



**Alternative lending solutions in the absence of  
traditional collateral and alternative sources of  
funding for MSMEs:  
The Case of Vietnam**

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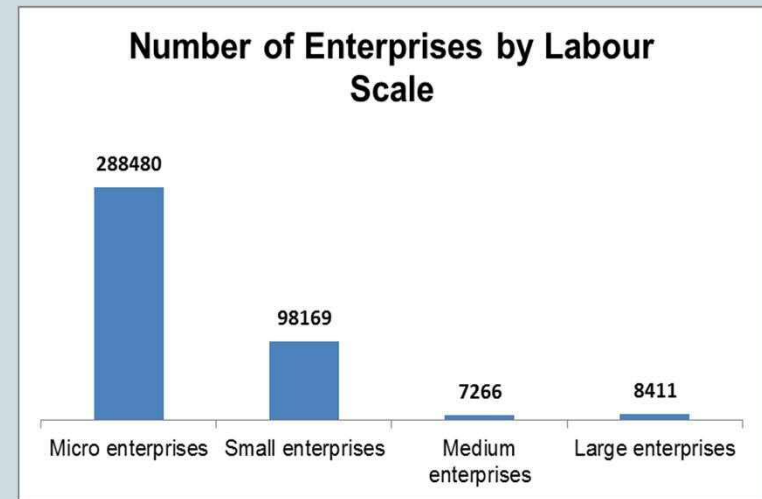
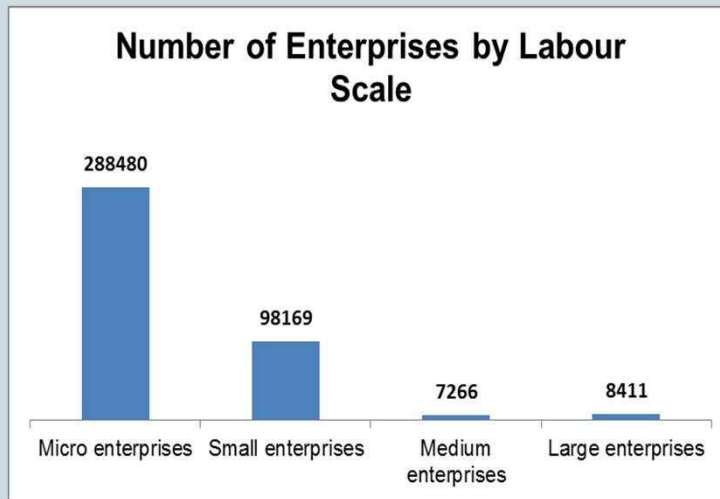
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# 1. SME's Overview

