Improving Accessibility of Financial Services in the Border-Gate Areas to Facilitate Cross-Border Trade: The Case of Viet Nam and Implications for GMS Cooperation

Nguyen Hong Son and Dang Duc Son*

Abstract

Over the years, cross-border trade has expanded rapidly among countries in the Greater Mekong Subregion (GMS). Among the factors that contributed to this phenomenon is the application of a number of cross-border trade facilitation measures. However, the current emphasis of cross-border trade facilitation in the GMS is on customs procedures, inspection and quarantine measures, trade logistics, transport, and mobility of business people, while the important role of financial service has been, so far, overlooked. Using the case study of Viet Nam to draw implications for GMS cooperation, this paper investigates how users and providers of financial services in the border-gate areas see financial services as a factor of cross-border trade facilitation. It also examines how users and providers of financial services perceive the different dimensions of financial services accessibility and how accessibility affects customers’ decisions to use financial services in the border-gate areas.

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Introduction

Over the years, cross-border trade has expanded rapidly among countries in the Greater Mekong Subregion (GMS). Among other factors, the increase in cross-border trade has been enhanced by the application of a number of trade facilitation measures.

Facilitating cross-border trade is one of the five strategic thrusts of the GMS 10-Year Strategic Framework endorsed in 2002 by the First GMS Summit. Its blueprint for action was set in the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI), which was approved by the Second GMS Summit in 2005. To support transport and trade facilitation, the GMS countries have also implemented since 1999 the Cross-border Transport Agreement. Nevertheless, the important role of financial services as a cross-border trade facilitation factor has been so far overlooked in GMS cooperation. Although the SFA-TFI does not exclude financial services; at present it emphasizes custom procedures, inspection and quarantine measures, trade logistics, and mobility of business people as the four priority cross-border trade facilitating measures. Other trade facilitation measures, such as those incorporated in the Cross-Border Transport Agreement, have dealt merely with such border-crossing formalities and procedures as single-window and single-stop custom inspection; facilitation of the movement of goods, people, and vehicles; and phyto-sanitary and veterinary inspection, and they have ignored the financial aspect of cross-border trade.

At the same time, inaccessibility is a major constraint to the use of financial service in the border areas of the GMS. The slow rate of expansion of financial services in the border-gate areas is out of step with the rapid growth of cross-border trade in the GMS. The dynamic border economy provides major opportunities for the growth of financial services in the border areas, but banks are slow to tap this potential. As of 2010, only a few bank branches are established in the border areas, and only a small proportion of border trade in the GMS is financed through commercial banks; the rest is through barter or cash. For example, settlement through banks accounts for a mere 10% of total cross-border trade volume between Viet Nam and the People’s Republic of China (PRC). In 2008, the value of Viet Nam–Cambodia trade was $1.7 billion (total border trade value was $1 billion) and only $7 million (or 0.4%) of the cash was deposited into bank accounts by traders (MOIT 2009).

Even where banks are present in the border-gate areas, their services are still inaccessible to a large number of businesses. Banking services often require restrictive criteria (e.g., a minimum deposit and evidence of good credit history) that disqualify small and informal businesses. Barriers include excessive paperwork and fees that make getting a loan cumbersome and too costly for many borrowers who simply need small amounts. Banks may demand collateral, and pose other nonpecuniary challenges, such as requiring greater literacy, which poor borrowers lack (Claessens 2005: 12). Other bank offices may have an inconvenient location in the border-gate area or unsuitable working hours. The capability of banks to provide the services needed by local businesses may also be limited. In such cases, individuals, households, and firms have to rely on informal forms of financial service and this seems to be a viable option for the less-developed border areas.

In the most important border-gate areas of the GMS (e.g., Moc Bai, Bavet, Lao Bao, Densavan, Mong Cai, Dongxing, Lao Cai, and Hekou), black market money exchange points exist with hundreds of money exchangers eagerly searching for clients. Compared to the banks, these informal financial service providers are more flexible and offer less time-consuming
services. Nevertheless, informal services may be unreliable because of higher risks (e.g., exchange rate volatility, default risk, or transaction error) and they easily become facilitators of illegal activities (e.g., tax evasion and/or money laundering). In addition, customers of informal service are easily subjected by service providers to unsympathetic behaviors, such as abuse and harassment. For most cross-border traders in the GMS, default on payment constitutes a big risk in the absence of payment guarantee services from banks (Nguyen and Cu, 2005). Although informal financial services are advantageous for a large number of providers because of their flexibility with the existing conditions, concerns about reliability, assurance, and empathy may adversely affect customers’ decisions to use them in the border-gate areas.

