

MONETARY POLICY AND FINANCIAL SUPPORT FOR SMALL AND MEDIUM ENTERPRISES IN VIETNAM POST PERIOD OF GLOBAL RECESSION

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SUMMARY

Each day, MSEs have more and more contributions for development of each country. In Vietnam, MSEs make up 97% in the total number of active companies and it has major contribution for GDP growth. After the global crisis and recession (2008), the collapse of the banking and finance market has strongly impacted to the growth and development of MSEs in Vietnam. It's a negative impact to the capital accessibility and efficient capital using. Aware of this problem, Vietnam government has many policies to encourage MSEs' growth as well as to increase the capital accessibility for MSEs. These policies are restraining inflation, reduction the loan procedures for MSEs, indirect stimulus policy etc. This study also describes the economy context of Vietnam after the crisis and the reality of MSEs as well as the assessments about government's efforts to increasing the capital accessibility for businesses in Vietnam.

Key words: *Monetary policy, financial support, MSEs, period of global recession, access capital.*

INTRODUCTION

The WTO accession is expected to bring about new opportunities for SMEs development like the creation of a level playing field, easier access to production factors and cheaper imported inputs in the domestic market, expansion of export markets, and facilitation of the national economy to engage more in-depth in regional and global production networks. After the WTO accession, Vietnamese SMEs anticipate tremendous difficulties in both domestic and global markets because they lack a competitive edge over foreign rivals [16]. Many SMEs experience high production costs, poor quality of products, and low degree of innovativeness. Moreover, capital shortage, lack of advance technology, management skills and expertise, and insufficient market information, and so on hindered these young SMEs to compete globally. Especially, it is small and medium enterprises (SMEs). These enterprises are facing difficulties related to financing for

investment in production. The difficulties related to financing of SMEs clearly show the lack of flexibility of this sector. They are very difficult to access formal sources of capital, by the banks to concentrate on the traditional customers, the big business. Thus, there was 75% of SMEs to borrow from informal sources at interest rates of up to 5-6% per month [7]. According to economic experts, in this context, SMEs need more flexible access to loans by transparent records, data, business plans effective; it must have strategic enterprise development as well as collateral etc. to access bank loans more easily. However, they are difficult to meet the requirements above. In addition, SMEs often consider loans from banks are unique, so may have access to other sources of capital from the form of financial leasing, factoring or venture capital fund. Difficulties in funding this development involves not easy to find production premises with reasonable prices. This is a "vicious cycle" that many SMEs in Vietnam have, because there are no business premises, lack of business assets as collateral, lack of long-term business

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strategy and therefore, it is difficult to access to bank loans [8].

THE STATUS OF SMES IN VIETNAM

Statistics on SME

Number of new enterprise for each year continued to grow in the last 10 years. In 2000, there were 14453 newly established enterprises; this number was estimated to be more than 7 times larger in 2010. Until December 2013, the total number of enterprise in Vietnam was 76955 [17]. Small and medium enterprises now accounts for 97% of businesses nationwide, is working increasingly effectively, accounting for nearly 45% of gross domestic product (GDP). Thus, although a "small and medium" but the sector has contributed greatly to the country. This area is the most the employer contributes the largest consumer goods, investment growth ratio (ICOR) is the lowest, is now available in all areas, regions, resources to effectively deal labor force, contributing to increasing income and reducing poverty.

The policy of the state to develop small and medium enterprises in Vietnam

Recognizing the importance of continuing the reform effort, the Government approved the Socio- Economic Development Strategy, 2001-2010 and the Socio-Economic Development Plan, 2001-2005 [16]. The plans outline the Government's strategy to further develop the Vietnamese economy, in particular the private sector, for the next decade. Meanwhile the international community continues to provide financial and technical support to assist Viet Nam's on-going structural reforms. Recent efforts to step private sector development include the following (i) Creating an enabling business environment for private enterprise and SME development since 2001. (ii) Several decrees that officially recognize the significance of the private sector and pro-private sector policies have been adopted. (iii) At the same time, newly issued legal documents to improve the policy environment for lending and facilitating commercial banks to adopt commercial principles in lending activities have been issued.

