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CHALLENGES IN IMPLEMENTING THE CREDIT GUARANTEE SCHEME FOR SMALL AND MEDIUM-SIZED ENTERPRISES: THE CASE OF VIET NAM

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Abstract

Access to credit is still one of the greatest obstacles to the growth of small and medium-sized enterprises (SMEs) in Viet Nam, and, to date, only 39% of SMEs have bank loans. SMEs' loans account for 22% of the total bank lending for the overall economy, whereas SMEs constitute 97% of the total number of enterprises (NCIF 2017). To cater to SMEs' need for financial sources, especially formal sources such as the banking system, the Vietnamese government has implemented a large number of supporting programs, including the credit guarantee scheme (CGS) for SMEs, which it established in 2001. However, until June 2017, only 2000 out of 507,640 SMEs had loans with CGS guarantees, with a total outstanding guaranteed value of US$66.1 million (NCIF 2017), which equals only 0.12% of the total outstanding loans of SMEs from banks and 0.03% of the GDP: much lower than the figures for Thailand (over 1% of the GDP) and Malaysia (1.5% of the GDP). It is possible to state that the contribution of CGSs in Viet Nam to accelerating bank credit for SMEs is minor and not in line with the original expectation (NCIF 2017). Through collecting, synthesizing, and analyzing data, the paper aims to study the challenges involved in implementing CGSs for SMEs as well as the causes of their poor performance. The fundamental reasons that the study finds include the strict and impractical conditions for issuing credit guaranteed loans; the lack of adequate professional competence of staff involved in the credit guaranteeing task; the fragmented relationship between the credit institution and the CGS; and the lack of a credit database platform that facilitates access to finance for SMEs by providing comprehensive and reliable creditworthiness.

Keywords: credit for SMEs, Vietnamese business environment, SMEs in Viet Nam

JEL Classification: G28, G23, E51, H81

Contents

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are major players in stimulating economic growth. In Viet Nam, with the domination of SMEs in the economy due to their contribution to the GDP, it is important to assess the business environment affecting their development. Of the total number of SMEs, 25% have indicated that insufficient capital due to the difficulty in accessing finance is still the most critical constraint to their business growth. In response, the Vietnamese government established a credit guarantee scheme (CGS) in 2001, which local governments manage, combined with a scheme that the Viet Nam Development Bank (VDB) developed (however, credit guarantee funds (CGFs) from local governments are dominant). The aim of the CGS is to back the loans taken out by SMEs and facilitate access to credit. In this paper, the authors will analyze the current status of the Vietnamese CGS and the challenges that it is facing, along with the policy recommendations for improving its effectiveness in operation. Due to the lack of systematic data, the author employs the content analysis method using reliable sources, including regulatory documents and other reports, working papers that the provincial People's Committee has issued, CGF officials, and the VDB.

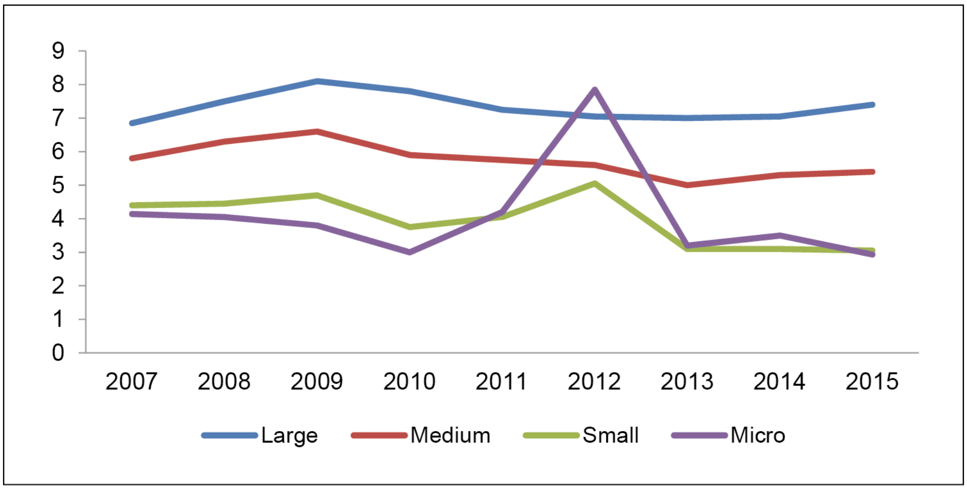
2. SMES' KEY BUSINESS PERFORMANCE AND ACCESS TO FINANCE IN VIET NAM

2.1 Key Business Performance

Vietnamese SMEs account for the major proportion of the total business population in the country. According to the VCCI (2016), the number of SMEs is 590,000, which is equal to 97% of the total number of registered enterprises if classified by labor scale. Moreover, this private sector occupies a crucial position in the economic development of the country, as it contributes over 40% of the GDP, accounts for 31% of the government budget revenue and roughly 30% of the total export turnover and creates over 70% of employment. Many consider SMEs to be the engine and driving force of economic growth in Viet Nam.

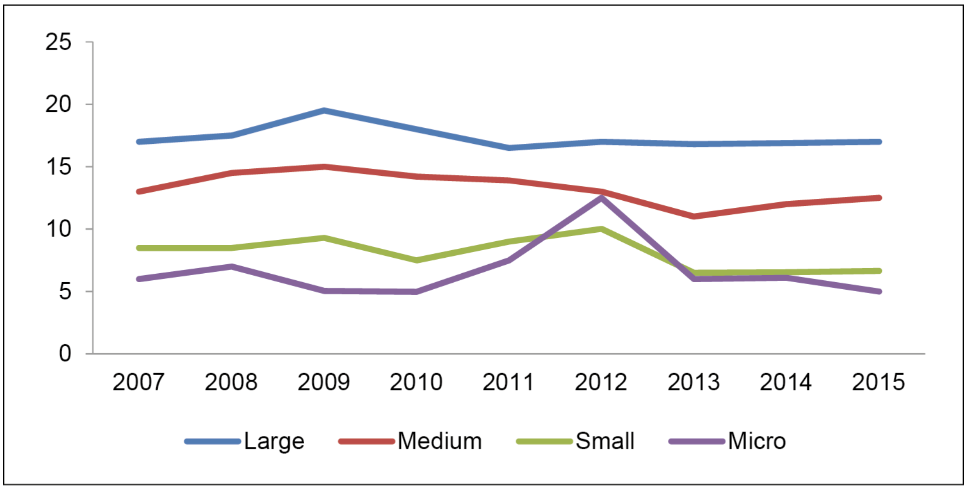
To gain an insight into Vietnamese MSMEs' performance, the study compares their essential financial indicators, including return on assets (ROA) and return on equity (ROE), as well as the overall MSMEs making a loss and the interest coverage ratio, with those of large enterprises. Financial performance indicators are important for evaluating the capital utilization of firms in creating revenue through assets and equity. It is highly likely that higher revenues per dollar of investment generate more retained earnings for reinvestment and express stronger and healthier financial flows. They are therefore important figures for banks to measure the effectiveness of SMEs in transforming capital into profit in lending appraisals (Seens 2015). In the case of Viet Nam, despite the fact that the reliability and quality of financial statements are still questionable (NCIF 2017), analyzing firms' financial indicators, especially the ROA and ROE ratio of SMEs, is necessary to gain an insight into SMEs' status with regard to their borrowing ability. The study extracts and calculates data from Viet Nam's annual enterprise survey, which the General Statistics Office conducts.

Figure 1: ROA Ratio of MSMEs Compared with Others



Source: Processing data from the GSO's enterprise survey (2007–2015).

Figure 2: ROE Ratio of MSMEs Compared with Others



Source: Processing data from the GSO's enterprise survey (2007–2015).

Regarding the ROA and ROE, Figure 1 and Figure 2 show a positive correlation between the ratios' value and the firm size. On average, large enterprises have the highest ROA (ranging from 7 to 8) and ROE (roughly 17), followed by medium-sized and small enterprises. Micro-sized firms outperform larger enterprises with below 4.5 for the ROA and around 6 to 8 for the ROE, except in 2012, when there was a peak in the performance of both ratios. Compared with SMEs in other Asian countries, with an average ROA and ROE of 2.8% and 3.6%, respectively, in the period 2011–2015 (Wen et al. 2017), people considered the financial performance of Vietnamese SMEs to be healthy. Moreover, a peak is apparent in both the ROA and the ROE in 2012; this was partly a result of the government's deferred tax policy at the end of 2011 and 2012 for eligible SMEs[1] to remove the difficulties in enterprises' business activities. Because of domestic and international economic development, many difficulties have arisen, and these may have negative impacts on domestic enterprises, especially small and medium

[1] All SMEs are eligible for a 30% tax deduction except firms operating in lotteries, real estate, stock, banking and finance, or insurance or producing goods and services that are subject to special consumption tax.

enterprises (Figure 3). In 2011, the Ministry of Finance adopted a corporate income tax reduction policy of up to 30% for SMEs in the fiscal year 2012: an estimated tax reduction for about 200,000 of the 360,000 small businesses (Vietnamese Government 2012).

