

# More Bank Loans to Vietnamese SME

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## I. SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)

### 1. Concept and criteria for classification:

There is no general definitions or standards of SMEs, because they are different in various countries and depend on each development stage of those countries. However, they are not large enterprises as compared to the whole economy of one country.

The criteria commonly used to identify SMEs include: total capital, value of fixed assets, number of permanent workers, contribution to GDP, profit, capital per worker...based on each area of business. The two of which, capital and number of workers, are widely applied.

The SME criteria in several countries in the 1990s are as follows:

- Japanese analysts use legal capital and number of workers to identify SMEs in each industry as shown in Table 1:

Table 1: Japanese SME criteria

Industry	SMEs		Small enterprises
	Capital	Number of workers	
Mining, manufacture, transport and construction	≤ 100 million yen	< 300	≤ 20
Wholesale trading	≤ 30 million yen	< 100	≤ 5
Retail trading and service	≤ 10 million yen	< 50	≤ 5

Source: Dr. Yoon Bac Ouh, *Experience and Manual of SME Development in the World*, p. 28

Germany is one of highly developed countries in Europe, the size of business is based on the number of workers and sales.

- Features of each industry
- The goal of identification and policy meaning;
- Historical factor.

Table 2: German SME criteria

Size of enterprise	Number of workers	Annual sales
Large	≥ 500	> 100 million mark
Medium	10-499	1-100 million mark
Small	≤ 9	< 1 million mark

Source: Dr. Yoon Bac Ouh, *Experience and Manual of SME Development in the World*, p. 30

- South Korea mainly uses the number of permanent workers:

There is a gap in SME criteria between different countries in the

In Vietnam alone, there were previously a lot of suggestions of SMEs criteria. The article on the *Lao Động - Xã Hội* Magazine, June 1994, for

Table 3: South Korean SME criteria

Industry	Medium size	Small size
Manufacture, mining, transport	21-300 workers	> 20 workers
Construction	21-200 workers	> 20 workers
Trading and other services	6-20 workers	> 5 workers

Source: Dr. Yoon Bac Ouh, *Experience and Manual of SME Development in the World*, p. 99.

Industry	Capital	Employment
Manufacture, construction	VND 10bil.	500 persons
Trading, service	VND 5bil.	250 persons

Industry	Registered capital	Employment
Manufacture and construction	VND 5bil.	200 persons
Others	VND 3bil.	150 persons

world as mentioned above because the classification depends on a lot of determinants such as:

- Characteristics and development level of one country;

example, titled "Criteria to Identify SMEs" by Nguyễn Hải Hữu, gave the following proposal:

According to the Deputy Director of the Industry Department, Ministry of Planning and Investment, Mr. Đỗ Văn Hải in his writing "Some Opinions about the Orientation of SME Development in Vietnam", the SME criteria are suggested as follows:

So far, based on real conditions of the country along with urgent requirements for SME promotion, on November 23, 2001, the Government promulgated Decree 90/2001/NĐ-CP on "assistance for SME development". Article 3 of the decree points out: "SMEs are independent businesses which already registered in compliance with law and have less than VND10 billion in registered capital and not more than 300 workers per annum."

Also in this decree, the SMEs are given more details of definition, including:

- Enterprises set up and operating in accordance with the Enterprise Law;
- Enterprises set up and operating in accordance with the State-owned Enterprise Law;
- Cooperatives set up and operating in accordance with the Cooperative Law ;
- Family businesses registered in compliance with Government Decree



02/2000/ND-CP dated February 3, 2000 on business registration.

These above provisions on SMEs have a relative meaning and depend on the country's conditions in each development stage and specific objectives.

## 2. SME characteristics and role:

### a. Characteristics:

SMEs have advantages as compared to large businesses as follows:

- starting up easily;
- operating effectively with low fixed costs;
- having not large size and thus easily managing;
- being dynamic and keen;
- easily promoting cooperation;
- facing less conflicts between employees and the employer;
- being diversified in the scope of activities;
- spreading widely across the country...

However, SMEs still encounter certain limitations due to their modest size. They face restricted financial strength, poor competitiveness and impossible access to modern technologies.

### b. SME role in Vietnam's economic development:

In spite of their small and medium size, their role is not actually small. They have implemented and proved their significant role not only in developed countries but also in developing and less developed ones.

The following table will indicate the contributions of SMEs and their important performance in the economy of several nations:

SMEs have different role in each country, however, they have main roles as follows:

- To create jobs for workers:
- The development history of devel-

them up because they can adapt themselves easily to market fluctuations. As a result, they do not reduce their staff and even offer jobs to redundant workers in the economy.

- To generate income for workers:

SMEs make positive contributions in the process of income distribution and social equitability since they develop the middle class and at the same time alleviate poor people in the society. The SME development not only solves the employment problem but also generate income for labor due to low unemployment rate.

- To make the best use of social resources to spur economic development and increase the volume and quality of commodities and services:

Capital: Most of SMEs are privately owned. They operate in industries which are appropriate to their size.

Labor: They may employ workers in a wide range of ages and levels, from untrained to highly skilled workers, in many industries and localities because their activities are diversified. Therefore, SMEs are job training centers with least costs.

Technology: SMEs select technologies in accordance with their capital and workers' skill. They apply numerous forms of technologies: from handicraft to mechanization and automation; and from tradition to modernization. Each technology has its own advantages and shortcomings, the best use of all available technologies is a must, especially in the economy of developing countries.