Context of the economy and curb inflation policies of the government

Economic growth

In the first 3 months of 2011, with the impact of financial crisis and rising inflation, Vietnam's economy growth is still pretty. Specifically, first quarter GDP growth reached 5.5%, roughly the same period of 2010 growth. Three months exports also grew strongly with an increase of 31%, three times higher than proposed. Meanwhile, the State budget by the end of February rose 17.6% over the same period [10].

Monetary policy tightening

Dated 29/04/2011, the State Bank (SBV) issued Decision No. 929/QĐ-NHNN, accordingly, re-discount rate increased from 12% to 13% and increased the refinancing rate from 13% to 14%, from the date of 01/05/2011. Thus, after only a month to adjust interest rates and refinancing in less than two months for the rediscount rate, the policy interest rate is adjusted again [10].

THE IMPACT OF MONETARY POLICY TO THE CAPITAL FOR SMES

The structure of SMEs in Vietnam

The large majorities of SMEs in Vietnam is very small indeed, and largely depend on purely internal and/or informal sources of financing. This is true in many developing and transitional economies. As the more successful SMEs grow, they are likely to need – and get improved access to – more formal and external sources of financing [5].

The diagram below seeks to provide (an admittedly highly stylized) picture of the SME universe in this regard. The vertical Y axis represents the capital size of individual SMEs, up to the ceiling – defined by the government of VND10 billion. And the horizontal X axis represents the aggregate number of SMEs. As one can see, as SMEs tend to get larger in scale, they are more likely to have an ability to access external financing, and vice versa, in what is virtuous cycle. Towards the base of the pyramid, smaller SMEs will typically – but not always – have less access to formal external finance;

and where they do so, it may actually be in the form of personal loans and the like to the owner or principals, or micro-finance from VSPB, people’s credit funds, etc. As this diagram suggests, the biggest hurdle for SMEs’ access to finance may actually be in a ‘twilight zone’ towards the middle of the pyramid, where SMEs find themselves caught in an external finance ‘blind spot’, where sufficient sources of external funding are not readily available.

Principal source of finance for SMEs

Government Programmes

The degree of banking intermediation in Vietnam is low. The banking sector is dominated by state-owned banks. Given the country is still in transition to market-based

economy, the low level of formal financial sector development and poor legislative and regulatory infrastructure, among other constraints, the economic landscapes is presently dominated by state-owned and micro enterprises (comprising mostly households and cottage industries). As such, there are limited programmes to address SME financing. Government lack the financial capacity to provide internal funding for SME development, are not experienced to manage such programmes and/or are pre-occupied with financing state-owned enterprises while the private sector banks are reluctant to do so due to insufficient legislations to protect their interests. It is the informal sector that plays a paramount role.