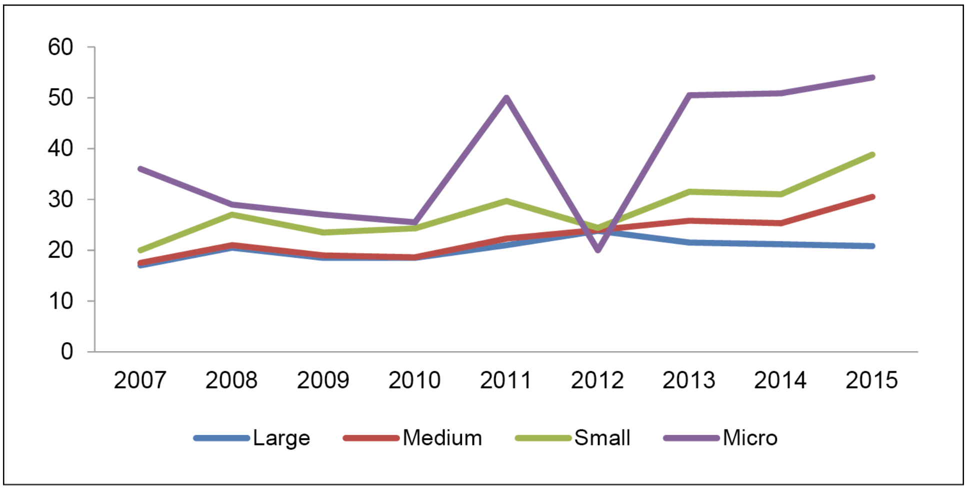
The economic slowdown and the rescue from the government also exerted an impact on the number of enterprises making a loss; micro-sized enterprises are the most vulnerable, as the percentage of firms reporting losses fluctuated widely with the highest ones (over 50%) in 2011, following by a great reduction to the low point of below of 20% in 2012 before increasing again in 2013, 2014, and 2015 (Figure 3).

In addition to the positive correlation between the firm size and the value of indicators, there is an underlying point with regard to the ROA and ROE. It is apparent that there is no substantial change between the values of the two financial indicators in smaller-sized enterprises (for example, for micro enterprises, the ROE is roughly 5 compared with the ROA, with an average of 4), whilst the ROEs in large enterprises are significantly higher than their ROAs (for instance, for large enterprises, the ROA fluctuates around 8 but the ROE is around 17–18 throughout the entire period). This is a result of the difference in the employment of financial leverage among types of firms. More specifically, while larger enterprises tend to utilize debt to serve business as assets, the majority of smaller firms rely on equity or owners' capital. In other words, employing higher debt or leverage partly allows better financial performance of larger firms with a higher value of the ROA and ROE. This result also finds support from the research that Pham et al. (2016) conducted about Vietnamese firms' business performance and access to credit based on the data collected from 2500 SMEs in Viet Nam. The paper concluded that utilizing borrowing money has a substantial positive impact regarding the real revenue of all firms in Viet Nam. Firms with access to more credit, especially formal financing, achieve greater revenue, ranging from 45.1% to 50.7%.

It is worth noting that, although the data indicate that SMEs are lagging behind large firms in making a profit, it is questionable whether data manipulation occurs. The reason is that Vietnamese SMEs are highly likely to keep several accounts (one account for banks, one account for showing to tax authorities, etc.) (Do 2014). A significant number of SMEs do not declare their real sales and revenue, holding non-audited books to evade taxes (NCIF 2017). Thus, the lower ROA and ROE of SMEs compared with large enterprises may not be completely convincing and trustable. Meanwhile, for large enterprises, because a majority of them are stock listed with stricter auditing requirements and supervision, it is highly likely that their financial indicators are more reliable thanks to having healthier audit books than SMEs. This problem shows the necessity of developing a nationwide credit database in Viet Nam to accumulate SMEs' credit data. Such a database exists in Japan, the so-called CRD (Credit Risk Database). Existence from such a database will help to reduce the information asymmetry for SMEs (Yoshino and Taghizadeh-Hesary 2015).

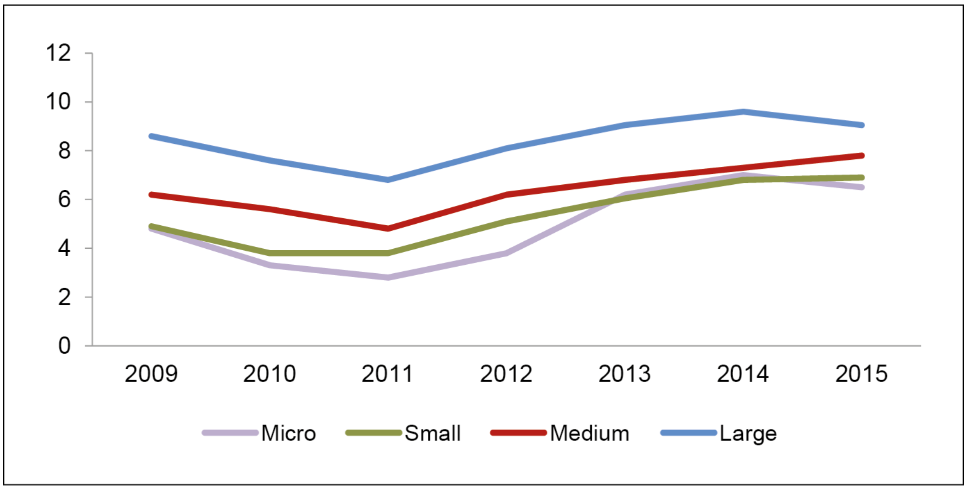
In addition to the ROA and ROE, the interest coverage ratio is a crucial ratio for determining how easily a company can pay its interest expenses on outstanding debt. It is possible to calculate this ratio by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses for the same period.

Figure 3: Rates of Enterprises Making a Loss



Source: Processing data from the GSO's enterprise survey (2007–2015).

Figure 4: Interest Coverage Ratio



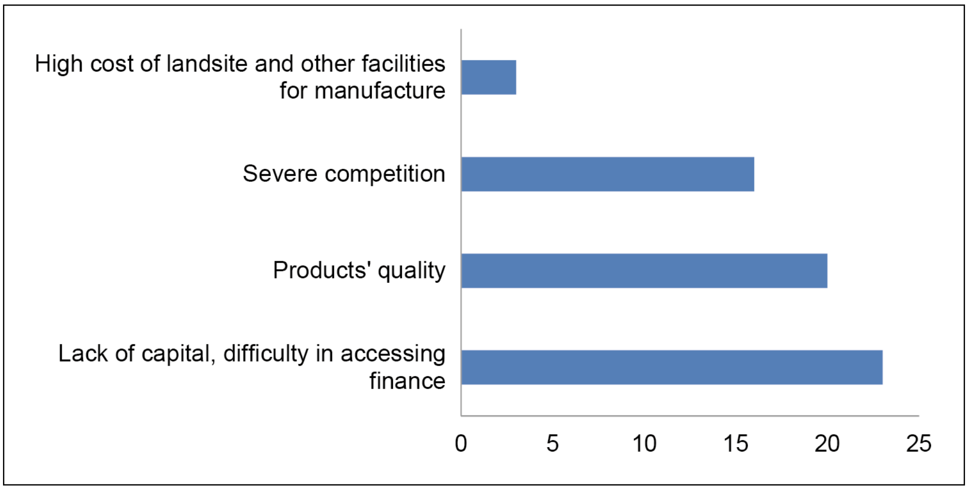
Source: Processing data from the GSO's enterprise survey (2007–2015).

Overall, the ability to meet interest payments across types of enterprises is positive when all the types of enterprises possess an interest coverage ratio above 1. Figure 4 shows that this ratio is directly proportional to the size of the enterprise; in other words, large enterprises have the highest interest coverage ratio, with roughly 8–10, whilst MSMEs have lower ones, ranging from 4 to 6.

2.2 Obstacles to SMEs' Access to Finance in Viet Nam

According to the Vietnamese SME survey, the lack of capital and the difficult access to finance are still perceived as the largest obstacle to their success (Figure 5). However, compared with the previous surveys, the rate has decreased, from 45% a year in 2011 to 30% in 2013 and 23% in 2015 (CIEM et al. 2016). The concern relating to the quality of products is another major issue, followed by severe competition (perceived by 16%) and high expenditures on land and factories (perceived by 3%).

Figure 5: Obstacles to SMEs' Development (%)



Source: CIEM (2016).

