

# A Strategy to Improve Business Performance of HCMC Branches of the Bank for Agriculture and Rural Development

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For the Bank for Agriculture and Rural Development (BARD), when facing high percentages of bad and overdue debts, the task of finding out an effective lending policy is a matter of great urgency.

## 1. Performance of BARD branches in the past three years

Up to Dec. 31, 2002, the total loan supplied by BARD branches in HCMC reached VND8,432 billion, 4,068 billion higher than the total loan at the beginning of the year, equaling 11.3% of the total loan supplied by HCMC banking sector. Of this sum, 80 billion was considered as overdue debt (0.95% of the total loan), 68 billion higher than the overdue debt in early 2002. Up to June 2003, its overdue debt rose to VND82 billion equaling 0.76% of the total loan.

Causes of this situation are numerous: Branch managers failed to control the supply of loans, loan quality was poor, banking regulations weren't observed, mortgaged assets lacked valid documents, creditworthiness rating was done carelessly, certain customers enjoyed high credit ceilings. Many debts were adjusted or renewed too slowly with the result that the volume of overdue debt didn't reflect the loan quality and degrees of risk involved in the supply of credit. Thus, all branches have to take measures to retrieve loans and reduce the percentage of overdue and bad debts.

In recent years, HCMC branches of BARD have adopted the following solutions according to directives from the BARD:

a. Carrying out the plan to expand business and restructure the system of banks for the years 2001-05: The branches paid more attention to rural areas and small customers, especially the

poor, by opening more lending offices, offering such new services as loans and deposits in gold. Besides state-owned companies that are their traditional customers, the branches tried to supply more loans to private companies and family business for higher interest rates. The branches also formed all kinds of funds as required by banking regulations, dealt with risks and restructured debts. They also established a branch of liabilities and assets management company in HCMC and beefed up the workforce for some branches.

b. Making the best use of resources for business expansion: The BARD has developed three resources - well-trained personnel, modern technologies and financial strength.

- As for the personnel, the BARD chose competent officers as branch managers, assigned officers to branches on a reasonable basis, gave regular training courses with a view to helping branches improve their services and become more competitive.

- The informatics were applied by all branches. Many machines and equipment were put into use, thereby offering new serv-

Table 1: BARD overdue debt over three years

Overdue debt	2000	2001	2002	1 <sup>st</sup> half of 2003
Total (VNDbil.)	39.7	13.2	80	82
% of total loan	1.4	0.3	0.95	0.76

Source: BARD



ices to attract new customers. Officials from branches regularly took courses in modern technologies and the use of new machines.

- The overheads are kept at a reasonable level and difference between lending and deposit rates became wider.

## 2. Measures to enhance the business performance of BARD branches in HCMC

We suggest the following measures to be taken by the branches, the central bank and the central government:

(1) Encouraging deposit to supply more loans: The branches could offer a wider range of services (such as acting as paying bank for all classes of customer). The deposit rate must be in accordance with relations between market forces. Reasonable interest rates could help maintain a stable volume of short-term deposit that could be used for supplying medium- and long-term loans.

(2) Attracting more customers: The branches must look for potential customers and be ready to supply loan directly to any feasible business projects or co-finance companies in industrial parks and export processing zone. Other potential customers for BARD branches are large-scale farms, and small and medium enterprises in both urban and rural areas.

Feasible business projects must be considered as the most important factor for decisions to supply credits while mortgaged assets are only secondary or preventive factor for branches to ensure good loan quality in case the customers fail to carry out successfully their business projects.

After providing loans, the branches must supervise the use of loan by customers and help them to deal with other difficulties when necessary.



(3) Improving the loan quality: When extending more loans, the branches should take measures to reduce risks. In this process, full attention must be paid to the following problems:

- Ensuring safety for both customer's deposits and bank's loans.

- Cooperating with related authorities to carry out regulations about banking safety.

- Buying insurance as a preventive measures against risks.

Effective measures to improve the loan quality are:

- + Never increase the supply of credit beyond the bank's control.

- + Observe lending procedures.

- + Diversify investments and forms of credits supplied to customers in order to reduce risks.

- + Have credit agency gather information about important customers before supplying loans.

- + Beef up the internal audit.

As for bad debts, the branches should take strong actions to get back loans or look for help from the liabilities and assets management companies.

(4) Perfecting macroeconomic policies needed for the banking sector: The

macroeconomic policies could encourage the free enterprises by potential customers of the banks, thereby expanding the market for bank loans. In addition, these policies could help the banks to deal with bad debts and get back their money. As for peasants, the main class of customer for BARD branches, the government could raise the land limit allowing peasants to hold land for a long time and mortgage the land for necessary capital. As for the manufacturing sector, the government could encourage contracts to import capital goods on deferred payment terms, and hire-purchase contracts. Export tax could be cut to the bone to accelerate export of both farm and manufactured goods.

(5) Perfecting the monetary policy: The SBV should adopt policies to encourage banking institutions to reach remote areas and give equal treatment to institutions that invest in agriculture and projects in rural areas. As for the supply of fiduciary loans to non-state enterprises, the SBV should make policies to allow banking institutions to enjoy full autonomy and take full responsibility, instead of

putting limits on this kind of loan.

(6) Perfecting the legal infrastructure: The National Assembly must amend the Central Bank Act and Banking Institutions Law with a view to reducing the government intervention in the business of commercial banks.

(7) Perfecting the government control: An independent auditing company specialized in the banking services is much needed now. For the time being, such a company could be established by the government to force banks to have their books audited annually (and companies should observe the same requirement soon). The company could help solve dispute over mortgaged assets and bank guarantee and enhance the quality of banking inspection.

To make the banking sector healthier and help the BARD branches in HCMC improve their business performance, concerted effort by the branches themselves and higher authorities, including the SBV and the central government as well are much needed. We hope that these measure could help beef up the banking sector before the competition of foreign banks in the years to come. ■