperate with foreign partners when necessary. ■