SMEs are facing many obstacles in accessing capital. The CIEM et al. (2016) indicated that MSMEs have a much lower chance of having bank loans than large enterprises. Only 200,000 of the existing 507,640 SMEs have bank loans. The total outstanding loans of SMEs from the banking system account for 22% of the total credit provided for the overall economy, whereas in Thailand banks back over 35% of SMEs' loans and in Bangladesh they back over 25% (Shinozaki 2015).

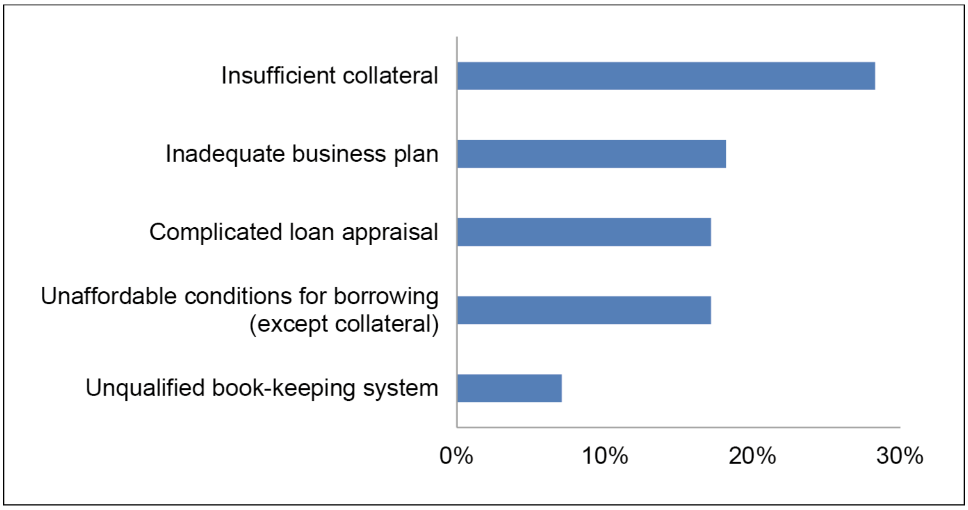
Small and medium-sized enterprises in Viet Nam can attract capital from a variety of sources, including banks, investment funds, friends and relatives, or the informal credit market. Among those types of credit sources, the formal banking system is the least risky source of capital, which can offer a lower interest rate and abundant credit (Pham and Talavera 2018). However, the number of SMEs raising capital from this source in Viet Nam is modest, as only about 30% of businesses acquire their capital through bank loans, while nearly 50% rely heavily on commercial credit, especially micro-sized firms (Hoang et al. 2018). Another issue is that delayed payment in commercial credit is popular in Viet Nam (Chou et al. 2015), which not only hampers SMEs' operation due to the lacking working capital but also negatively affects the bank loan repayment process. That in turn affects the creditworthiness of the firms (Hoang et al. 2018).

Moreover, among the enterprises that have borrowed capital successfully from banks, banks only approved one-third of loans for more than 50% of their demand, and one-fifth of enterprises were only able to borrow 25% of their capital need. Those figures show that there is a huge gap between the capital supply and the demand of SMEs.

2.2.1 Collateral Requirement

Pham (2016) showed that roughly 64% of 165 enterprises in Phu Tho Province in Viet Nam could not borrow any funds from banks due to unqualified collateral. The VCCI (2016) indicated that firms consider the demand for secured assets to be the most difficult constraint in removing the barriers to accessing bank capital for SMEs in Viet Nam, following by the lack of a proper quality business plan and the complicated procedure for loan appraisal as well as other strict conditions for borrowing, such as financial performance or firms' age (Figure 6). These obstacles to accessing finance in Viet Nam are similar to those of other countries in the region, such as Malaysia and India, since the SMEs in these two countries have raised many concerns about the complicated procedure, the collateral, and the lending policy of financial indicators preventing them from obtaining bank credit (Shinozaki 2015).

Figure 6: Obstacles Perceived by SMEs in Assessing Finance



Source: CIEM (2016).

On the banking side, nearly 80% of banks have confirmed that the condition of secured assets is a prerequisite when considering credit assessments for SMEs. In addition, banks have traditionally lowered their collateral value and applied relatively restrictive credit to the total value of collateral (SMEs often have to mortgage a valuable asset that doubles or triples the value of the loan). Those constraints, which hinder the access to finance of SMEs in Viet Nam, are particularly relevant to a survey in Cambodia, in which the primary factors preventing financial access were a lack of collateral, an inadequate legal framework, a limited number of financial products to serve SMEs, and a lack of expertise to prepare suitable financial statements (ERIA 2008).

The lack of access to bank credit is unfortunate for SMEs, because it is the most important source of capital in Viet Nam. Banks dominate Viet Nam's capital market. According to Hoang et al. (2018), the banking system regulates more than 96% of the total assets of the financial system, providing 68% of the economy's capital. Furthermore, in 2016, domestic credit from the banking system accounted for over 140% of the GDP in Viet Nam, which is substantially higher than the average figure for a low–middle-income country, which is only 69% (World Bank 2017).

The major bottleneck is the inability to improve access to bank capital by requiring SMEs to add collateral assets and not requiring banks to abandon the condition of secured assets in credit. On the one hand, business plans are almost nonexistent or firms do not have enough assets to back their loan needs. Banks have even rejected small and medium-sized businesses that have assets, because they are not on the list of acceptable assets. They consider a group of assets as pledge assets under the credit guarantee scheme, such as real estate and other fixed assets, including factories, warehouses, machinery, and equipment; they especially consider potential assets formed in the future under the ownership of enterprises as a condition for applying for loans (BIDV 2018). In their paper, Nguyen and Wolfe (2016) showed that, on the banking side, collateral provision significantly affects banks' lending approval. SMEs are highly likely to attain more loans with more favorable loan conditions if they possess a higher value of collateral. Furthermore, the research showed that, in terms of the form of collateral, there is a significant positive correlation between loan approval and collateral in the form of real estate and, in fact, approximately 70% of collateral that firms pledge is real estate, which indicates that real estate as pledged assets is still the most important criterion in banks' decision making for lending.

However, the survey's results (CIEM 2016) showed that more than half of small and medium enterprises (nearly 51%) have existing assets in the form of inventories (raw materials, equipment, and finished goods) and business. Less than 15% of enterprises have main assets that are real estate, and just over 34% have assets and machinery of value and of stable use. This is in contrast to the priority order of collateral that banks choose when granting credit.

2.2.2 Requirements for Minimum Years of Operating Business and Financial Reporting

To control credit risk, commercial banks often apply the same set of evaluation criteria and risk criteria for all enterprises, from small to large, without considering the specific characteristics of SMEs. These criteria are a crucial barrier for SMEs. For example, VPBank's corporate customer screening criteria include i) operating for at least two years, ii) no overdue debt, and iii) minimum revenue of US$250,000. In addition, VPBank has limited its loan amount to 10% of the total revenue, and the tax authorities must certify the report. The criteria for screening corporate customers of the ACB include i) the business must have been operating for two years or more and ii) it must have had financial statements for at least two years. Banks may or may not require collateral.

For state-owned banks, these conditions have been declining since the beginning of 2017. The Investment and Development Bank (BIDV) accepts credit applications from newly operating enterprises; SMEs only need to prove the operation duration of a full six months, the maximum turnover is VND20 billion, and the semi-annual financial report is valid with a receipt from the tax authorities. The maximum allowable debt is equal to 10 times that of equity, but collateral is mandatory. The Viet Nam Bank for Agriculture and Rural Development also approved the granting of credit to newly established enterprises; it did not specify the credit conditions but considers each loan flexibly.

2.2.3 Poor Business Management Skills

Bosma and Harding (2006) indicated that a large number of SMEs struggle in their operation due to the inadequate financial literacy of their entrepreneurs. The authors criticized SME owners, regardless of their age, as playing central roles in business decision making involving resource procurement, allocation, and utilization, which are complex and tough tasks that may result in financial issues and lead to poor financial performance of the firms. That is why, to achieve success in business, entrepreneurs must be financially literate (Oseifuah 2010).

When evaluating the creditworthiness in the lending process of banks, whereas they consider information from financial statements as a hard source, they view management skills and a firm's strategy combined with its product–market position and top executives of SMEs is a soft source for assessment (Grunert and Norden 2011). In many situations, soft information is important to contribute to the increased accuracy of hard sources when determining whether manipulation of the financial statements of SMEs is a crucial issue. Grunert and Norden (2011) argued that better soft information is highly likely to provide SMEs with better bargaining power with the banks in the lending process. Therefore, to gain better access to finance, financial and corporate management skills need improvement.

