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Enhanced Access to Credit for Small and Medium Businesses in Vietnam

¹Thuy Linh Vu, ²Thanh Hoa Pham Thi

^{1,2}Department of Accounting, University of Labour and Social Affairs, Vietnam

Corresponding Author: **Thuy Linh Vu**

Abstract

In recent years, small and medium-sized enterprises in Vietnam have continuously grown in both quantity and quality. Small and medium enterprises are considered as the growth engine of the economy, contributing to solving social security problems of the country, such as creating jobs, reducing poverty, and reducing income disparities. Besides, this type of enterprise is very dynamic, easy to apply new production technology, so it plays an important role in promoting economic modernization. However, besides the achievements, there are still certain limitations that limit the access to credit capital of small and medium

enterprises. That hinders small and medium enterprises in saving time, accessing many new opportunities and promoting competitive advantages in the market. On the basis of considering the current situation of small and medium-sized enterprises when accessing credit capital, in this article, the author offers solutions so that State management agencies can adjust policies, Commercial banks have increased their support for loans, and small and medium-sized enterprises themselves have promoted their internal resources and improved their business plans to access credit capital in the fastest and most convenient way.

Keywords: SMEs, Entrepreneurship, Vietnam

1. Introduction

Small and medium-sized enterprises (SMEs) are considered one of the five priority areas for credit granting and the State Bank has deployed many solutions to support. However, accessing bank capital for SMEs still faces many difficulties and obstacles. For many years now, capital for SMEs has been difficult as very few businesses have access to official sources from banks. Although SMEs account for a large proportion of the total number of operating businesses, only about 30% of SMEs have access to official capital from banks, the rest have to access informal capital sources, of which There are many loans coming from black credit with very high interest rates. Therefore, in the coming time, it is necessary to increase access to credit capital for SMEs in Vietnam.

2. Theoretical Basis

In each economy, SMEs can play roles with different levels. However, according to general assessment, this type of enterprise still plays a decisive role as follows:

- Play an important role in the economy: the number of SMEs often accounts for a large proportion of the total number of enterprises in the country. In Vietnam, considering only registered businesses, this rate is over 97%. Therefore, SMEs contribute significantly to the total national output (40% of the country's GDP) and create jobs for the economy (employing 50% of the entire domestic economy).
- Is the mainstay of the local economy: while large enterprises are often located in the economic centers of the country, SMEs are present in all localities and are an important contributor to budget revenue, into output and create local jobs.
- In the process of their existence and development, the need to use capital to expand operations and improve production and business efficiency of SMEs is very large. Common needs are buying machines in installments, buying cars in installments, leasing finance, and taking out financial loans. Therefore, for banks and financial leasing companies, SMEs are considered to be customers with great potential.

3. Research Methods

The article uses qualitative research methods including two basic methods: data collection, synthesis and analysis and

evaluation. Based on the synthesis of data related to access to credit capital for SMEs, the article analyzes the main contents to highlight some shortcomings in accessing credit capital for SMEs in Vietnam. Vietnam today, thereby proposing some solutions to increase access to credit capital for SMEs in Vietnam in the coming time.

4. Assess the Ability of SMEs to Access Credit Capital

4.1 Results Achieved from Credit Access Activities of SMEs

It can be seen that in recent times, SMEs have gradually accessed credit capital from banks through many channels: commercial credit at commercial banks, preferential credit at the Bank for Social Policies and credit at banks with guarantees from SME Guarantee Funds.

According to statistics from the Department of Credit for Economic Sectors, on average in the period 2018-2022, outstanding credit debt for SMEs increased by 14.17%, higher than the average of the entire economy. By the end of 2022, outstanding credit debt for SMEs will increase by 8.28% compared to the end of 2021, accounting for nearly 19% of the total outstanding credit debt of the entire economy. Credit balance of small and medium enterprises is mostly concentrated in the Trade and service sector (56.29%), Industry and Construction (40.85%). State-owned commercial banks are lending to small and medium-sized enterprises accounting for 48.05%, joint stock commercial banks lending accounts for 47.43%, foreign banks, joint venture banks, financial companies. Main and Cooperative Bank participate in lending 4.52%.

4.2 Challenges in accessing credit capital for SMEs

Besides the above results, "capital thirst" is the reality that many SMEs are facing. In recent times, loan policies have become more open, the Government has issued many loan interest support packages, commercial banks have also actively supported, but many SMEs still have difficulty accessing government credit capital Bank. In that context, many small and medium enterprise owners tend to seek financial support services and loans to promote the fastest production and business growth to increase competitive advantage.

