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Limit Risk When Granting Trade Credit for Businesses in Vietnam

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Abstract
In the context of fierce competition in the market economy, raising capital is an inevitable need of most businesses. To meet the short-term capital needs of businesses, besides the main form of credit which is bank credit, commercial credit is also being used quite commonly by businesses.
Commercial credit is a credit relationship between businesses carried out in the form of buying and selling goods on credit and brings benefits to both sides. Buying and selling goods on credit is considered a form of credit- the seller transfers to the buyer the right to use the capital temporarily for a certain period of time, and when the agreed deadline arrives, the buyer must return the capital. to the seller in the form of money and also the profit for the seller.
This article aims to learn about the risks when granting commercial credit to businesses. To achieve this goal, we used qualitative research methods. The results of this study aim to provide an overview of the current risk situation when granting commercial credit to businesses, thereby providing solutions to limit risks when granting commercial credit.

Keywords: Trade Credit, Risk, Commodities

1. Introduction

Trade credit is a concept that is no longer strange in the business activities of businesses today. The form of commercial credit was born and developed from the objective requirements of the commodity economy and from the need for temporary capital of businesses. For selling goods on credit, sellers who need to sell and buyers who need to but do not have or do not have enough money will apply commercial credit. The benefit of applying this form is that the seller can quickly promote and consume the quantity of goods and receive loan interest as well as transfer commercial paper to be able to recover capital before maturity.

As for buyers, they will get the goods, ensuring the production and business process for their businesses so that activities can take place and be maintained continuously. Commercial credit is applied to loan goods or is a part of capital and is converted into money and this is not idle money. Accordingly, lenders and borrowers will both be businesses directly involved in the production and circulation of goods. The volume and scale of any form of commercial credit, large or small, will depend on the total value of the entire volume of goods lent/sold on credit and will be given to carry out buying/selling on credit or is a loan.

2. Theoretical Basis of Trade Credit

2.1 The Role of Trade Credit

*** For Suppliers**

- Save money circulation costs

  Commercial credit with the instrument of commercial paper is considered a form of non-cash circulation. It saves circulation costs and reduces uncertainty in money transfers.

  Using commercial credit capital helps manufacturers reduce capital costs. To meet capital needs, instead of borrowing from banks or other credit institutions with high interest rates, complicated procedures, and incurring many intermediate costs from borrowing capital, manufacturers. You can buy raw materials on credit, or import goods from suppliers with post-paid costs and a reasonable, negotiable discount. The use of credit capital is not only beneficial for manufacturers but also beneficial for the macro economy, as it does not have to provide additional money for circulation. Besides, it also helps the central bank implement monetary policy more easily.

- Accelerate the speed of goods turnover, shorten the business cycle
  Commercial credit capital helps meet capital needs during peak production seasons, meeting market demand. At the same time, under the operating mechanism of trade credit, manufacturers can sell goods, resolve inventory situations, and minimize costs related to storing goods. Producers who are granted commercial credit will start a new production cycle without having to wait until new capital is available. Thus, commercial credit has mobilized idle capital into the production cycle, helping the production and business process take place continuously, without interruption.

- Encourage production and business
  Commercial credit relationships are mainly based on trust, with no collateral constraints for the credit that the business is entitled to, in addition to the business's compliance with payment commitments to suppliers.
  The "lender"-the supplier usually does not require the business to present a production and business plan or prove the transparency of financial reports, but only needs the business to comply with the sales commitment agreed upon by both parties Favorable.
  In fact, manufacturers use commercial capital credit in most cases of purchasing raw materials, importing goods, consuming products... instead of borrowing from banks with complicated procedures and interest rates. High. During periods of inflation and tightening monetary policies, making it more difficult for capital to reach businesses, trade credit with simple commitments between businesses and extremely low capital costs is the solution. Optimal capital mobilization method for businesses, helping to maintain production and business.
- Besides, trade credit also helps suppliers develop a system of loyal customers and regular transactions. On the other hand, trade credit helps suppliers increase sales and dominate a certain market area.

*** For Beneficiary Businesses**

Compared to the binding conditions of funding channels from issuing stocks, bonds and bank loans, the source of funding through appropriating capital from partners is fully exploited by businesses because:

- Trade credit is a convenient funding channel for businesses in current financial conditions. In fact, due to differences in production and business cycles between businesses, the phenomenon of excess capital in one business and lack of capital in another is common and inevitable.
  Through commercial credit, businesses can take advantage of idle capital for production, increasing business capital in a short time, at low or zero cost, depending on the relationship. relationship between the credit grantor and the user of that capital.
- In credit trading relationships, buyers often have more advantages than sellers due to competition between suppliers, from which businesses have more opportunities to negotiate more favorable trade credit terms for themselves, specifically suggesting a longer debt payment date or a larger debt limit.
- Having commercial credit from suppliers, businesses will have a stable input source to plan their unit's long-term production and business plans. Furthermore, long-term partners with suppliers also receive additional product technical consulting support, sales skills training for employees and are provided with market information to help businesses respond. Industry fluctuations can cause damage to businesses.
  Therefore, in a market economy, trade credit on the one hand helps suppliers consume goods. On the other hand, the existence of this form of credit will help businesses proactively exploit capital sources to promptly meet production and business activities.

*** For Society**

- Trade credit contributes to enriching the market source of goods, by granting credit limits to distribution channels and agents of manufacturers, bringing goods to consumers faster and satisfying customers better than society's consumption needs.
- Commercial credit contributes to stabilizing life and creating jobs for society.