Atkinson and Messy (2013) also emphasized the importance of increasing financial literacy for SMEs owners, indicating that they are one of the most excluded groups in financial education. In the case of Viet Nam, in addition to the strict conditions to be able to borrow from banks with a high requirement for collateral, Hoang et al. (2018), in their survey results, indicated that the business management incompetence of SMEs' executives in Viet Nam is another matter of concern. A large number of SMEs possess weak business plans that are often spontaneous, seasonal, and lack risk prevention options. One in every two businesses is either operating at or in the early stages of the business cycle. Only one-third of small and medium enterprises have been breaking even, and more than 13% of businesses have operated at the expected yields. As many as 57% of businesses do not have long-term or medium-term provisions, and 75% do not have short-term provisions for short-term risks.

3. STATUS OF THE CREDIT GUARANTEE SCHEME FOR SMES IN VIET NAM

3.1 The Development of a Credit Guarantee Scheme for SMEs in Viet Nam

3.1.1 The Legal Framework for Establishing and Operating the CGSs in Viet Nam

Considering the importance of SMEs in the Vietnamese economy and the difficulties that this type of business is facing in accessing financial resources for business expansion, the Vietnamese government views credit guarantees as a critical tool to enhance SMEs' ability to thrive in the country. Two channels of credit guarantee are available for SMEs: (i) the Viet Nam Development Bank's Credit Guarantee Fund; and (ii) local credit guarantee funds.

The table below presents the content of the major regulations for operating CGSs in Viet Nam:

Decree 34/2018/ND-CP came into effect in March 2018 and included substantial changes from the previous regulation for local credit guarantee funds. The expectation is that the scope of credit guarantees and the essential conditions for loan guarantees will increase their effectiveness over time; Box 1 presents the essential conditions for operating CGFs and obtaining guaranteed loans.

Table 1: The Credit Guarantee Scheme's Policy and Regulations in Viet Nam

Name of Regulation	Outline/Major Content
Decree No. 193/2001/QD-TTg	Regulation on the establishment and operation of CGSs for SMEs
	CGFs are local financial organizations, which the provincial People's Committees establish and manage
	Charter capital includes provincial budget and capital contribution of credit institutions and other enterprises (the minimum level is 30 billion VND).
Decree 115/2004/QD-TTg and 2013 in accordance with Decision 58/2013/QD-TTg	The condition of guarantee for SMEs is that SMEs must have collateral valued at least at 15% of the required capital that they wish to guarantee.
Decree 03/2011/QĐ-TTg (which replaces Decision 14/2009/QĐ-TTg and Decision 06/2009/QĐ-TTg	The Vietnam Development Bank (VDB) is assigned the guaranteeing for enterprises wishing to borrow capital from commercial banks.
Decree 34/2018 / ND-CP	CGSs are operated for non-profit purposes and under the model of a one-member limited company with 100% charter capital from the public sector.
	CGFs have to have legal charter capital at the time of their establishment of 100 billion VND, granted by the provincial budget, instead of only 30 billion as before.
	SMEs have to at least 20% of required capital that they wish to guarantee.
	The total credit guarantee leverage of a CGF shall not exceed 15% for a single customer and 20% for a customer and related persons with regard to the actual charter capital of the CGF.

Sources: Vietnamese Government (2001, 2004, 2009, 2011, 2013, 2018).

3.1.2 The Situation of CGSs in Viet Nam

Until 2017, there were 27 funds (CGFs) in the country, with total chartered capital estimated at 1,462 billion VND (approximately US$63 million),[2] of which the local government budget capital accounted for nearly US$57 million (equal to 90%) and the rest was the private capital contribution. Estimates have indicated that the accumulated loans guaranteed for MSMEs from 2002 to 30 June 2016 consisted of US$179 million, which is equal to 80% of the total outstanding loans borrowed from the banking system via CGSs (NCIF 2017). Until the end of 2017, the estimated total amount of CGSs that had to repay overdue debt for SMEs was US$15.5, which means that nearly 10% of the total amount of money guaranteed from CGFs was non-performing. Of this, the repayment of the principle was about US$12.71 million and US$2.79 million was interest (Table 2). Regarding the guaranteeing activities of the Viet Nam Development Bank, it provided guarantees to a large number of enterprises with approved loans from banks of 15,316.5 billion VND (US$658.6 million), of which it guaranteed the loan value of US$10,768 million (70.3% guarantee). Since the issuance of the 2011 Decision on regulations of guarantees for SMEs to borrow capital at commercial banks, the bank has not yet implemented the guarantee for SMEs to borrow capital at commercial banks. As of 30 June 2016, there were 66 certificates with committed value of VND1,124.5 billion and USD25.6 million, and the outstanding principal balance at commercial banks were VND676.68 billion and USD22.214 million (of which VND189.73 billion and USD22.214 million were overdue principal; VND350 billion and USD4.908 million were overdue interest at commercial banks (Table 3).

[2] 1 USD = 23,210 VND.

Box 1: Scope of the Credit Guarantee

1.1.1.1 *1. The credit guarantee fund shall consider and grant credit guarantees to small and medium enterprises at a maximum equal to 100% of the loan value (including working capital and medium- to long-term capital) of the lending organizations. Basing itself on the feasibility and risk level of the enterprise, the investment project, the production and business plan, and the financial capability of the fund, the credit guarantee fund shall consider and decide on the level of guarantee for an enterprise.*

1.1.1.2 2. The guarantee of the credit guarantee fund consists of one of the following cases:

1.1.1.3 a) To guarantee the principal's debt repayment obligation at the lending organizations;

1.1.1.4 b) To guarantee the interests of the guaranteed party's loan at the lending organizations;

1.1.1.5 c) To guarantee the obligation to pay the principal and interest of the guaranteed party's loan at the lending organizations and be specified in the credit guarantee contract.

1.1.1.6 3. Based on the financial capability, management, and administration of credit guarantee funds, the feasibility and risk level of investment projects, production and business plans, and credit guarantee funds, the credit guarantee scope is stipulated in clause 2 of this article and must be specified in the contract of the credit guarantee.

1.1.1.7 Conditions for being granted credit guarantees

1.1.1.8 The credit guarantee subjects shall be considered by the CGF only when they satisfy the following conditions:

1.1.1.9 1. Having an effective investment project and plan for production and business, capable of repaying the loan capital.

1.1.1.10 2. Investment projects and production and business plans guaranteed by credit guarantee funds and guaranteed under the provisions of this Decree.

1.1.1.11 3. Having a minimum capital plan of at least 20% for participation in investment projects and production and business plans at the time when the credit guarantee fund evaluates for the purpose of granting a guarantee.

1.1.1.12 4. At the time of applying for a guarantee, enterprises shall have no tax debts for one year or more under the Law on Tax Administration and NPLs at credit institutions. In the case of tax debts due to objective reasons, the enterprises must obtain certification from the direct tax administration agency.

1.1.1.13 Limits for the grant of credit guarantees

1.1.1.14 1. Limits on investment loan guarantees: The credit guarantee fund of a CGF shall not exceed 15% of the actual charter capital of a CGF for a customer and must not exceed 20% for a customer and related person.

1.1.1.15 2. Restrictions on working capital loan guarantees: In addition to the provisions for the loan guarantee limit in Clause 2 of this Article, the credit limit for guaranteeing working capital of the credit guarantee fund shall not exceed the owner's capital in the financial statements of the enterprise submitted to the tax administration agency of the preceding year.

1.1.1.16 3. The total credit guarantees of credit guarantee funds for parties shall not exceed three times the actual charter capital of the credit guarantee funds.

Source: Vietnamese Government (2018).

Table 2: Local CGFs (Data until June 2016)

Number of CGFs nationwide	27
Total charter capital	US$63 million
– Local government contribution	US$57 million
– Private sector contribution	US$6 million
Accumulated SME loans from banks via CGFs	US$224 million
Guaranteed loans from banks (average 80%)	US$179 million
Overdue principle	US$12.71 million
Overdue interest	US$2.79 million
Current outstanding loan value guaranteed	US$17.7 million

Source: NCIF (2017).

Table 3: Viet Nam Development Bank (VDB)

Accumulated SME loans from banks via the VDB	US$658.6 million
Amount of guaranteed loans' value (average guaranteed rate at 70.3%)	US$463 million
Overdue principle	US$15.11 million
Overdue interest	US$8.18 million
Current outstanding loan value guaranteed	US$48.5 million

Source: NCIF (2017).