The inadequate policy attention to financial service development does not mean there is little demand for financial services in the border-gate areas. Rather, this may reveal the mismatch between policy priority and the needs of the local business community and local residents. Using the case study of Viet Nam to draw the implications for GMS cooperation, this paper investigates how users and providers of financial services in the border-gate areas see financial services as a factor of cross-border trade facilitation. It also examines how users and providers of financial services evaluate different dimensions of financial service accessibility and how these dimensions of accessibility affect customers’ decisions to use financial services in the border-gate areas.

### Financial Services in Viet Nam’s Cross-Border Trade

Cross-border trade among Cambodia, the PRC, Lao People’s Democratic Republic (Lao PDR), and Viet Nam has grown rapidly over the past years (Table 1). During the period 2002–2008, border trade turnover of Viet Nam’s seven border provinces with the PRC grew at an annual rate of 46.3%. Viet Nam has a large trade deficit with the PRC but it had a border trade surplus of $1,056 million in 2007 and $639.15 million in 2008. Viet Nam has a border trade deficit with Lao PDR of $103.5 million in 2007 and $123.3 million in 2008. Border trade turnover between Viet Nam and Cambodia was $1.1 billion in 2008, which increased by 39.5% compared with 2007, and accounts for 65.7% of Viet Nam–Cambodia total bilateral trade. Viet Nam has border trade surplus of $252.7 million with Cambodia in 2007 and $415.1 million in 2008 (MOIT 2009).

<table>
<thead>
<tr>
<th>Countries</th>
<th>Trade Turnover</th>
<th>Change (%) Compared to 2006</th>
<th>Trade Turnover</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC</td>
<td>5,467.9</td>
<td>103.2</td>
<td>6,507.81</td>
<td>19.02</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>312</td>
<td>20.1</td>
<td>423</td>
<td>35.6</td>
</tr>
<tr>
<td>Cambodia</td>
<td>772.06</td>
<td>12.1</td>
<td>1,077.15</td>
<td>39.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,551.96</strong></td>
<td><strong>80.1</strong></td>
<td><strong>8,007.96</strong></td>
<td><strong>22.2</strong></td>
</tr>
</tbody>
</table>

**Table 1** Cross-border Trade among Cambodia, People’s Republic of China, Lao People’s Democratic Republic, and Viet Nam ($ million)

PRC = People’s Republic of China, Lao PDR = Lao People’s Democratic Republic.

Source: Department of Trade Statistics, Ministry of Industries and Trade of Viet Nam (MOIT), 2009.
Along the border of Viet Nam, cross-border trade is concentrated in 26 border-gate economic zones (BEZs) where major border gates are located.¹ Out of 26 BEZs, 9 major BEZs were accorded priority in the development policy of the Government of Viet Nam. These are Mong Cai, Lao Cai, and Lang Son (in the north); Cau Treo, Bo Y, and Lao Bao (in the center); and Moc Bai, Dong Thap, and An Giang (in the south). These are the areas where cross-border trade is most active.

It is difficult to provide an adequate assessment of the financial services in the border areas of Viet Nam. There is a lack of data due to the low accessibility of border traders to formal financial services, and data on informal financial providers is virtually nonexistent.

Over the past few years, some attempts have been made to address the undersupply of formal financial services in the border areas of Viet Nam. The State Bank of Vietnam (SBV) has signed the bilateral settlement agreements with the Central Bank of China (1993), the Bank of Lao PDR (1998), and the National Bank of Cambodia (2005). These agreements allow the commercial banks to have their own settlement arrangements with an aim of exploiting the potential of the border financial market. This includes the agreements between the Bank for Industry and Trade (VietinBank), the Bank for Agriculture and Rural Development (Agribank), and the Technological and Commercial Bank (Techcombank) of Viet Nam with the Industry and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), China Construction Bank (CCB), Bank of China, and some banks in Cambodia and Lao PDR.

