



# **FINANCE ACCESS FOR VIETNAMESE MSMEs**

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# The outline

- The current status of Vietnamese MSMEs Finance Access
- Basic understanding and problems of Vietnamese MSMEs Finance Access
- Recommended solutions supporting Vietnamese MSMEs Finance Access

# I. Current Status of Vietnamese MSMEs

- Regulations:
  - Under The Law of Credit Institution;
  - Decree No. 163/2006/ND-CP;
  - Decree No. 41/2010/ND-CP;
  - Decision No. 14/2009/QD-TTg (VDB);
  - Decision No. 92/2009/QD-TTg;
  - Resolution No. 30a/2008/NQ-CP.

# Current Status of Vietnamese MSMEs


- Facts and Figures:

- Accounted for 97% of Vietnamese enterprises;

- Total sum of loan: 600.000 million VND and occupied nearly 32% of economy (30/6/2010):

- + State owned enterprises: 14%;

- + Private owned enterprises: 18%.



## **II. Basic understanding and problems of Vietnamese MSMEs Finance Access**

# 1. Basic understanding of Vietnamese MSMEs Finance Access

## Atypical Credit Information

- Low credibility and high asymmetry of financial statement
- Accordingly, dependence on non financial statement is high, and experts of MSMEs finance are scarce

General  
Characteristic

## Appropriate to Relationship Banking

- Relationship banking can contribute to mitigate asymmetric information and to raise financing stability