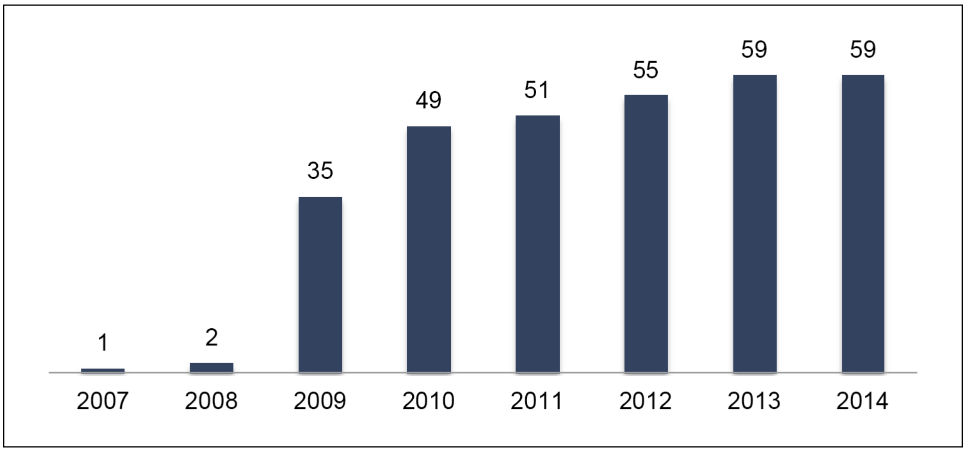
Through the operation of credit guarantee funds for SMEs and the Viet Nam Development Bank, more favorable conditions for SMEs to access loans from credit institutions enable them to expand their production and business. However, they do not greatly appreciate the effectiveness of the CGSs as well as the guarantee activities of the VDB due to the small size of the fund. Before 2018, the charter capital required for a CGF was only 30 billion VND (US$130,000). Until the end of 2016, the total capital of all the CGFs in Viet Nam was US$63 million, which is much lower than the value of charter capital in other countries in the region, including Malaysia (US$814 million) and Thailand (US$382 million) (Shinozaki 2015).

3.2 The Situation of Local Credit Guarantee Schemes—The Case of Ho Chi Minh City

People consider Ho Chi Minh's (HCM) Credit Guarantee Fund as one of the most active CGFs in Viet Nam.

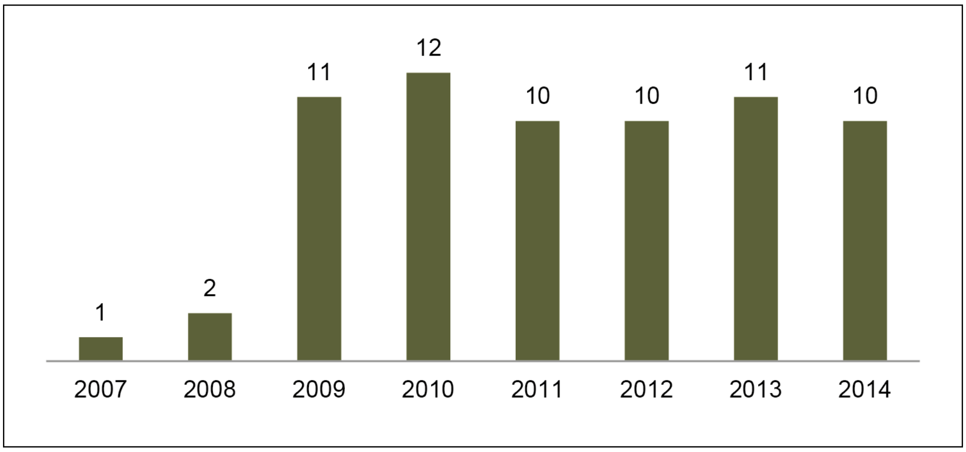
HCM City's Credit Guarantee Fund is a non-profit financial organization that the city established in 2006 and is under the control of the People's Committee of Ho Chi Minh City, aiming to bridge the gap between enterprises and credit institutions, supporting small and medium enterprises in accessing capital from bank institutions, non-bank credit institutions, microfinance institutions, and people's credit funds, developing production and business activities and services, and building their capacity for corporate management. Until 2014, Ho Chi Minh City's CGS had chartered capital of 232.35 billion VND.

Figure 7: The Number of SMEs Guaranteed (HCM City's CGF)



Source: Vo, Huynh, and Nguyen (2016).

Figure 8: The Number of Commercial Banks as Lenders (HCM City's CGF)



Source: Vo, Huynh, and Nguyen (2016).

Table 4: Charter Capital, Value of Loans Guaranteed (from Ho Chi Minh City's CGF)
(Unit: US$ thousand)

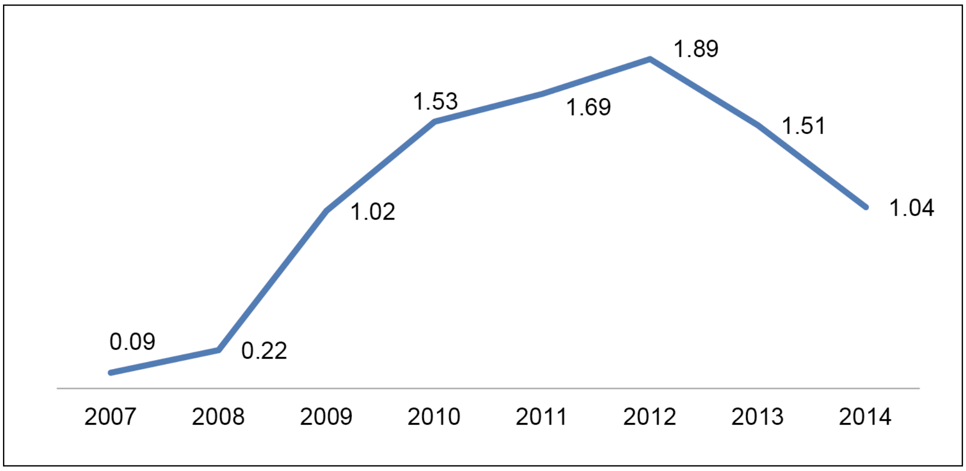
Criteria	2008	2009	2010	2011	2012	2013	2014
Value of guaranteed loans at the beginning of the year	262	8,673	10,774	9,073	3,991	4,235	359
Value of guaranteed loans at the end of the year	434	8,606	12,914	14,302	15,950	15,097	10,419
Accumulated guaranteed loans	434	9,107	19,881	28,954	32,944	41,488	37,539
Chartered capital	1,988	8,382	8,452	8,452	8,452	10,011	10,011

Source: Vo, Huynh, and Nguyen (2016).

Until 2014, the total number of SMEs with guaranteed loans was 59 at 10 bank branches (Figure 7 and Figure 8). It is noteworthy that, supporting the policy of the Government of Viet Nam in accelerating access to finance for SMEs through the banking system, a large number of banks have become involved in the credit guarantee scheme as partner banks; however, they have guaranteed a limited number of firms after 8 years of establishment, despite the fact that people consider Ho Chi Minh's CGF as one of the most successful nationwide for assisting local SMEs in obtaining loans. The reason for the small number of SMEs gaining approval for bank loans will be discussed in the following parts of this paper.

The value of accumulated guaranteed loans increased over time during the period 2007–2012. Starting at only 0.09 billion VND at the time of establishment, the number of SMEs guaranteed rose significantly, commensurate with the greater value of loans guaranteed (Figure 9), reaching the highest figure of 764.64 billion VND in 2012. Accordingly, the accumulated guaranteed loans/chartered capital ratio of HCM City's CGF witnessed an upward trend during that period, despite the fact that the ratios are under 1.89, which is far below the allowed maximum ratio that a CGF can leverage at 5.

Figure 9: Accumulated Guaranteed Loans/Chartered Capital Ratio (HCM City's CGF)



Source: Vo, Huynh, and Nguyen (2016).

Turning to 2014, when the amended Decree 2004 [3] in accordance with Decision 58/2013/QD-TTg came into effect with a stricter requirement for collateral, the value of new loans guaranteed decreased significantly. In 2014, the accumulated guaranteed loans/chartered capital ratio stood at only 1.04.

In particular, in 2016 and 2017, Tran Huu Thai—a former director of HCM City's CGF—was prosecuted for irresponsibility, causing serious consequences. According to the investigating body, in the process of considering the loan guarantee of Phat Nhu Quan company, Tran Huu Thai did not properly carry out the inspection, guidance, inspection, and verification of credit documents as well as the legal mortgages of the firm. This led to no fraud appearing in the company's records and in turn the issuance of a false guarantee for this company. The investigating body determined that the behavior of Tran Huu Thaiis made him responsible for paying VND 22.4 billion to the HD bank

[3] Decree 115/2004/QD-TTg.

instead of Phat Nhu Quan through the CGF, of which 19.2 billion VND was not recoverable for the CGF, causing losses to the local government budget.

In short, over 10 years of operation, HCM City's CGF achieved initial success, but this has declined in recent years.