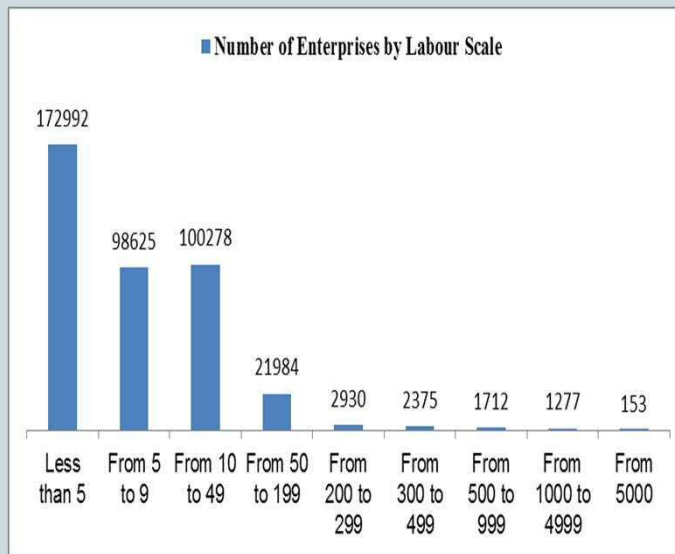
## Number of SMEs in 2014



*Sources: General Statistic Office*

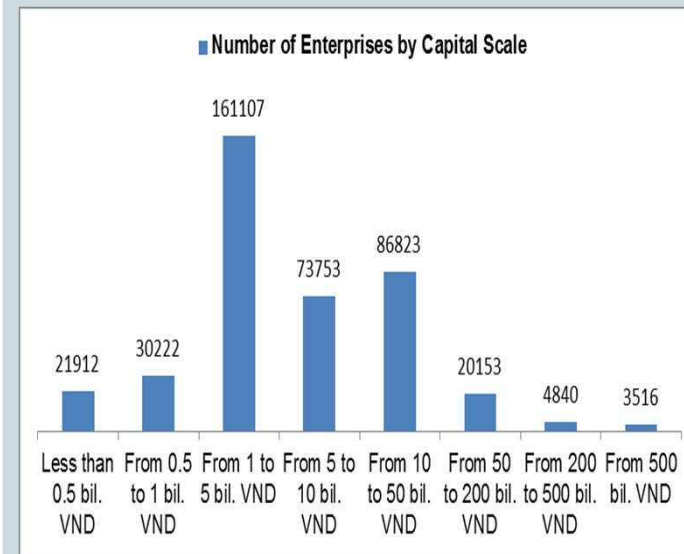
# 1. SME's Overview (cont'd)

## Enterprise distributed by labours



Sources: General Statistic Office

## Enterprises distributed by capital



## 2. SME's Financing

### ❑ **Commercial Banks' side**

- More active in lending to the SMEs
- Credits provided to the SMEs is increasing.

### ❑ **SMEs' side**

- Funding is the most obstacles in their operations;
- Access to the banks' credits is still difficult; 30% SMEs can not access the banks' credits.

### ❑ **Government view**

- More regulations and policies to facilitate the SME's financing.
- Commercial banks should focus more on SMEs.



### **3. Obstacles to SME's Financing**

#### **Decades-lasting obstacles:**

- ❑ Shortages of collateral;**
- ❑ Poor Information;**
- ❑ Relatively high risk;**
- ❑ Unwillingness from the banks;**
- ❑ Weak capacity in prepare the business plans or investment projects.**

## 4. Roles of Government

### □ **Regulatory framework:**

- ✓ (i) Government Decrees and drafted Law on SME Promotion, which provide comprehensive tools to support SMEs, including financing access;
- ✓ (ii) Non-collateral loans are not prohibited; however, the bank operation must be sound.

### □ **Policies:**

- ✓ (i) Encourage the banks to provide credits to SMEs in rural area and selected industries;
- ✓ (ii) Require banks to increasingly apply the internal credit rating system in making credit decisions;

### □ **Facilitates:**

- ✓ (i) Provide technical assistances to the SMEs in preparing the documents for loan application;
- ✓ (ii) Set up the funds for SMEs;
- ✓ (iii) Require the state owned commercial banks to increase the share of SMEs in their credit portfolio.

## 5. Methods for Non-collateral credits

### □ Banks

- Provide non-collateral loans packages;
- Credit decisions made on the basis of cash flows;
- Set up the SME divisions
- The role of State-owned banks:
  - ❖ Policy banks (Social Policy Banks, Vietnam Development Bank),
  - ❖ Coperative Bank,
  - ❖ State-owned commercial banks (VietinBank, BIDV, Vietcombank, Agribank);



## 5. Methods for Non-collateral credits (cont'd)

### ❑ Credit Guarantee Funds for SMEs (CGFs)

- Playing the role of bridges between banks and SMEs having efficient and feasible business plans but having not collateral;
- Regulations on establishment of CGFs first issued in 2001 and recently revised in 2013;
- Funding sources:
  - ❖ Chartered capital (*contributed by provincial governments at minimum of 30 bil. VND, banks, nonbank enterprises, associations*);
  - ❖ Private or institutional donors;
  - ❖ Retained earnings of CGF.
- Operating within the provincial areas; recently, 27 provincial CGFs are in operations;

## 5. Methods for Non-collateral credits (cont'd)

- Conditions for credit guarantee:
  - ❖ (i) Efficient and feasible investment project or business plans;
  - ❖ (ii) Collateral values at least 15% of loan amount (previously 30%);
  - ❖ (iii) Owner capital at least 15% investment project/business plan values;
  - ❖ (iv) No bad debt at the banks and other nonbank enterprises;
  - ❖ (v) No tax delays.
  