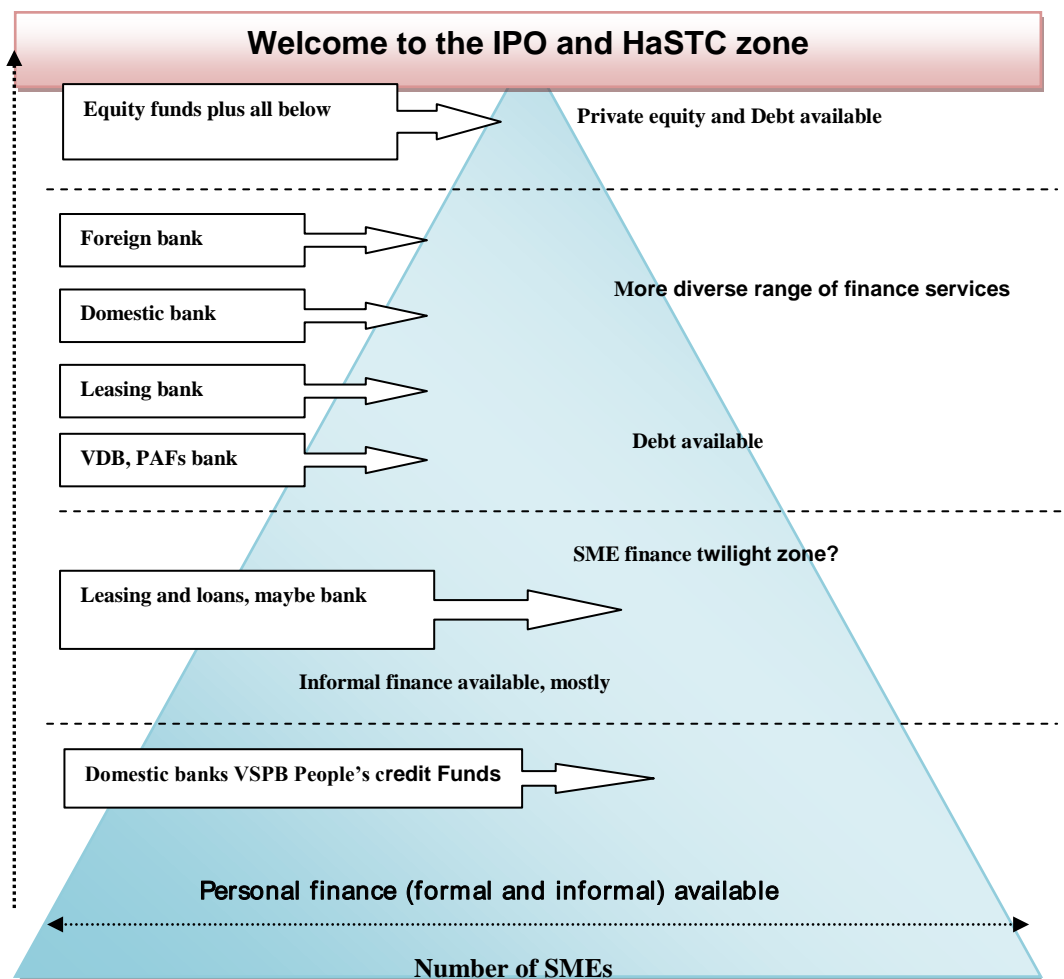


Figure 1: Vietnam’s SME universe and its financing options

Source: Nick J. Freeman and Ngoc. Le Bich, 2007 [5]

Sources from the banking system

Notwithstanding the low rate of penetration, financing by banking institutions form the most important source of external financing for SME. This is due to the dominance of the banking sector as the main intermediary in the financial systems of these countries. The average share of bank financing for SME in Viet Nam is about 25% [13]. There are also numerous non-bank financial institutions (NBFIs) such as finance companies, credit & leasing companies, cooperatives and thrifts, credit unions etc that are involved in SME financing. These banks and NBFIs also participate as conduits for government funds for SME [11].

Capital Markets

This promising approach seems to address the chronic lack of long-term credit available to SME. Nevertheless, given the onerous legal, regulatory and administrative requirements on firms targeting the capital markets, the lack of support from the investment community (brokers, dealers etc) and the generally nascent capital markets in these countries with significant imperfections (e.g., high transaction costs, lack of liquidity, and depth of instruments), this move has many challenging hurdles from an implementation aspect [14].

From Venture Capital sources

The availability of venture capital in these economies is limited. Mekong Capital Ltd is a private cross boarder investment company that undertakes equity investment in Viet Nam. Mekong Capital manages a US\$18.5 million Mekong Enterprise Fund launched in April 2002. The fund is co-financed by the Asian Development Bank (ADB), the Northern European Development Fund, the Swiss Economic Department, the Norwegian Industrial Cooperation Fund and the Belgian Investment Company. It is set up to operate over 10 years, with 65% of its investments to be made in Viet Nam. The Fund aims to

invest in private export oriented businesses that are well managed and with impressive track records. In Viet Nam, a second venture capitalist is Vietnam Enterprise Investment Ltd (VEIL) managed by Dragon Capital. VIEL has US\$53 million in 2003 and intends to raise its capital by another US\$50 million. Both funds seek to invest in larger SME [22].

Trade Financing

Trade financing in the form of trade credit, equipment leasing and to a certain extent, factoring are popular with SME in Europe but not so popular in Vietnam. In terms of the portfolio composition by facility type, term loan is the dominant facility offered to SME in these countries comprising almost 65% of SME loans in Viet Nam banks. Generally, factoring, and leasing are less common facilities offered to SME [23].