Raw materials: SMEs are able to approach material producing areas, even though they are small and distant, especially for areas to which large corporations find hard to make access. Besides, to use materials ef-

dance allow them to break monopoly and establish an environment of free competition. Besides, SMEs do not want to rely on the Government protection. They are ready to accept free competition and find how to exploit all opportunities for business expansion.

- To act as a satellite of large corporations:

Large corporations often need co-operations from their satellites including SMEs. These SMEs may be suppliers of input materials and services, or middlemen which consume corporations' output. They may also process some parts of products for large corporations. As a result, the SMEs' existence and development are very crucial to production and business process of large corporations.

- To make significant contributions to the process of economic accumulation and build preconditions to become a large corporation:

Because SME's marginal profit is usually positive, they tend to retain a part of their profit for reinvestment in production expansion. Just because of this, the SMEs' development process is also the process of capital accumulation, market extension, business cooperation, etc.

Furthermore, due to low costs, the business start-up by SME form will create conditions for testing new products and for progressing into large corporations.

- To help promote the national export value and localization ratio of products

Because SMEs' activities are dynamic and keen, allowing them to manufacture goods for export or for import-substitute. In particular, SME's expansion will boost potentials of traditional careers in localities, especially for fine art handicraft, which is also able to earn a large amount of foreign currency.

Based on SMEs' important role, this form must be enhanced.

Table 4: SME role and performance in selected countries

Country	% of total enterprises	% of total labor	% of GDP contributed by SMEs
Japan	99	79	56
German	99	60	50
Singapore	92	48	29
Philippines	99	55	28.1

oped industrial and developing economies and even Vietnam in the early time of renovation shows when the economy faces doldrums, large corporations often downsize their production and lay off employees to slash costs. In contrast, SMEs maintain their operations and even boost

fectively is one of SMEs' strong points.

- To help maintain free competition and reduce monopoly:

Large corporations enjoy favorable conditions for monopoly due to their large size and scarcity. The SMEs' dynamic, keenness and abun-

## II. BANK CREDIT FOR SMEs IN VIETNAM

### 1. Bank credit expansion for SMEs is a must:

The bank credit expansion for SMEs will open an opportunity for rapid and sustainable growth of the system of commercial banks.

First, the capital mobilized by credit institutions tends to increase due to rising accounts of saving and payment. The reason is that SMEs' fast growth contributes to enhancement of volume and mobility of com-



modities in the economy, therefore, the amount of payments soars, especially payment via banks. On the other hand, SMEs' expansion will establish a foundation for growing income of the people, thus help promote deposits of public and even SMEs.

Second, in respect of lending, the proportion of loans given to state-owned enterprises is falling because this sector begins to reveal certain limitations. As a result, SMEs become a potential market for banks to expand their credit activities and diversify their investment portfolio.

## 2. Features of credit activities for SMEs:

To give loans to SMEs has its own characteristics unlike those of large corporations.

- To assess the solvency of SMEs requires less time and energy as compared to examination of a large corporation and the formalities are simpler because SMEs' operations cover a not large area and they are easily monitored and supervised.

- Bank credit officials often face less troubles in meeting SMEs' managers and asking for checking the enterprise' account books and vouchers. Nevertheless, the challenge in assessing conditions for lending falls in the enterprise's limited ability to present financial and accounting figures, and make estimates and business plans. SMEs' financial statements do not indicate sufficient evidence of their business and production activities, there are no cash-flow report or they are often not exact and transparent and not audited. Especially in most of SMEs, their ac-

counting does not follow common standards, they only open books and make cursory entries. They even do not establish financial statements. Most of them are not able to build estimates and long-term business plans; and even a specific plan attached to the borrowing dossier is not carefully compiled and has many unreasonable facts.

- The risks in lending SMEs are often much higher than those in large corporations' loans. The reasons are: first, SMEs are easily set up and thus easily terminated; second, the business owner's managerial skill is not high, so they are more likely to suffer losses; third, information about SMEs on the market is very limited, and not easily found as that about large corporations...

- Loan interest rates are often high to compensate high risks in this form of lending. For large corporations which produce profits and are creditworthy, there is a harsh competition between banks in attracting customers. Their common and widely used tool is interest rate. As a result, large corporations often enjoy low interest rates. In contrast, banks rarely use the tool of interest rate in competition for giving loans to SMEs, instead they often use major measures such as: simplifying lending formalities, increasing loans, reducing the proportion of mortgage...

- The average loan cycle for SMEs is much more different than that for large corporations because SMEs have less cycles of short-term capital than those of large corporations (they are not lent by the credit limit mode); however their cycles of medium and long-term capital are more

because banks restrict long-term loans for SMEs, the lending term is not over five years, and from two to three years on average, while large corporations may be offered longer terms, up to ten years or more.

## 3. Role of bank credit in SMEs' development

SMEs have a lot of funds providing channels. Nevertheless, bank loans remain the most important in addition to the owner's capital.

At the same time, SMEs will enjoy advantages of bank credit, including:

- high possibility of credit supply;
- long lending term;
- lower and more reasonable interest rates than other sources;
- available consulting from banks.

As a result, bank credit plays an important role in SMEs' development as follows:

- to provide sufficient working capital, thus allowing them to stabilize and promote their business activities;

- to meet their requirements for medium and long-term capital so that SMEs are able to pour additional investments in equipment, machinery and technology innovation, expand production and improve their competitiveness...

- to bring higher profits to business owners due to its low interest rates.

Furthermore, banks may give financial advice to SMEs and provide important information about the market as well as assist them with improvements of projects or business plans and prevent them from investment in less effective projects...■