- Guarantee part or full of differences between loan amounts and collateral (previously, maximum at 30%)
  
- The maximum guarantee amount for one customer: 15% equity capital of CGF, .

## 5. Methods for Non-collateral credits (cont'd)

### ❑ **Performance:**

- Not achieve the expected purposes.
- Small number of guaranteed SMEs: the most effective one provide guarantee for 105 SMEs
- Many SMEs do not realise the existence of CGFs.

### ❑ **Reasons for poor performance:**

- Banks do not believe the CGFs;
- CGFs realize that they take more risks than banks
- SMEs still face the collateral obstacles to get guarantee from CGFs and procedures are more cumbersome than those of commercial banks;
- Local governments realize that the chartered capital of 30 bill. VND is burden on the local state budget;

## 5. Methods for Non-collateral credits (cont'd)

### □ SME Development Fund (SMEDF):

- The SMEDF established in 2013 and operated in 2016;
  
- The Board of SMEDF consists of 06 members:
  - Ministry of Planning and Investment,
  - Ministry of Finance,
  - State Bank of Vietnam,
  - Enterprise Development Bureau,
  - SMEDF Director,
  - Vietnam SME Association.

## 5. Methods for Non-collateral credits (cont'd)

- Chartered capital of 2.000 billion VND, contributed by the state budget.
- SMEDF targets the SMEs:
  - ❖ (i) having the good investment projects, feasible business plans and
  - ❖ (ii) operating in the state- encouraged and prioritized industries.
- SMEDF provides loans to the SMEs through the Vietnam Development Banks or commercial banks.
- These banks themselves make credit decisions and take the credit risks.

## 5. Methods for Non-collateral credits (cont'd)

- Condition on collateral is lessened as compared with the commercial banks: not require SMEs provide collateral with value of more than 100% loans.
- The SMEs have the right to choose the collateral for the loans, including the assets generated by the project.
- As the risk acceptance of banks are different, if SMEs fail to apply at one bank, they can apply at the SMEDF and then be recommended to the appropriate banks.
- Small amount of charter capital as compared with the loan demand from SMEs but it is expected that the operation of the SMEDF will stimulate other banks more involved in providing funds for SMEs.

## 5. Methods for Non-collateral credits (cont'd)

### Funds provided in 2016 (in billion VND)

Targeted	Total Funds	Maximum fund per SME
Fixed investment	560	70% investment values
Innovation	100	10
Production chains, process agricultural, forestry and fishery products	210	20
Subsidiary industry to electronic and mechanical industries	150	25
Sewerage, waste management and remediation activities	100	25





## 5. Methods for Non-collateral credits (cont'd)

### ❑ **Other players:**

- Vietnam Bank Development Bank
- Stock markets
- International donors





## 6. Internal Credit Rating (cont'd)

- ❑ Rated borrowers: financial institutions, enterprises, personals and households;
- ❑ Enterprises by scales;
- ❑ Indicators: financial and nonfinancial criteria;
- ❑ Data sources: audited and nonaudited financial statements
- ❑ Using the rating results for credit decisions.
- ❑ Revised internal credit ratings



## 7. Remark Conclusions

- ❑ The shortage of collateral and information asymmetry are long lasting obstacles to SME's access to bank credits;
- ❑ The traditional methods are not enough to address these obstacles.
- ❑ Commercial banks should play the leading role in solving the SMEs' financing; the initiatives from the banks are crucial;
- ❑ The state-owned banks play the important role in lessening these obstacles;
- ❑ The Government is more effective in setting up the regulatory framework and stimulating policies.



**Thanks you for your attention!**

