

ENHANCE THE QUALITY OF APPRAISAL OF SMALL AND MEDIUM ENTERPRISES' INVESTMENT PROJECTS IN COMMERCIAL JOINT STOCK BANKS

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Abstract: *Lending in general and lending capital in specific have made a significant contribution to profits of commercial banks in Vietnam. Appraisal procedures, especially investment project ones, play a key role in risk management activities in those banks, assisting them in capital preservation and guaranteeing the sustainable development for commercial banks.*

• **Keywords:** *appraisal procedures, investment projects.*

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Tóm tắt: Hoạt động cho vay nói chung và cho vay vốn nói riêng đã đóng góp đáng kể vào lợi nhuận của các ngân hàng thương mại ở Việt Nam. Thủ tục thẩm định, đặc biệt là các thủ tục dự án đầu tư, đóng vai trò quan trọng trong hoạt động quản lý rủi ro của các ngân hàng đó, hỗ trợ họ trong việc bảo toàn vốn và đảm bảo sự phát triển bền vững cho các ngân hàng thương mại.

• Từ khóa: *thủ tục thẩm định, dự án đầu tư.*

Appraising business investment projects is crucial to all credit institutions. As a result, before this research, there were a plethora of other related papers (“Investment Project Appraisal in Lending Activities in Bank for Investment and Development of Vietnam JSC (BIDV) - Thua Thien Hue Branch” (2016) by Doan Van Nhat Huy, “Financial appraisal of Investment Project” by Don Dayananda and partners, 2017). As a result, on the basis of inheriting domestic and international papers, this research develops and proposes some solutions for the appraisal quality enhancement to be well fit in this new era.

1. Introduction

Recently, numerous scandals in the banking sector have happened, which results in the leakage of state budget, amounting to millions of billion VND; not to mention the fact that entailing repercussions are so serious that they could pose potential risks on the national finance scheme. Therefore, credit institutions in Vietnam are apparently taking tight control over the credit management procedure with a view to minimizing the non-performing loan ratio, making the whole scheme safe and smooth for operation and transaction.

2. Overview on appraisal procedures of small and medium enterprises' (SME) investment projects in commercial joint stock banks

2.1. Definition

The appraisal of investment projects is doing research and objectively and thoroughly analyzing every economic-technical aspect of the project under the close relationship with natural environment and socio-economic background before making decisions on lending capital for that project. Indeed, the appraisal of investment projects is a procedure which separately monitor

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and assess basic contents of a specific project, secluding from the compilation of that project. Appraising investment projects aims at creating a solid foundation for effective investment activities; as a result, conclusions drawn from investment project appraisal are the crucial basis for units and competent authorities to make decisions on investment, investment allowance, or project funding.

2.2. Objectives and goals of appraising SME investment projects in commercial joint stock banks:

2.2.1. Objectives of investment project appraisal:

Generally, objectives of investment project appraisal are to choose the best investment projects and reject worse ones. However, these objectives could be different depending on the target users. *With investors*, good investment project appraisal helps investors carefully check all contents in investment projects, eliminating errors before making investment decisions. With credit institutions, appraisers can assess borrowed-capital projects to guarantee the legality, authenticity and completeness, hence determining the amount of borrowed capital and conditions for funding (interest, loans, etc) and minimizing potential risks, uncollectible accounts and bad receivable debts. With the state, appraising investment project helps specialists assess the effectiveness of projects in terms of finance and socioeconomic background and assess the rationality of projects through effectiveness and feasibility

2.2.2. Roles of investment project appraisal

There are five main roles of appraising investment projects. *First*, good appraisal of investment projects is of great help in determining both pros and cons of a project in terms of legality, market, technical-technology, environment, finance and socio-economic benefits. *Second*, it helps government agencies assess the suitability of the project with the general development planning of the business line, the local area where the project is going to be launched and