According to survey results of the Central Institute for Economic Management Research ^[2], SMEs that officially receive financial sources through the banking system and other official sources only account for about 25%, while up to 75% still have to mobilize friends and borrow informally. Of the official financial sources of SMEs, 90% come from banks, 10% from other sources such as leasing and payments.

Reason:

1. Objective reasons:

- From the world and domestic economic context. The world and domestic economic situation has many complicated developments, containing many unstable factors, affecting production and business in general and the performance of SMEs in particular.
- From the side of State management agencies: State policy mechanisms have not really created conditions for SMEs to access credit capital.

Some employee support policies of state management agencies, most small and medium enterprises do not benefit because the accompanying conditions are difficult to

implement such as the number of employees quitting their jobs, the business's revenue. While Accordingly, 0% interest loans to pay workers' salaries are considered the most difficult policy to access.

Besides, to access bank loans, SMEs are forced to have no bad debt but at the same time must have revenue and profits. Meanwhile, after experiencing more than 2 years of the Covid epidemic-19, many SMEs cannot avoid bad debt or are not profitable.

On the other hand, with lending interest rates above 10%/year, very few SMEs can make a profit, so certainly many businesses cannot borrow for new investments. As for the 2% interest rate support package according to Decree No. 31/2022/ND-CP dated May 20, 2022 of the Government ^[1], the implementation process is still quite slow, many SMEs are cautious or do not meet loan standards.

In addition, mechanisms to support capital access for SMEs through guarantees from the Credit Guarantee Fund and the Small and Medium Enterprise Development Fund have not achieved as expected from the operating regulations of the funds.

▪ From commercial banks:

In fact, credit institutions have their own lending standards to implement risk management in their lending activities. In the context of restructuring banking operations, credit institutions are increasingly promoting the application of risk management standards according to international practices, requiring increasing information transparency, customers' finances and collateral. Therefore, credit granting conditions of commercial banks are very strict.

In addition, SMEs are one of the five priority sectors that are eligible for the short-term loan interest rate ceiling policy. Therefore, commercial banks require SMEs to meet the conditions of a transparent and healthy financial situation to access the preferential interest rate ceiling policy according to regulations.

▪ From the Association of SMEs:

The Association of SMEs has not been really active in propagandizing and helping SMEs raise awareness about the transparency of financial reporting information to be able to access loans from credit institutions.

2. Subjective Reasons

First, SMEs have small capital and limited financial capacity.

Due to limitations in scale and capital and low level of development, many SMEs still apply outdated technology, have low labor productivity, do not pay attention to branding, and do not care about technology. Communication work, not focusing on diversifying business capital sources. The above factors have combined and limited competitiveness, making it difficult for SMEs to access credit capital.

Second, SMEs still have limited skills in planning and building production and business plans, so production and business plans often lack feasibility and have no plan to respond to market fluctuations, especially in the future. Recently, the economy has been greatly affected by the Covid-19 pandemic. On the other hand, the majority of managers of SMEs have not been properly trained in business administration, borrow short-term loans to invest in long-term assets, and are not linked to actual production and business, especially their qualifications. Doing business in the context of globalization and high level of international

economic integration. Limited management capacity is the reason why SMEs have difficulty finding and building business plans, feasible investment opportunities, and lack of understanding of regulations when accessing loan sources.

Third, information from the financial statements of SMEs does not meet the requirements of credit institutions.

One of the most important and necessary conditions for SMEs to be able to access loans from credit institutions is the level of information transparency of the business. The majority of SMEs that have difficulty accessing credit capital are newly established SMEs, just entering new industries and economic fields, so there is no historical operating data. Some SMEs lack feasible production and business plans, lack of transparency in financial data, do not have audited financial reports, and tax reports have differences with internal financial reports and accounting documents does not meet the prescribed standards, thus affecting the bank's credit granting consideration.

Therefore, the financial statements of SMEs do not fully reflect production and business results. As a result, the analysis and assessment of the financial situation of SMEs is not reliable enough, affecting the decision of commercial banks to consider granting credit to businesses.

Fourth, SMEs do not meet collateral requirements.