Informal Sector Financing

The informal sector comprises lending between family and friends, savings and credit associations, and moneylenders (alternatively known as grey or black markets). The informal sector is the main channel of credit for SME in Vietnam and to a lesser extent. In Viet Nam, informal channels fund up to 70-80% of SME needs compared to 20-30% funded by the formal channels (as estimated by Hanoi SME Association). SME are also known to pay a “commission” to third parties that are able to obtain a bank loan on their behalf [8],[23].

Factors affecting the ability of SMEs to access capital

Economic growth and inflation

Also in the high growth period (2001 -2007), inflation rate in Vietnam is just single digit inflation (figure 2). During this period the capital was used effectively, the export growth, exchange rate stability and facilitate GDP growth [3]. But, after 2007 from high inflation, devaluation of domestic currency compared with foreign currencies, money supply and large capital expenditures for high

growth. In 2008, the highest inflation (23.8%), Vietnam government has introduced policies to tighten spending, adjusted basis interest rates, increased reserve requirement ratio of banks to curb inflation. With such policies, the inflation rate tends to decrease in 2010 [10]. But in late 2010 and the first four months in 2011, inflation continued to increase. On April -2011 Vietnam's inflation was 17.5%. According to economic experts of the World Bank's Vietnam, inflation in 2011 could be 22% [17].

Foreign exchange rate policy and capital control

Vietnam has accepted the obligations under IMF Article VIII, with effect from 18 October 2005. Thereby, Vietnamese authorities accepted not to impose restrictions on the making of payments and transfers for current international transactions, and not to engage in any discriminatory currency arrangements or multiple currency practice, except with IMF approval. Capital controls continue to be in force in Vietnam, and the only sizeable inflows apart from official transfers are foreign direct investments and remittances from Vietnamese living abroad. Short- and medium-term capital inflows have been successfully restricted [18].

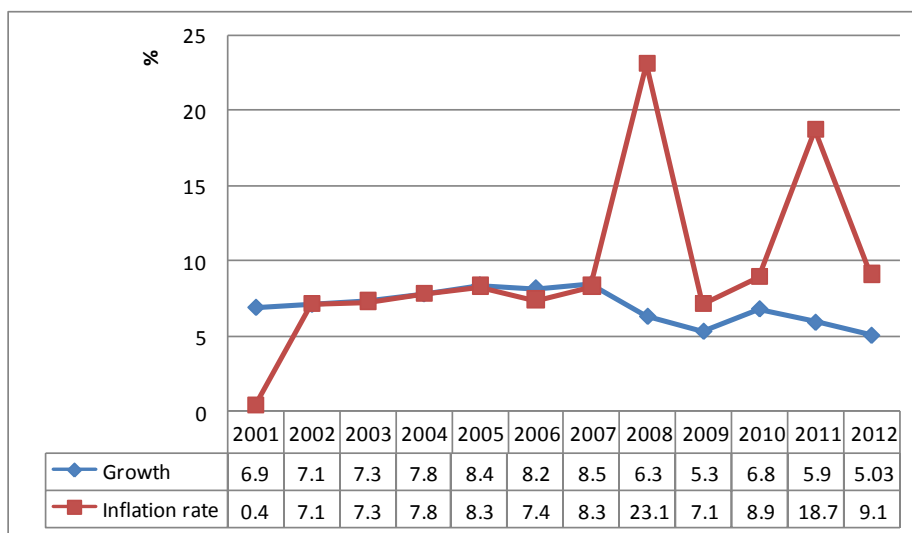


Figure 2: Economic growth and inflation rate (% per year)