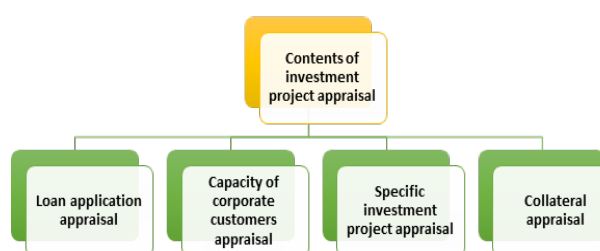
the whole country. In addition to this, it also helps the investors choose the best alternative of investment. *Third*, appraising investment projects assists appraisers accurately decide whether they should lend capital or fund investors. *Finally*, appraisal is undoubtedly a great financial tool for appraisers to determine the legal status as well as the capacity of production and business of investors.

2.3. Appraisal procedures and contents of SME investment projects

2.3.1. Appraisal procedures

Practically, in most commercial joint stock banks, the appraisal procedure contains 3 main steps: (1) Data collection- appraisers receive a full profile including business and project documents; (2) Data processing, analysis and assessment; (3) Report submission - appraisers write reports on investment projects based on scale and characteristics.

2.3.2. Appraisal contents



- Loan application appraisal: Relationship managers mainly use comparative and collated method to assess the authenticity and completeness of the company profile in the comparison with requirements and norms of the law and of the bank, including legal/financial records, investment project records, and collateral records.

- Capacity of corporate customers appraisal: Relationship managers would appraise five main parts of a business, namely: legal capacity, organization and human resource management capacity, financial capacity, production and business activities, credit relationship reliability with credit institutions at the time when the business applies application for credit facilities.

- Specific investment project appraisal: In this content, appraisers conduct project urgency and goal appraisal, legality appraisal, input materials supply capacity appraisal, output services consumption appraisal, technical aspect appraisal, organization and management investment project appraisal.

- Credit relationship appraisal: This is regarded as the most important appraisal which is compulsory for all business profiles in banks. Credit Relationship Appraisal assists appraisers to assess the creditworthiness of previous loans so that they could rank the business credit relationship, thus choosing the most suitable credit package to grant the business. Practically, each bank has its unique system to check the credit relationship.

- Collateral appraisal: Collateral is perceived to serve several functions. Not only does it have economic values but it also shows legal factors to ensure that even in environments with high risks in lending and high costs in borrowing, transactions still happen and interests between borrowers and lenders are closely matched. Playing that critical role, appraisal contents of collateral are, therefore, thoroughly and extensively conducted and regularly updated.

2.4. Proposals for quality enhancement of appraisal procedures of SME investment projects in commercial joint stock banks

First, methods for the innovation of the system of administrative formalities should be applied as soon as possible. In practice, administrative formalities in general and administrative formalities related to land and real estate are still comparatively redundant, having a detrimental impact on both time and money of a project. Hence, the innovation in administrative formalities as well as reducing unnecessary jobs and procedures would facilitate the appraisal, making it more convenient and effective.

Second, State Bank of Vietnam should implement more specifically institutions and actualize the application of international practices and norms in banking sector into the operation of the banking system in Vietnam. Undoubtedly,

this will help State Bank proactively grasp international credit regulations in order to promote heavily investment activities, competing with banks who tend to penetrate the Vietnamese market such as Shinhanbank, Sumitomo or HSBC.

Third, human resource quality must be improved via human eccentric strategies. It can be concluded that appraisers play a crucial role in processing borrowing-capital demands of customers. As a result, commercial joint stock banks should frequently hold training sessions and training classes for appraisers to exchange knowledge and increase professional knowledge in general and professional knowledge of appraisal in specific. This, then, will help staff in banks figure out problems in each step, subsequently expressing opinions and coming up with solutions together to deal with unexpected problems during the appraisal.

Four, enhancing risk management procedures and internal supervision. Practically, effective risk management activities play a crucial role in reducing both external and internal risks for banks. As a result, risk management activities and internal supervision must be conducted monthly, following strictly regulations of debt classification and risk provision. Commercial banks should form a special department to deal with bad/overdue debt, which would be a basis for specialists to devise risk management plans monthly and quarterly.

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