

Support from Banks to Small and Medium Enterprises

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1. Role of SMEs in the economy

When the economy grows, small and medium enterprises (SMEs) aren't necessarily merged with big groups, but they can also develop close cooperation between themselves. Their role is even more important in emerging economies like Vietnam's. This reflects in the following facts.

- SMEs supply a lot of goods and service to the market: Local SMEs account for 90% of some 230,000 companies in Vietnam. Its share in the GDP rose from 8.01% in 2002 to 9.02% in 2002, 24% in 2004 and 26% in 2006.

- SMEs create a lot of new jobs: The working population of Vietnam increases by one million every year while the public sector fails to supply enough jobs. The reform in this sector has reduced the workforce and increased redundancy. In such a situation, SMEs in the private sector have helped attract and employ young laborers, redundant workers from the public sector and discharged soldiers.

In 2002, private sectors accounted for 79.1% of 1.42 million new jobs created. According to an estimate, SMEs in 2006 created 49% of non-farming jobs in rural areas and employed some 26% of the working population.

- SMEs mobilize idle money: The privatization and equitization of state-owned SMEs has mobilized a large quantity of idle money from the public. In 2002 HCMC witnessed establishment of some 7,600 enterprises with a total capital of VND12,550 billion. This shows that SMEs can attract a lot of money from residents. In that year, the non-public sector accounted for 28.8% of the gross investment; 2,225 projects enjoying preferential treatment by the Domestic Investment Encouragement Law; and 234,899 new jobs.

- SMEs help enhance the general business performance: With their small capital and workforce, SMEs can easily move from this industry to another. They usually play an important role in supply and distribution of goods, supply of services to big companies. At present, SMEs account for some 31% of the industrial output; 78% of retail sales and 64% of passengers and goods transported.

- SMEs help make the best use of local advantages: SMEs play an important role in making the best use of local resources, such as labor, land, natural resources for the economic growth. That is why

many policies have been adopted to encourage SMEs, farms and traditional guilds in rural areas.

- SMEs develop relations with state-owned corporations and international groups: In the past few years, this relation is only in forms of supply of raw materials, subcontract work and distribution outlets but this is a new direction for their development when integrating into the world market.

2. Difficulties for SMEs today

Procedures for registering business are not uniform between central and local authorities. Many provinces could only establish an office for business registration under the provincial service of planning and investment but this office lack both financial source and skilled officials. That is why tasks of supervising companies and SMEs are not carried out well enough to discover violations of law and handle them on time.

Most SMEs face discrimination from local authorities. They usually fail to get the same treatment given to state-owned and foreign companies regarding such problems as bank loans and land lease with the result that they could not expand their businesses and replace old technologies. At present, 44.44% of local companies have working capital of less than VND one billion and only some 10% of them (mainly foreign-invested ones) employ modern technology.

SMEs have no agency that helps form cooperation between them and big companies, which leads to their poor competitiveness. Most managers of SMEs have no formal education in business management and tend to do their jobs based on personal experience. Statistics show that 55.63% of business owners have secondary education or lower and 38% are graduates.

Most laborers in SMEs lack formal training and usually get training from members of their families or technicians in their companies. That is why they lack ability to improve their performance. Statistics show that only 5.65% of SMEs need training courses in technologies.

3. Difficulties in securing bank loans

Most SMEs face financial difficulties because they have no assets to mortgage to banks. In addition, most banks can only offer short-term loans at high interest rate, so SMEs couldn't find loans of medium or longer terms while the law hasn't allow

them to get access to foreign sources of loans. The shortage of capital also prevents SMEs from employing new technologies needed for improvements in their productivity, product quality and competitiveness. Many SMEs employ machines of different sources and levels

According to a survey, only 32.38% of companies can get access to loans from state-owned banks (and most of them are state-owned or equitized companies); 35.24% get access with some difficulties and 32.28% get no access. as for loans from foreign financial institutions, 48.65% of companies can get access to; 30.45% get access with some difficulties and 20.29% get no access.

4. Measures to improve banks' support for SMEs

a. In banks

(1) Increasing working capital: Banks can issue ordinary and preference shares to increase their working capital. Although the stock market has been operational for seven years, only two banks, Saigon Thương Tín and ACB, have their shares listed in the market. It will be a long time before banks consider listing their share in regional stock markets, such as ones in Singapore, China and Thailand. An important measure to increase the working capital considered by commercial banks is to sell shares to finance companies, financial institutions and foreign banks. Besides external source of finance, banks can increase their working capital by making the best use of their retained profit.

Private commercial banks had better develop their network of branches, especially in provinces in the Central Vietnam instead of concentrating in Hà Nội and HCMC alone. Networks of ATMs can also help banks increase the supply of short-term deposit at low cost. In addition, banks should promote traditional ways of mobilizing idle money.

(2) More attention to company customers: Banks had better allow companies more flexible terms of payment in which the longer the term of payment, the lower the interest rate. This policy helps companies become more proactive in borrowing and repaying debts and avoid a situation in which companies have to pay interest to banks while they are holding amounts of idle capital.

(3) Marketing bank services to companies: Most banks fail to market their services to company customers and tend to wait for them to ask for services or loans, which leads to higher degrees of risk for banks.

Banks can examine track records of companies and market their services to trustworthy ones, or even offer advisory services to them if need be, thereby reducing repayment risk. Small and medium enterprises are not considered by banks as

important customers with the result that they have to go to banks to get information about services they need. Banks had better establish information offices responsible for this task, thereby expanding their customer base.

(4) Supervising the use of loans: At present, most banks fail to carry out well this task. They only examine closely borrowing plans submitted by companies. Supervision of the use of loans can help banks reduce repayment risk and prevent wrong use of loans by companies. When discovering such ways of using bank loans, banks can take measures to retrieve the loans thereby reducing percentage of bad debts.

(5) Training programs for loan officers: When recruiting new employees, banks should check their experience and recommendation letters. At present, the supply of skilled laborers in the banking sector is very limited, so the banks can cooperate with universities to select students with good records, allow them to do practices at banks before recruiting them after their graduation. After recruitment, banks should give regular training courses to their employees in order to improve their performance.

(6) New views on credit safety: When deciding in loans for customers, banks should pay attention to various conditions of the customers instead of examining only their mortgaged assets, such as their track records, competitiveness of the company, skill and experience of company's management, and their financial strength, etc.

(7) Policy on fiduciary loans: This kind of loans may increase quickly the customer base of the bank. If the bank carry out close investigation of the company customers and adopt appropriate policies, it can reduce remarkably the repayment risk.

b. In SMEs

- Developing more professional accounting departments in order to make its books more persuasive and attractive in the eyes of banks' loan officers.

- Stopping making two financial statements (one for the bank and one for tax agency) because this practice can make the company less trustworthy to the bank if it is discovered.

- Carrying out all transactions and payments through banks: this practice may reduce some expenses on the accounting and cashier department and pave the way for the availability of bank loans for them in future.

- Joining at least one trade association in order to get its support when securing bank loans.

- Carrying out regular training courses for employees in order to encourage them to become more attached to the company: This will be a good mark in the eyes of loan officers.■