3.3 Challenges in Implementing Credit Guarantee Schemes for MSMEs in Viet Nam

3.3.1. Lack of Concrete Cooperation and Risk Sharing between CGSs and Involved Bodies (Banks), Including Ineffective Credit Assessments that May Increase Administration Costs and Bring Risks to the Scheme

In Viet Nam, despite the fact that different sources legally contribute to CGFs, including the private sector, the government now owns 98% of the capital of CGSs in Viet Nam. Therefore, it is possible to consider the operating model of Vietnamese CGSs as receiving full funding from the public sector. The question arising when designing a publicly funded credit guarantee scheme is whether the scheme should be solely publicly managed or outsourced to the private sector, such as financial institutions or SME associations, to target sustainability.

Wilcox and Yasuda (2008) argued that the fundamental role of the public sector in CGSs is to facilitate and support their development in the first stages of establishment, such as creating a robust and appropriate regulatory system or contributing a significant part of the charter capital. However, the interference of the government should happen in the short term rather than the long term, and independence and self-sufficiency form the base of a large number of successful CGS models (OECD 2009).

Gozzi and Schmukler (2016) found that, although in most countries the government is heavily involved in guaranteeing funds' management, the lenders whose loans are being guaranteed typically undertake the loan assessment and recovery. This approach appears to promote the financial sustainability of credit guarantee schemes. A scheme in which the government chooses borrowers and recovers loans typically has higher loan losses than a scheme in which the lender performs these tasks, possibly because lenders have greater experience with credit appraisal and recovery than government agencies and might have more incentives to perform these activities.

Becoming more involved in donors or banks allows the creation of more active participants in funding guarantee schemes from banks and therefore reduces the risk of CGSs' failure. If contributing as a main responsible party to the management of a CGS, banks will naturally be more careful about examining the guarantee scheme that they are seeking to fund as well as assessing the creditworthiness of customers. Therefore, an appropriate model is to share risk amongst the involved counterparties and tighten the cooperation between the public and the private sector rather than putting 100% of the risk on the public budget. Banks are usually responsible for supervising clients during disbursements. However, guaranteed CGFs make secured loans available to payers, causing many banks to ignore the supervision process and pushing the risk onto the guarantor.

In Viet Nam, the cooperation among related parties (namely guarantors and commercial banks) is weak in the process of accepting guarantee deeds, disbursements, controlling the use of loan capital, and recovering debts. Financial institutions often refuse the guarantee letter of the fund and do not dedicate resources to managing the process of debt recovery. In contrast, the guarantor fails to perform its debt repayment obligation rather than assuming that the commercial bank has not exercised its rights and obligations in checking and supervising the lending and debt collection, thus leading the enterprise to use the wrong capital. The liability of the parties to the guarantee may result in a dispute between the parties. In fact, there are some cases that have to be brought to court for settlement.

3.3.2 Application of Strict Conditions and Requirements for SMEs Wishing to Receive a Guaranteed Loan

The method of hedging guarantee risk in Vietnamese CGSs is basically no different from that in the commercial banks and therefore the aim of CGFs in facilitating access to finance for SMEs is difficult to achieve.

CGFs need to implement a more innovative approach that requires less strict conditions than commercial banks by allowing more bank loans for SMEs. If the assessment of the guarantee process is no different from the credit risk from financial institutions, the effectiveness and the positive meaning of credit guarantee activities will be reduced.

Strict requirements, especially regarding collateral, are one of the most critical reasons for the dramatic drop in the number of loans that CGSs have guaranteed in Viet Nam since 2014, when Decree 2004,[4] in accordance with Decision 2013,[5] required the condition of guarantees for SMEs when SMEs must have collateral valued at least at 15% of the capital requiring a guarantee. According to the CGFs in Bac Ninh and Ho Chi Minh City, before Decision No. 58/2013/QD-TTg came into being, the fund implemented the activities of SMEs quite favorably.[6] However, the funds' director believed that, with the current regulations, SMEs lack collateral and cannot borrow bank loans to seek funds requiring guarantees, and this regulation is limiting the activities of the CGFs for businesses.

3.3.3 Employment of Improper Coverage Ratios and Fee Calculation That Leads to Difficulties in Differentiating the Level of Credit Risk for Both Banks and SMEs

An effective tool for influencing lenders' incentives is the coverage ratio, that is, the fraction of the value of an individual loan that the scheme guarantees. When the scheme guarantees less than 100% of the value of a loan, part of the credit risk remains with the lender. This helps to align the incentives of the guarantor and the lender, because it encourages the lender to screen and monitor carefully the loans that the guarantee scheme covers; this especially helps to avoid moral hazard for banks and SMEs (World Bank 2014). Accordingly, the fund should be responsible for 50–80% of the risk; the remainder is the commercial bank's responsibility.

4 Decree 115/2004/QD-TTg.

5 Decision 58/2013/QD-TTg.

6 Data for illustration are presented in the case of Ho Chi Minh City in part 2 of this chapter.

In the case of Viet Nam, the coverage guarantee ratio is currently not clearly determined and regulated. In Decree 34/2018/ND-CP, just passed in March 2018, the coverage ratio considers the healthiness of SMEs, but the new decree does not mention the creditworthiness of the commercial banks involved, despite the fact that this is a decisive factor for setting an optimal coverage ratio for a guaranteed loan (Yoshino and Taghizadeh-Hesary 2016). Therefore, important information is missing for managing CGFs relating to the coverage ratio in Decree 34/2018, which may lead to the effectiveness of CGS operations in the future, particularly setting up a fair risk-sharing environment between commercial banks and CGFs.

3.3.4 The Complicated Procedure for CGFs to Implement Guarantee Commitments that Makes it Difficult to Carry Out the Guarantee Process

First, regarding the implementation of the guarantee commitment, due to CGSs' funding from local budgets, when the risk occurs, requiring the CGS to repay on behalf of the enterprise, the scheme must seek the opinion of the Local People's Committee.[7] Then, the People's Committee issues a written request for comments from some relevant agencies, such as the Department of Finance. As such, the scheme's regulation and authority are to dispose of the pledged assets of the client to fulfil its commitments, but in practice this procedure is much more complicated. There have been cases of inconsistencies in the court. The final sentence is that the scheme must adhere to its commitments; however, so far the scheme's implementation has not taken place. This has led to banks realizing the great risk of providing loans to customers under CGSs for SMEs and becoming reluctant to cooperate with CGSs in the future. Second, the mechanism and policies of operation are not uniform, and the legal documents and procedures are confusing for both guarantors and guarantees.

An important consideration when designing a credit guarantee scheme is how to process claims. Costly and time-consuming claim procedures can reduce the transparency and credibility of the scheme and might discourage lenders from participating. Therefore, setting clear rules regarding when and how to pay out guarantees and paying claims without a long and costly verification process are important considerations. The NCIF (2017) pointed out that the guarantee scheme in Viet Nam does not have clear conditions under which lenders can claim a guarantee, leading to disputes between financial intermediaries and these schemes.

3.3.5 Inexperienced Staff Conducting Guaranteeing Tasks

According to the current regulations, the responsibility for appraisal of enterprises belongs to the funds, while the capacity of Viet Nam's CGS staff in evaluating creditworthiness is still inadequate or incompetent; in a large number of CGFs they are part-time officials (Thao 2017). The number of in-charge staff is insufficient and, combined with their inexperience in credit assessment, it is difficult for them to undertake loan appraisals effectively and efficiently.

In addition, the Ministry of Finance has not yet promulgated regulations and protocols on guarantee operations for uniform application among credit guarantee local funds.

[7] In Viet Nam, there are 58 provinces plus 5 core cities. The state government has direct control of all those provinces and cities. Each province/city has a Local People's Committee. Regarding the economic aspect, the Local People's Committee is the local management agency responsible for planning and controlling the local budget. The local budget under the management of the committee largely establishes and contributes to credit guarantee funds for SMEs. Therefore, all activities, including loan guarantees from the funds, must receive the committee's approval (Vietnamese Government 2015, 2018).

Furthermore, the financial reporting system of SMEs in Viet Nam lacks transparency; enterprises can submit different financial reports to tax authorities, credit institutions, and funds. Enterprises may be dishonest in declaring their tax debts or credit balance to create a qualifying profile for a guarantee, which would cause a risk to the fund. Meanwhile, CGSs and tax authorities do not have a coordinated mechanism to grasp the corporate tax situation.

Therefore, without adequate competence of the staff delivering credit assessment, a rational decision from CGFs regarding an SME's eligibility to receive a guaranteed loan is questionable.

3.3.6 The Situation of a Local Credit Guarantee Scheme—The Case of Bac Ninh Province

Bac Ninh is a province in Viet Nam's Northern Key Economic Region, the center of the economic, cultural, and scientific–technological hub and the industry zone of the north. It is the driving force for the development of the Red River Delta.