However, besides the positive aspects that commercial credit brings, this form of capital mobilization still has many potential risks.

2.2 Risks of Commercial Credit

Commercial credit risk is the loss that can occur when extending credit to customers. Commercial credit risks are shown:

- The amount of debt purchased by the customer is not paid on time as committed, called the risk of debt overdue payment
- The amount of debt purchased by the customer is not paid in full or is not able to pay when due, which is called the risk of losing money owed by the debt buyer.

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 relevant data, the article analyzes the main contents to highlight some risks when granting commercial credit to businesses, thereby proposing some solutions to limit risks. When granting commercial credit to businesses in the near future.

4. Assess Risks when Granting Commercial Credit to Businesses in Vietnam

4.1 Objective Reasons

- Commercial credit has not been officially recognized, and has many potential risks because the interests of business people are not guaranteed, leading to mass bankruptcy when a business step fails. Commercial credit in our country today is only based on mutual trust between buyers and sellers, leading to debt default and debt entanglements between businesses.
- Due to market fluctuations and many risks
- Due to natural disasters and epidemics
- Because the legal environment is not synchronized, there are no specific regulations for commercial credit and law enforcement is still ineffective.

To ensure that the buyer will repay the loan on time, in addition to trust, the seller also requires legal evidence, which is the certificate of credit trading relationship mentioned above, the certificate of This can be made by a

creditor to demand money, or by a debtor to commit to pay, it is called a "commercial promissory note" or "commercial paper" (draft and promissory note). In particular, a bill of exchange is an unconditional demand for money issued by the seller, and a promissory note is an unconditional commitment to pay issued by the buyer.
However, the Ordinance on Negotiable Instruments took effect from July 1, 2000 [1] and the Government issued Decree 32/2001/ND -CP dated July 5, 2001 [2] guiding implementation. The above ordinance still has many inadequacies, is unclear, lacks specificity, and is not consistent with international practices. Specifically, due to the abstract nature of commercial instruments, it will lead to a situation where two businesses collude to establish issue a blank negotiable paper (negotiable paper not arising from credit trading relationship) to bring to the bank for discount or mortgage. This has made the guarantee of commercial paper impossible to exist, thus hindering the operation of commercial credit.

4.2 Subjective Reasons
Because the business providing commercial credit has not properly followed the process of granting commercial credit

5. Solutions to Overcome Risks When Granting Commercial Credit to Businesses in Vietnam
5.1 From the State Side
- Complete the legal system on commercial credit.

Create a legal corridor for the existence and safe and convenient performance of operations related to negotiable instruments, and issue specific guidance documents for businesses and traders to clearly understand the nature of commercial instruments each type of negotiable instrument or identify the negotiable instrument.
- Modernize the banking system

Improve banking operations, especially discounting, guaranteeing, and pledging commercial papers, ensuring smooth development of commercial credit.
- Building a stock market

Building a stock market increases the circulation and exchangeability of commercial paper, thereby minimizing risks for sellers. In case the seller needs capital, they can easily sell their ownership of commercial paper to get money before the deadline. Through the market, commercial paper is sold at the highest price, thereby creating conditions for businesses to enhance their financial capacity.
- Enact the law on negotiable instruments

In the market economy, tools have appeared to help businesses make payments and collect debts. These instruments include: bill of exchange, promissory note, check, etc. These instruments are transferable, so they are collectively called negotiable instruments.
Currently, in Vietnam, businesses and banks use bills of exchange in international payments. In domestic payments, buying and selling on credit has appeared "debt receipt" or "debt collection paper" issued by the seller or payer to carry out the buying and selling on credit but has not been regulated by the Ordinance. Therefore, it is necessary to form a system of legal regulations to effectively protect the rights of creditors. On the other hand, in the context that most of our country's enterprises have small production scale and lack business capital, putting commercial paper into use is necessary to create more capital mobilization channels and access to commercial credit. Commercial for businesses. This shows that the institutionalization of commercial credit relationships through the provisions of the Law on Negotiable Instruments in general and the law on commercial instruments in particular is an objective and inevitable requirement of the economy.

5.2 From the Business Side
- Correctly follow the commercial credit granting process

The trade credit granting process includes the following steps:
Step 1: Evaluate the customer's financial and business capacity and the ability of new customers to develop into potential customers.
Step 2: Track customer purchase and sale transaction history over a certain period of time.
Step 3: Evaluate the customer's sales commitment plan with the supplier.
Step 4: Decide to grant credit limit to customers.
- Improve the quality of commercial credit activities

It is necessary to develop a diverse and multi-utility commercial credit service system to meet the needs of the economy on the basis of continuing to improve the quality and efficiency of traditional services, while quickly accessing and develop new types of services with high technology content.
According to WTO [3], in recent years, our country's businesses have increasingly expanded trade and investment relations with countries in the region and around the world. In the process of integration and trade exchange This requires Vietnamese businesses to learn and proficiently use popular means of payment in international trade relations and international credit relations such as letters of credit, checks, promissory notes, promissory note..
- Evaluate business operations and report back

Through evaluating business operations and reporting back, information about the business is relatively complete and updated, helping customers avoid risks and contributing to economic and social stability.

6. Conclusion
Commercial credit is currently considered a means of great support for businesses that want to do business or serve business activities but do not have the conditions yet. Depending on each period, stage, and object, commercial credit will bring different values.
Through analyzing the risks when granting commercial credit to businesses and evaluating the causes of those risks, the authors have recommended a number of solutions to help limit risks when granting credit trade for businesses in the near future.

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