Source: IFS and Wold Bank

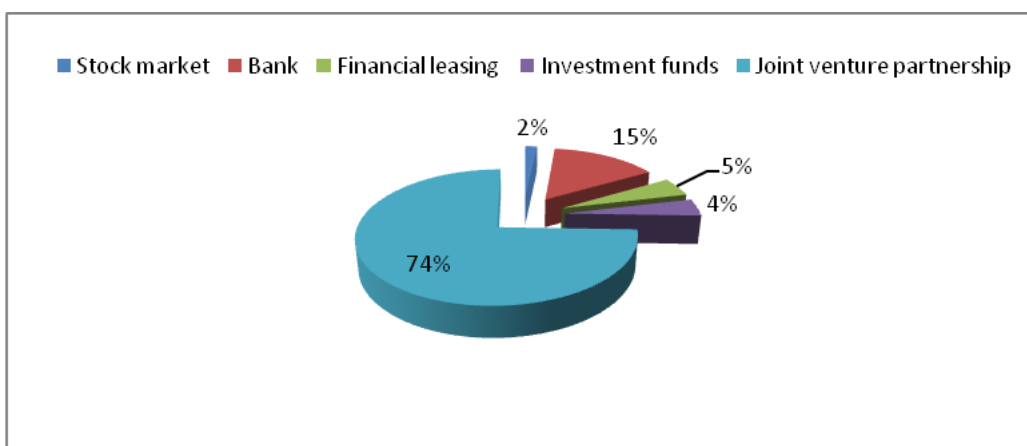


Figure 3: The channel of raising capital for small and medium enterprises

Source: VCCI, (2013)

Number of sources of capital for SMEs is limited and difficult to access

Nowadays, with the development of financial markets in Vietnam, enterprises with more choices channel for capital mobilization. As in other developing economies, in Vietnam, the bank remains the primary channel for capital mobilization of the enterprise. Among enterprises is the demand for loans, up to 74.74% of businesses see the bank as a channel for capital mobilization of their principal. Followed by access channel are investment funds with 14.89%. It is noted that the stock market has not been considered as an important channel for capital mobilization of SMEs; only 4.26% of businesses choose this channel [14], [9]

Constraints in SME Financing

From the supply side perspective, these countries share some common shortcomings and constraints that have effectively impeded the ability of SME to access needed funds. However, due to differences in economic and financial development, many constraints as discussed below are unique to Vietnam [7], [5].

CONCLUSIONS

(1) There is a chronic lack of finance for acquiring industrial premises. The problem is compounded by pollution in major urban areas such as Hanoi and Ho Chi Minh City. The authorities can therefore be expected to adopt policies to encourage companies to move their factories by offering tax incentives and providing financing to help them purchase the necessary land and facilities.

(2) Smaller companies would be encouraged to move into buildings that offer space for both residential and light industry use.

(3) Small and medium-scale enterprises should have access to specialized information and advice via the VCCI (for a fee), and to general information collected by VIETRADE, the export promotion agency within the Ministry of Trade, through the Department of

SME Promotion at their local people's committee (free of charge).

(4) The eight regional branches of the VCCI should offer advice to exporters.

(5) Funds should be made available by the Export Credit Fund and the new SME Finance Corporation to help exporters with cash flow problems.

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TÓM TẮT

CHÍNH SÁCH TIỀN TỆ VÀ HỖ TRỢ TÀI CHÍNH CHO DOANH NGHIỆP VỪA VÀ NHỎ Ở VIỆT NAM THỜI KỲ SUY THOÁI KINH TẾ TOÀN CẦU

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MSEs ngày càng có đóng góp lớn đối với quá trình phát triển của mỗi quốc gia. Ở Việt Nam, MSEs chiếm tới 97% trong tổng số các doanh nghiệp đang hoạt động và nó có đóng góp lớn vào tăng trưởng của GDP. Kể từ sau khi khủng hoảng và suy thoái kinh tế toàn cầu (2008) với sự đổ vỡ của thị trường tài chính và ngân hàng đã tác động mạnh tới sự tăng trưởng và phát triển của các MSEs ở Việt Nam. Đó là sự tác động tiêu cực tới khả năng tiếp cận vốn và sử dụng vốn sao có hiệu quả. Nhận thức được vấn đề này, chính phủ Việt Nam đã có nhiều chính sách để khuyến khích MSEs phát triển cũng như chính sách tăng cơ hội tiếp cận vốn cho MSEs. Các chính sách như chính sách kiểm chế lạm phát, giảm thủ tục vay vốn đối với MSEs, chính sách kích cầu gián tiếp v.v. Nghiên cứu này cũng đã mô tả được bối cảnh nền kinh tế Việt Nam sau khủng hoảng, thực trạng các MSEs cũng như các đánh giá về sự nỗ lực của chính phủ đối với việc tạo điều kiện tiếp cận thị trường vốn cho các doanh nghiệp ở của Việt Nam.

Từ khóa: chính sách tiền tệ, hỗ trợ tài chính, MSEs, suy thoái kinh tế toàn cầu, tiếp cận vốn

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