Regarding the issue of collateral, to ensure safety, credit institutions often set strict collateral requirements, while SMEs have limited collateral. Many SMEs have assets, but do not have enough legal and valid documents to carry out mortgage procedures, such as: businesses are allocated land for use but have not been issued documents proving land ownership, or businesses have Land lease contracts require annual payments, but land cannot be mortgaged to borrow money from banks. Some intangible assets of businesses do not have a specific guiding mechanism that allows them to be used as collateral for bank loans, such as: corporate trademarks, intellectual property assets... or financial assets. Collateral has been used by the business for previous loans, so the loan conditions are not guaranteed.

In addition, the collateral assets of businesses are being priced cheaper in the context of the epidemic. If in the past, businesses that borrowed capital could receive a 30-70 match with the bank, meaning that if a business had collateral to match the value of 30% of the loan, the bank would lend 70%, but now the match is equal to 30% of the loan value has gone up to 50-50, even down to 70-30.

Fifth, SMEs have not met credit rating requirements when appraising and evaluating debt repayment ability from credit institutions.

The characteristics of small and medium enterprises are the short time of establishment or business life cycle, lack of stability in business operations, so banks have difficulty in appraising the effectiveness of loan plans and assessing reputation of customers in credit relationships to make lending decisions.

Although in recent times, SMEs have gradually recovered production and business, to date, many businesses are still not able to repay all restructured debts and due debts; Although banks have restructured the debt repayment period according to normal regulations, they still face many difficulties due to being transferred to debt groups, making it difficult to access loans to serve production and business; Inventories account for a large proportion of the warehouse and cannot be exported; Capital is taken over by customers,

debt is high. Some SMEs investing in agricultural production have low profit margins and high risks, making it difficult to access loans.

Sixth, limited access to information about policies and support programs from the Government, State as well as credit institutions.

Reality shows that some SMEs have not promptly grasped information about preferential loan sources from the State. Therefore, capital sources to meet production and business needs are limited.

5. Solutions to Enhance Access to Credit Capital for SMEs in Vietnam

Access to credit for SMEs needs to be placed in the overall support policies for this type of business. Therefore, there needs to be close coordination from agencies, ministries, associations and businesses, specifically: relevant ministries and sectors promote effective implementation of policies to support small businesses and businesses. just stipulated in the Law on Support for Small and Medium Enterprises.

5.1 For State Management Agencies

5.1.1 With the Government

1. Focus on proactive and flexible monetary policy management to stabilize the macroeconomy, control inflation, stabilize exchange rates and stabilize lending interest rates, contributing to creating a business environment stability for SMEs.
2. Support SMEs to access capital/relief packages quickly, increase disbursement speed, reduce loan interest rates, loosen credit limits, thereby minimizing the chain of breakdown of the system of SMEs in economy.
3. Research measures to increase the effectiveness of credit guarantees for SMEs, in order to share risks with the banking system. Solutions need to be comprehensive in terms of legal documents, coordination regulations, enforcement mechanisms to ensure the interests of participating parties, shorten the time to issue and enforce guarantee obligations, and support guarantee fees.

5.1.2 With the State Bank

To continue expanding credit effectively and promptly meet the capital needs of SMEs in the coming time, the State Bank needs to focus on implementing the following specific solutions:

1. Focus on proactive and flexible monetary policy management to stabilize the macroeconomy, control inflation, stabilize exchange rates and stabilize lending interest rates, contributing to creating a business environment stability for SMEs. In particular, continue to review and improve bank credit policy mechanisms to regulate capital from surplus to shortage areas, in order to create maximum conditions for small and medium-sized enterprises to be given priority in loan capital.
2. Coordinate with ministries and branches in implementing policies to support SMEs in the Law on Support for SMEs, especially policies to support SMEs in accessing capital through the SME Development Fund and Credit Guarantee Fund for local SMEs.
3. There needs to be a support mechanism for commercial banks (such as refinancing policies, interest rate compensation...) when lending capital to SMEs,

expanding their scale and improving operational efficiency. activities of SME Development Funds.

4. Diversify forms of implementing bank-enterprise connection programs to work with local authorities to directly and synchronously remove difficulties and obstacles of SMEs.
5. There needs to be a policy to encourage commercial banks to have a high proportion of outstanding loans to SMEs, and encourage credit institutions to expand their operating networks in places that do not yet meet access needs. bank credit capital of people and businesses, especially in rural and remote areas.
6. Continue to promote reform of administrative procedures in credit and banking activities. Improve loan processes and procedures, shorten loan approval time, ensure compliance with legal regulations.