In Bac Ninh, in 2008, Decision No. 267/QĐ-UBND of the Bac Ninh People's Committee, dated 25 February 2008, established a CGF for local SMEs. For charter capital, with a local government budget of 30 VND billion (equal to approximately US$1.5 million) and a private enterprise (An Huy enterprise) that contributed 1 billion VND. Although, when contributing capital to enterprises, the private firm received preferential policies from the province, after a period of time, it withdrew its capital contribution because it was not profitable. In addition, the People's Committee sent an official request for capital contributions to the banks. However, all the banks replied that the bank in the province is only a branch and has no authority to decide, so it must consult the head office, which did not approve the capital contribution. Therefore, until the end of 2016, the credit guarantee fund in Bac Ninh was 100% state owned.

The Bac Ninh survey found that MSMEs often lack collateral and have inadequate experience in loan applications and production projects despite good business ideas. This makes it difficult for their businesses to be able to access bank credit. As a result, Bac Ninh established credit guarantee center agencies to assist SMEs in accessing credit more easily. However, with the current regulations, especially the regulations on collateral, the objective of supporting SMEs is very difficult to achieve. According to the credit guarantee fund for SMEs in Bac Ninh province, before the Decision 58/2013/QD-TTg came into effect, the fund implemented quite favorable credit guarantees for SMEs, because the previous regulations guaranteed enterprises when there was no collateral. Since the new regulations on measures to ensure loan guarantee activities require enterprises to hold security assets with the guarantee fund, the credit guarantee activities of SMEs will not continue. Thus, after applying the new regulations, the fund only guarantees an extra two businesses. The CGS in Bac Ninh's team said that, with the current regulations, SMEs' lack of collateral, and therefore their inability to take out bank loans to seek guaranteed funds, this regulation is limiting the credit guarantee activities.

Regarding the scope of the loan guarantee, the regulations stipulate that CGSs may grant a partial guarantee or guarantee the entire difference between the value of the loan and the value of the mortgaged or pledged property of the party to be guaranteed at a credit institution. The CGS of Bac Ninh province reported that the current coverage ratio is appropriate, with a maximum 100% loan value, and it is adjusted on a case-by-case basis. Most of the clients of the fund are asking for a guarantee for the outstanding mortgage of the loan. The bank also considers the guarantee letter as part of the lack of collateral of the business. However, this requirement should change to avoid the difference between the value of the loan and the value of the collateral. It is possible to adjust the maximum coverage by a certain percentage of the value of the loan.

As for the collateral assets, existing assets or assets formed in the future under the ownership of the business, and the contract of production or sale of goods, the third party should be eligible for assets for a mortgage under the regulations. However, the fund has not yet approved those types of collateral. As a result, the chance to receive a guarantee from the CGS is extremely limited even with good business.

Box 2 and Box 3 present cases of Bac Ninh's CGF loan guarantees.

Box 2: Conflict between the Parties in the Performance of the Guarantee Commitment

Minh Thinh Co., Ltd is a typical farm construction company in Bac Ninh Province. Over time, the company has built a project to expand its farm. The company needed to borrow 8.5 billion dong. However, when it approached the Agribank branch in Bac Ninh, the bank rejected the company due to the lack of collateral. The bank introduced the firm to the Bac Ninh CGS, which approved this firm for a guarantee of 2 billion VND. However, the business was at risk when the blue ear disease occurred, resulting in enterprises being unable to pay their debts on time. This was the cause of the dispute between the scheme and the bank about the guarantee obligation. The bank required the CGF to pay on behalf of the enterprise. On the other side of the scheme, the CGF believed that the risk was due to disease, so it did not have to repay the debt on behalf of the SME.

Source: NCIF (2017).

Box 3: Obstacles to Accessing Bank Loans as a View from CGSs from Minh Anh JSC

The Minh Anh Joint Stock Company, Bac Ninh, is an enterprise operating in high-technology agriculture. In the period of production expansion, the enterprise needed a loan of 20 billion VND. Through the Bac Ninh SME Association, the Minh Anh corporation was aware of the CGS in Bac Ninh Province. However, due to the complex and time-consuming procedures, the enterprise did not have access to the guarantee fund to borrow capital but had to find its own partners. From the enterprise's viewpoint, the procedure for the guarantee is not clear. In addition, to access state support funds, there are unofficial fees for officials working for CGSs; therefore, the real cost of a loan is significantly higher than the official one. This enterprise believes that the CGS should be transparent, advise customers, and explain the guarantee procedure to them to avoid the loss of lubrication costs to access loans and help SMEs in Bac Ninh to access the official banking system.

Source: NCIF (2017).

4. POLICY RECOMMENDATIONS

From the assessment of credit guarantee activities for SMEs in Viet Nam and the analysis of the practical cases of Ho Chi Minh City and Bac Ninh Province, the study proposes specific recommendations.

4.1 Enhance the Coordination between CGSs and Financial Institutions in Assessing Credit and Managing Loans

The international experience suggests that more cost-effectiveness is possible if commercial banks evaluate the creditworthiness of the SMEs that the scheme might guarantee, because the lending institutions already have a credit appraisal system in place. Furthermore, this would avoid an overlap for loan appraisal between the scheme and the financial intermediaries, because lenders are reluctant to rely completely on outsourced screening. The Korea Credit Guarantee Fund (KODIT), which appraises every loan itself, had operating costs of 7.7% of its guaranteed loans by the end of the 1990s (Honohan 2010). Colombia's Fondo Nacional de Garantías initially also appraised all loans in-house and had operating costs of 4.2% of the value of outstanding guarantees. It then switched to a system in which lenders can appraise most loans themselves, lowering the operating costs to less than 2% of the guaranteed amount.

However, if lenders solely conducted and decide on credit appraisal, this might lead to excessive risk shifting to the guarantee fund, as lenders might not have incentives to screen adequately those loans that the guarantee will cover.

Therefore, the concrete cooperation between lending banks and guarantors in assessing the credit status of SMEs requires proactivity from CGFs. One of the solutions is the coverage ratio. A proper coverage ratio enables CGFs to strengthen the credit institution's responsibility to monitor whether the business is using a loan or the customer's repayment process. With responsibility for a portion of the guaranteed loan, commercial banks will increase their responsibility for checking and supervising lending and recovering debts.

4.2 Reconstruct the Credit Guarantee Conditions to Help SMEs Gain Better Access to Finance

With the current regulations in Viet Nam, enterprises must have their own capital of at least 20% of the projects guaranteed. This provision ensures appropriate risk mitigation for CGSs.

However, with the objective of supporting SMEs in accessing bank credit capital, the new regulation on guarantee assets is a barrier, because, if enterprises have enough collateral to borrow money from banks, they are highly likely to borrow directly from banks. Therefore, the regulation on security measures for loan guarantees requires adjustment. Accordingly, if SMEs have production and business plans that the bank approves, due to the lack of collateral, it should not be necessary for CGSs to have guaranteed assets at the guarantor instead of applying additional measures. For example, the collateral may be eligible as assets formed in the future under the ownership of the business and the contract of production or sale of goods to a third party.

4.3 Design an Appropriate Guarantee Fee and Guarantee Coverage Ratio System

Regarding the guarantee fee, CGFs' guarantee fees in Viet Nam currently range from 0.5% to 1% per annum but are inflexible when flat fees are applicable to all the loans that many CGFs guarantee (for example Can Tho's CGF charges 0.5% and Thai Nguyen's CGF is 0.8% for all loans regardless of SMEs' credit risk). This value of the fee is considerably lower than that in other Asian countries, such as Indonesia (1.2–2.28%), Malaysia (3.65%), the Republic of Korea (1.1–1.26%), and Thailand (1.75%) (Shinozaki 2015).

In fact, in addition to being able to cover administrative expenses, credit losses, plus opportunity costs, the role of the guarantee fee is a way to encourage good business practices and limit the risk to the fund; therefore, charging different fees in accordance with the level of credit risk of each SME is essential. Consequently, the guarantee fee calculation in CGFs in Viet Nam should be more flexible and tailored to the different creditworthiness of SME customers. The scale 0.5%–1% is reasonable, but higher fees should apply for more risky enterprises and vice versa.

Regarding the guarantee ratio, should it be the same for all banks or should it vary based on a bank's soundness? An effective tool for influencing lenders' incentives is the coverage ratio, that is, the fraction of the value of an individual loan that the scheme guarantees. When the scheme guarantees less than 100% of the value of a loan, part of the credit risk remains with the lenders. This helps to align the incentives of the guarantor and the lender, because it encourages the lender to screen and monitor carefully the loans that the guarantee scheme covers. Levitzky (1997) argued that, to ensure an appropriate alignment of incentives, lenders should assume at least 30 to 40% of the risk and never less than 20%. On the other hand, there is a trade-off between lenders assuming a greater share of the risk and making the scheme attractive to them. Levitzky (1997) asserted that guarantees with coverage ratios below 50% are not likely to be attractive for lenders. In practice, Beck, Klapper, and Mendoza (2010) found that 10 public credit guarantee schemes in their sample guarantee up to 100% of individual loans. The remaining 29 schemes in their sample guarantee up to 75% of each loan on average, with coverage ratios ranging from 33% to 95%.