Despite these efforts, it is not difficult to observe the current problems of financial services as evidenced by the scarcity of commercial banks and other formal financial institutions in the border-gate areas. Some major banks have opened more branches and improved their services in the border-gate areas. For example, Techcombank and the Mekong Housing Bank (MHB) reached an agreement with ICBC in Guangxi Zhuang Autonomous Region to provide border settlement services at their branches in Lang Son (Tan Thanh and Huu Nghi border gates) and Quang Ninh (Mong Cai border gate) for Vietnamese in Pingxiang and Dongxing, respectively, and for PRC customers in Guangxi Zhuang Autonomous Region. Similarly, Agribank reached a deal with Phongsavanh Bank of Lao PDR in Savannakhet to offer services in Lao Bao (Quang Tri province of Viet Nam) and Densavan (Savannakhet province of Lao PDR). Agribank also planned to provide similar services in other major border checkpoints of Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, and Kon Tum provinces of Viet Nam. Thus far, five state-owned commercial banks (Vietcombank, MHB, Agribank, Bank for Investment and Development of Viet Nam, and VietinBank), and two joint-stock commercial banks (Techcombank and Sacombank) of Viet Nam have provided border trade settlement and a few trade finance services. However, banking density in the border areas is still very low. In major international border gates, such as Lao Bao and Moc Bai in Viet Nam, there is only one branch of Agribank for each border. There is only one branch of Phongsavanh Bank in Densavan (the paired border gate of Lao Bao in Lao PDR territory) and of ACLEDA Bank in Bavet (the paired border gate of Moc Bai in Cambodian territory).

For informal financial services, the current literature—mostly in the form of short, investigative articles—concentrates on several common issues of border money markets, such as their rationale, impact, and operation. According to Nguyen Dai Lai (2006), the border

¹ A BEZ is defined in the Decree 29/2008/ND-CP in 2008 by the government as an economic zone locating in the land border region where there is an international or main checkpoint or more, and encompassing not only the border gate(s) but also the contiguous administrative areas that are spatially inseparable. The BEZs are granted with special administrative and regulatory status suited to the local conditions to ensure their rapid socioeconomic development, which has strong spillover effects on the surrounding areas.
money markets grew naturally in response to the demands of the traders in the border areas. Those markets facilitate the exchange of local currencies and this service appeared prior to the establishment of formal financial institutions by the governments. However, a number of researches have pointed out the inherent risk in border money markets because of default problems; cheating; robbery; and abuse of small, independent providers in the network; along with harassment of customers by providers (Hoat and Ha 2010, Vinh 2003).

Informal trade creates the demand for informal financial services; habit is another. Traders, including individuals and microenterprises, in the border market are accustomed to the use of cash and credit based on trust (Nguyen and Cu 2005) and few of them have bank accounts. Furthermore, many traders do not want to use bank services because of high service fees relative to their small trading value; but mostly it is for reasons of tax evasion. In some border-gate areas (e.g., Lao Bao and Moc Bai), the informal money market exists to serve the visitors and cross-border tourists in duty-free supermarkets. There is also a demand for foreign currency in casinos located along the border (Long 2005, Nam 2010, Vinh 2003). The dollarization of border trade is another factor that undermines the popularity of banking services. In most border black money markets, one can get a variety of hard currencies—from euro, United States (US) dollar, Japanese yen to Singaporean dollar—at a unified and up-to-date exchange rate, and this is convenient for the conduct of cross-border trade for which payment in hard currencies is preferred. For example, it is estimated that major transactions settled in dong and yen account for only around 10%–15% of total cross-border trade turnover between Viet Nam and the PRC (MOIT 2009).

From the supply side, money market services are said to be easily accessible because of the numerous providers, convenience, and less time-consuming procedures. For example, the People’s Police Newspaper (2010) estimates that there are as many as 300 people working as money dealers in Lao Cai and they can be easily found around streets leading to the gate. In Lao Bao, the Agribank office is located in a favorable location next to the border gate, but is matched by hundreds of money dealers or “mobile banks” in the area. These money dealers are visible everywhere and accessible at all times of day around the gate. Most can speak different languages such as Lao, Thai, and English. Their services are fast and free of time-consuming bureaucratic banking procedures. In Tan Thanh, border gate of Lang Son province, almost all cross-border trade is facilitated through the money market. Informal money dealers are confident that they can compete with banks even in terms of technology and outreach (e.g., through availability of “branch” on both sides of the border) (Long 2005, Vinh 2003). The dynamic presence of money dealers is likely to make local bank branches redundant in cross-border trade.