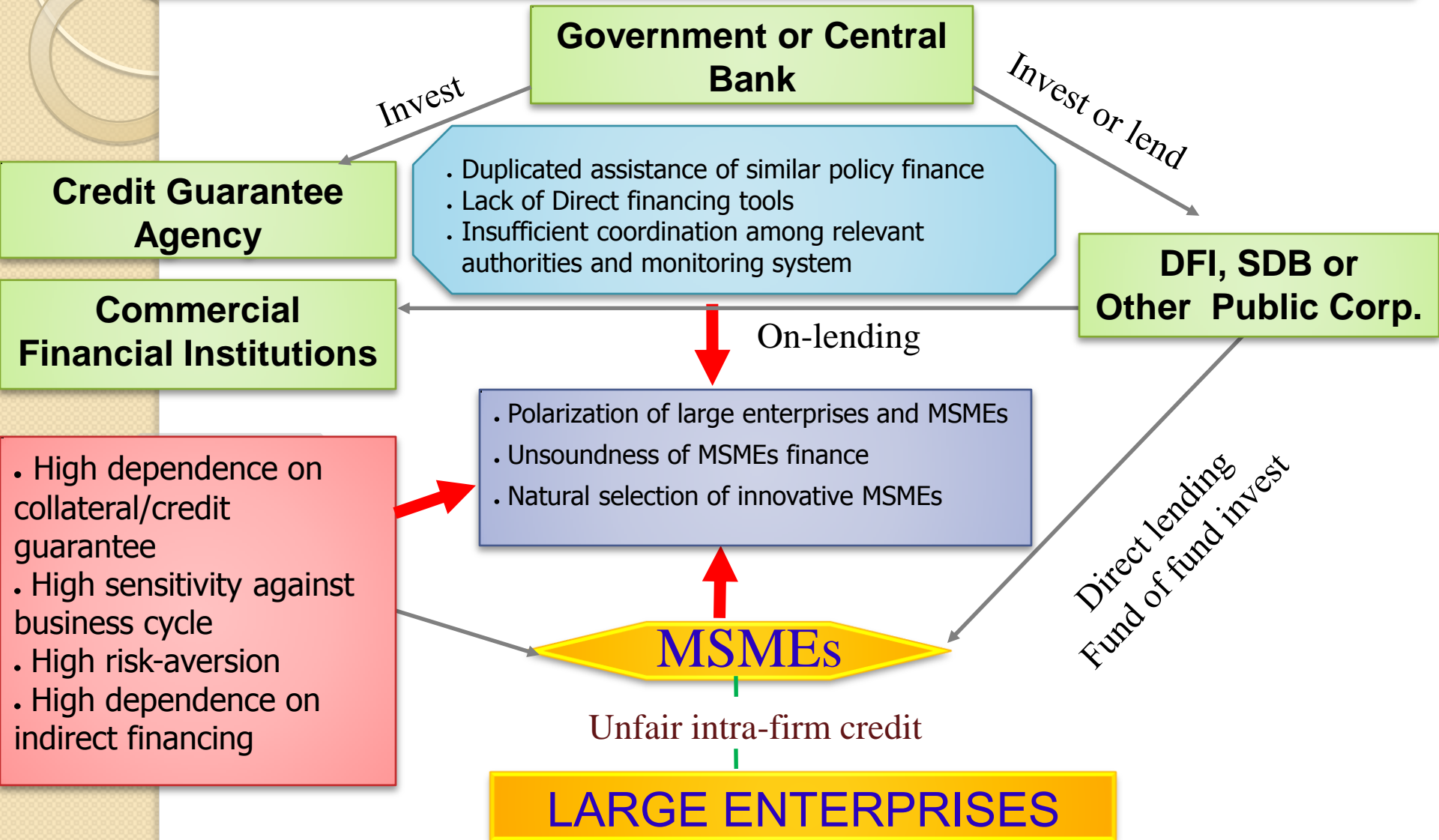
## High Dependence on Intra-firm Credit

- Intra-firm credit may complement MSMEs credit demand which cannot be satisfied only by bank loan
- However, intra-firm credit such as promissory note has malfunction like intentional bankruptcy, imputation of financial cost, etc.

## Different financing pattern according to life cycle

- Risk, need of money are different according to growth levels → Financing methods are different
  - Starting level : risk-loving investors supply relatively small amount of money
  - Matured level : risk-averse investors supply relatively large amount of money

# 2. Problems of Vietnamese MSMEs Finance Access



# Recommended solutions

Choose innovative MSMEs → Assist



**IMPROVE OR ESTABLISH**



- Relationship Banking System
- Intra-Firm Credit System
- Policy Financing System



# 1. Relationship Banking System

## Current

Creditor-Debtor relationship between large firm/SOEs and bank

Mainly indirect financing such as loan

## To Be

Efficient assistance and monitoring relationship between MSME and bank

Actively use not only indirect financing but also hybrid financing such as Mezzanine and direct financing method

Monitor total exposure of MSMEs and assist them from start-up to revival

- ★ Start-up period : undertake equity switchable to debt, make loan with interest contingent on success → resolve asymmetry information and make them start
- ★ Revival period : undertake debt switchable to equity, make DIP (Debtor-in-possession) finance, DDS (debt-debt swap) → help their smooth recovery
- ★ Reinforce MSME business line and screening mechanism by relationship management system

Foster internal MSME finance experts or make full use of foreign banks who have plenty of MSME finance experiences and experts

## 2. Intra- firm Credit System

Introduce promissory note system that maximize its efficiency and but minimize its side effect

Reinforce  
issuing condition

- Reinforce current account opening condition
- Credit analysis when opening current account

Reinforce managing  
condition

- Introduce issuer register system
- Credit analysis to issuer
- Punish forgery and intentional default

Intra Set-up

- Construct promissory note system
- Construct central clearing system

Supplement  
bargaining power  
of MSMEs

- Reinforce network activity of MSMEs
- Give incentive to banks and large enterprise who supply network finance fairly and actively

# 3. Policy Financing System

## Remedy or complement failure of MSMEs finance market

- Introduce SME mandatory lending quota system
  - Banks should lend to MSMEs above a certain percent of total lending increase
- Introduce MSMEs credit line system
  - Central bank allocate credit line to commercial banks according to their MSMEs lending performance
- Construct market *friendly* Covenant Banking system
  - Contract MOU among DFI-bank, bank-MSMEs about demand and supply of policy finance
  - MSMEs voluntarily report their needs (availability, interest rate etc) and financial statement (cash flow, credit information etc) through MOU
  - Reinforce penalty if MSMEs do not make truth-telling
- Create stable business environment and provide market information system
  - Improve managing, supervising, audit system for MSMEs
  - Speed up certificating land use right for MSMEs

# Improvement of financing method

## Innovative SME

- Good technology
- High intangible asset
- High uncertainty of cash flow and future firm value
- High flexibility of decision make, management

**Difficulty in financing**



**Improve financing method**



**Improve secured loan system**



**Make good use of direct financing**



**Financing appropriate to life-cycle**