According to Decree 34/2018/ND-CP, "The credit guarantee fund shall consider and grant credit guarantees to SMEs at maximum equal to 100% of the loan value (including working capital and medium- and long-term capital) at the lending banks." In other words, based on the feasibility and risk level of each enterprise, its investment project, and its production and business plan, the CGF shall consider and decide on the coverage ratio, which can be up to 100% of the loan amount from the bank. However, the new Decree 34/2018/ND-CP does not mention the creditworthiness of lending banks in considering the coverage ratio, which it is an essential criterion for deciding the optimal coverage ratio in a credit guarantee scheme. Yoshino and Taghizadeh-Hesary (2016) affirmed that, as the creditworthiness of participating banks is highly important, healthier banks should receive a higher coverage guarantee ratio. This ratio needs to be provided compared with those banks that have a large amount of non-performing loans, otherwise there is moral hazard and there is no incentive for riskier banks to manage their guarantee loans and become healthier.

In Viet Nam, a large number of banks are involved in the provision of credit guarantees as lenders, and these banks have different degrees of creditworthiness. Therefore, a fixed coverage ratio applied to all banks is completely unreasonable in the risk distribution between banks and CGFs.

Table 5 shows the credit rating of banks that are the lenders of guaranteed loans in CGS in Viet Nam; it is apparent that the creditworthiness rating differs among banks. For example, ACB and MB acquire higher ratings compared to others. In this case, the coverage ratio for ACB or MB should be higher than that of SHB or VPBank. This, on the one hand, reduces the risk of the CGS coming from less healthy banks' performance; on the other hand, it encourages the improvement of those banks in the future with the aim of gaining a better coverage ratio from the CGS. Thus, applying a coverage ratio that is relevant to the healthiness of banks is a sustainable way to improve the banking system's development at the same time.

Table 5: Credit Rating of Banks in Viet Nam (October 2018)

Bank/Credit Rating	VietinBank	BIDV	ACB	MB	VIB	VPBank	SHB
BCA (baseline credit assessment)	B1	B2	Ba3	Ba3	B1	B1	B3
Local currency deposit rating	Ba3	Ba3	Ba3	Ba3	B1	B1	B2
Foreign currency deposit rating	B1	B1	B1	B1	B1	B1	B2
Rating outlook	Stable	Stable	Stable	Stable	Stable	Stable	Positive

Source: Moody's (2018).

4.4 Improve the Competence of CGSs' Staff in Assessing SMEs' Credit

The experience from CGSs across many countries shows that a system in which lenders evaluate the creditworthiness of SMEs will be more cost-effective than assigning the assessment task to other parties, since banks already have their own credit appraisal infrastructure. In addition, this system is believed to avoid overlap between two counterparties in loan appraisal, since financial institutions can hardly rely totally on outsourcing assessment.

However, the capacity of credit officers in funds is still necessary regardless of the application of any assessment system to be sufficient to evaluate independently and decide on an optimal guarantee ratio for the business, since a conflict of interest (fraud) may occur when banks are more likely to expect the highest possible guarantees of funds, so the assessment process will not be objective.

A scheme's credibility is also based on the way in which defaults are handled. Guarantee payouts should only be a last resort before guarantors (or lenders) negotiate rescheduled payments. This, however, requires experienced staff in the guarantee scheme who are able to handle the subjective nature involved in renegotiating payment plans. In fact, many schemes have failed due to unqualified and inexperienced personnel and unclear management criteria.

Furthermore, to meet the requirements of loan applications, SMEs may use a completely different set of financial records compared with the operating situation of enterprises through a third-party consultant. Therefore, it is necessary that the professional staff of the CGF must have sufficient capacity, experience in customer management, and appraisal and analysis skills to identify the actual status of the operation of the enterprise with objective assessments and accuracy as the basis for consulting the proposed choice of the right guaranteeable loans.

Referring to the credit risk rating of SME customers from credit agencies with an assessment of the ability to fulfil the debt obligations of enterprises in full and in a timely manner is also a useful tool to support CGS staff in improving the effectiveness of the fund's operations.

4.5 Reform the National Credit Information Center (CIC) or Encourage the Establishment of a Credit Information Center for SMEs

In the CGS model, it is essential for guarantors to evaluate whether the business performance of SMEs is healthy to avoid the accumulation of non-performing loans. They should undertake this task by applying statistical analysis techniques to financial variables, such as the net income to short-term assets, liquidity, and capital of SMEs (Yoshino and Taghizadeh-Hesary 2014).

Credit rating is another consideration to help CGSs to reduce the risk in assessing creditworthiness. Credit rating agencies often conduct fairly comprehensive and reliable analyses of business performance, including the environmental factors affecting firms, products, and markets, corporate governance, and the financial situation of the business. Therefore, rather than having to carry out the initial appraisal process, credit ratings can help fund staff to save their time and effort with the current status of the firm identified. The enterprise appraisal only needs to focus on the feasibility of the business plan of the enterprise. Properly assessing the role of credit rating in the implementation of credit access policy, Law on SME Assistance of government of Viet Nam (2017) also stipulates: "Credit guarantee for SMEs is based on collateral or feasible production, business or SME credit ratings."

Yoshino et al. (2015 also argued that, when access to financial and non-financial ratios is not possible, using data on banks' lending to SMEs, including loan amounts, default status, past due amount, past due days, and outstanding amount, can reduce information asymmetry and consequently the cost of loans for healthy SMEs.

In Viet Nam, the CIC (Credit Information Center) is an information system under the management of the State Bank. This system has the function of collecting, storing, analyzing, and processing credit information from individual customers, enterprises, and financial institutions at the request of the State Bank of Viet Nam, providing banking information services in accordance with the regulations of the State Bank and the law. In addition, the CIC is responsible for sharing information among credit institutions to prevent and limit risks in their credit activities, contributing to the safety of banking operations, assisting with credit extension, improving the access to credit capital of borrowers, and contributing to the promotion of socio-economic development.

However, the CIC's activities are inadequate in supporting access to finance for SMEs through the provision of a quality credit risk database. First, the CIC does not have an effective mechanism to force organizations to update information in a timely manner with a high level of accuracy, particularly for small-scale organizations such as SMEs. Second, only financial institutions are eligible to become members of the CIC and to receive information from the center. Therefore, despite the presence of a credit information center, the ability to access credit information for CGSs in Viet Nam is limited. It is advisable to revise the regulations that allow CGFs to access the CIC fully to reduce the time required for verification and increase the quality of credit information that the CIC provides.

Another remedy could be to establish a new credit information center for SMEs. The Credit Risk Database (CRD) is a successful practice in Japan from which Viet Nam can learn. The CRD is a government-supported project with the involvement of 52 credit guarantee corporations collecting data from Japanese SMEs. If Viet Nam could establish similar systems to collect, store, and synthesize credit risk data to provide accurate information on SMEs' financial health, it would facilitate the implementation of CGSs as well as easing the complexity of loan appraisal among the counterparties involved in the guaranteeing process.

5. CONCLUSION

The Vietnamese Government considered CGSs to be one of the most important vehicles to address the issue of SMEs' limited access to finance. Although CGSs have officially been operating since 2001, this model has not been successful in achieving its goal by facilitating wider access to finance for SMEs. The aim of this paper was to study the status of CGSs and the obstacles to CGSs' operations and then to suggest policy implications to deal with the existing problems.

Through analyzing data combined with a case study related to the performance of CGFs in two provinces, the study found that the most considerable challenges for operating Vietnamese CGSs are the lack of robust cooperation and a risk-sharing system between CGSs and involved bodies (financial institutions). Furthermore, utilizing strict conditions and requirement for SMEs wishing to receive a guaranteed loan, such as collateral, hinder SMEs' ability to obtain guaranteed loans. Besides, the ineffective coverage ratio and fee application do not promote the relevance of a risk-sharing system with the level of creditworthiness of banks and SMEs. In addition, the complicated procedures for implementing guarantee commitments along with inexperienced and incompetent staff are existing problems.

The remedies for those limitations include enhancing the coordination between CGSs and financial institutions in assessing credit and managing loans combined with designing appropriate guarantee fees and a coverage ratio system. Furthermore, capacity training for staff in assessing SMEs' credit is crucial. More importantly, creating reliable and comprehensive credit databases of SMEs will benefit CGSs' operations by providing quick access to SMEs' credit information and accurate credit risk assessments or credit risk ratings.

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