5.2 For Commercial Banks

To support SMEs in accessing credit capital, commercial banks need to implement the following specific solutions:

1. Improve and simplify lending procedures and processes, request information provided in accordance with reality and provide detailed advice and instructions so that SMEs can easily grasp and implement.
2. Design specific loan products suitable for SMEs according to each industry group to flexibly meet customer requirements.
3. Relax targets or evaluate the capabilities of small and medium enterprises in the future before the epidemic or after the epidemic to see how these businesses recover and meet their needs. In terms of loan conditions, banks can be flexible in allowing businesses to borrow. Besides, instead of providing high standards for collateral, business plans, and historical records, commercial banks can improve their credit through business plans. On the other hand, to facilitate access to capital for SMEs, commercial banks can flexibly lend small credit packages.
4. Strengthen the ability to accurately evaluate and identify business plans of SMEs, thereby assessing feasibility and future cash flow.

At the same time, improve the capacity of credit officers because many credit officers are familiar with appraising large enterprises with good business results, transparent financial reports, and clear and feasible production and business plans. Therefore, when turning to appraisal of SMEs that do not meet those standards, they do not dare to lend due to fear of bad debt. This is an important issue that banks need to handle to create conditions for SMEs to access capital.

In addition, proactively sit down with small and medium-sized enterprises, reassess debts, discuss, extend debts, pay off debts, and work with businesses to overcome difficulties and restore production.

5. Actively participate in the Bank-Enterprise connection program in the area and work directly with borrowers to remove difficulties in credit relationships, creating favorable conditions for businesses to access Bank credit capital sources are in accordance with legal regulations.
6. Consider and promote unsecured lending, evaluate the effectiveness and profitability of investment projects to finance SMEs. Combine many products and services provided to SMEs to lower lending interest rates,

support businesses to manage more effectively, and grasp market conditions more fully and promptly.

7. Debt restructuring, debt rescheduling, and credit incentives for small and medium-sized enterprises doing business in the agricultural sector, if these enterprises can demonstrate revenue sources to repay bank debt; Develop financial leasing to help businesses quickly innovate technology.
8. Build an information technology system linked to SMEs, allowing businesses to transact with banks through this system quickly and conveniently at low cost, helping SMEs Improve financial management capacity, meet conditions when participating in supply chains of major domestic and foreign partners.

5.3 For the Association of SMEs

The Vietnam Association of SMEs needs to actively propagate and raise awareness about information transparency for SMEs by publishing financial reports on stock exchanges. Improved information transparency will be an important premise to help SMEs access credit capital.

5.4 For SMEs

To access credit capital, SMEs must promote their internal resources by implementing the following solutions:

1. Strengthen financial capacity, invest in technology, improve management skills to increase product competitiveness. In addition to investing and upgrading core technology, investing in and applying modern and advanced technologies, SMEs need to focus on strengthening technology management capacity and creating a foundation for strong product development, modern, efficient service. In addition, SMEs need to proactively improve technology in the direction of using digital technology to improve production and business efficiency.
2. Complete management mechanisms, business and financial plans; Choose effective business plans, focusing on key production and business areas that have strengths and are capable of generating sustainable cash flow. For a highly feasible business strategy, SMEs need to carefully study the country's socio-economic goals, industry and profession development strategies; At the same time, grasp your capabilities to build strategies for the future. Each business needs to build its own strategy, suitable to its capital capacity, human resources capacity, development goals, and business sectors.
3. Strictly implement the accounting regime for SMEs, can use independent audit services if necessary to prove their financial transparency to enhance their reputation with credit institutions.

In particular, SMEs need to pay attention to analysis, planning, business strategies, strengthening financial management. While proactively seeking, seizing, and realizing opportunities, while strengthening their Conditions for accessing loan capital.

4. Contact the Credit Guarantee Fund to request a guarantee if there is no collateral.
5. Participate in production and business activities along the product value chain, creating conditions for credit institutions to control the cash flow and financial situation of businesses during the loan process.
6. Actively participate in business associations to access

information about policies and support programs for businesses of the Government, State as well as credit institutions.

6. Conclusion

SMEs in Vietnam have been growing very quickly, spreading to all areas of socio-economic life. However, limited access to domestic and international capital markets are major barriers to development and hindering the contribution of SMEs. Therefore, in the coming time, State management agencies, commercial banks and SMEs themselves need to implement synchronous solutions so that these businesses can safely access credit capital. Complete and effective.

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