Access Dimensions of Financial Services

There is no unanimous definition of access to financial services as financial services can have various dimensions (Claessens 2005: 6). A comprehensive review of the literature by Stijn Claessens (2005: 6) showed that access to financial services typically involves the question of availability, costs, types, and quality of financial services offered. These dimensions can also be categorized as reliability (Is financial service available when needed?), convenience (How easily can financial service be accessed?), continuity (Can financial service be accessed repeatedly?), and flexibility (Is financial product tailored to the needs of the users?) (Claessens 2005: 6, Morduch 1999).
Numerous studies have proved that dealing with access to financial services is often concerned with the exclusion of consumers, either voluntary or involuntary (Claessens 2005; Kumar 2005; Morduch 1999; Beck, Demirgüç-Kunt, Laeven, and Maksimovic 2005; Hawkins 2010). Individuals, households, and firms can be involuntarily excluded from financial services because they are not qualified or do not meet providers’ criteria. However, survey results in developing economies show that groups often voluntarily exclude themselves from the use of formal financial services. For example, in Brazil, one-third of the people expressed their lack of interest in having a bank account, and almost two-thirds of survey respondents in India did not feel a need for a bank account (Kumar 2005: 6). Claesens (2005: 12) notes that the demand for financial services may not exist if individuals, households, and firms may not want to use it even if financial services are easily available and accessible. Kempson et al. (2000) distinguish between five types of exclusion in financial services: (i) access exclusion (customer fails to meet provider’s requirement through risk screening), (ii) condition exclusion (product design is inappropriate for the needs of some customers), (iii) price exclusion (financial products are too costly), (iv) marketing exclusion (some groups are effectively excluded by target market and sales), and (v) self-exclusion (some groups are not applying for services in the belief that they would be refused).

Following Kumar’s (2005: 9) classification approach, we look at the degrees of access to financial services through three dimensions: (i) the functional dimension, (ii) the user-friendly dimension, and (iii) the institutional dimension.

For the functional dimension, the focus is on whether a user has access to a specific type of financial service. Lack of access may arise if there is a mismatch between the provision and use of a service when potential users restrain their demand because the right types of financial service are not provided (Claessens 2005: 12). Further, financial service providers may not wish to give all customers access to some products if they believe that it is not profitable or sustainable to do so.

The range of financial products is vast and can be categorized in many ways. However, not all services are used in international trade and even fewer types of services are used in cross-border trade. We look at a few popular financial products that act as lubricant to trade, rather than the trade of financial services themselves across country borders, including bank draft, documentary credit, regular credits to buyers and sellers, money transfer, export credit, insurance, foreign exchange, and open account.

For the user-friendly dimension, the attempt to measure accessibility goes beyond the mere presence or absence of a service, and focuses on whether the service is accessible in a user-friendly manner (Kumar 2005: 10). From this perspective, service accessibility can be associated with service quality and the user’s perception on what constitutes a user-friendly service can affect the decision to avail of the service. To evaluate this accessibility dimension of financial services, based on the SERVQUAL model,2 we develop six factors:

- **Reliability:** The ability to perform the service as needed, prompt service provision, trust in provider to solve any problem that may occur, and the ability to complete service at the right time, and free of errors.

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2 In its original form, the SERVQUAL model contains 22 pairs of statements across the 5 dimensions (Reliability, Responsiveness, Assurance, Empathy, and Tangibility). Half of the statements are intended to measure consumers’ expected level of service for a particular industry (i.e., expectations). The other 22 matching statements are intended to measure consumers’ perceived level of service provided by a particular organization (i.e., perceptions). The statements are presented in a seven-point Likert scale, representing the choice from “strongly agree” to “strongly disagree.” Service quality is measured in terms of the gap between expectation scores and corresponding perception scores (Babakus and Mangold, 1992: 771).
- **Responsiveness**: The state of being informed when service is done, provider’s response to the requests, and employees serving customers without delay or hesitation.
- **Assurance**: Trust in the employees’ services, confidence on the completeness and safety of transactions, politeness of employees, and knowledge of employees.
- **Empathy**: Employees’ caring attitude; advice, guidance, and understanding of customers’ needs.
- **Tangibility**: Modern equipment, cleanliness of the premises, and attire of employees.
- **Convenience**: Suitable location of the service provider, working hours, and convenient arrangement of facilities.

For the institutional dimension, there is a distinction between formal and informal financial services. Each form of service allows for different levels of accessibility along with “hard” or legal criteria, such as minimum deposit, evidence of good credit history, collateral, administrative procedure, and fees (Claessens, 2005; Kempson et al., 2000; Kumar, 2005). The above criteria may also serve as barriers to the access to formal financial services, causing customers to shift their choice to informal financial service. However, it is neither easy nor appropriate to lower these barriers to make formal financial service more accessible because formal financial services must follow the legal provisions on standard terms, conditions, procedure, and surveillance and not complying with these legal provisions can make the transaction fraudulent, risky, and contingent.

Access to informal financial services in the border-gate areas can also be reduced by customers’ concern over the risky, illegal, and abusive behavior of informal financial service providers (e.g., exchange rate volatility, default, and cheating). However, a strict application of the “hard” or legal criteria is not immediately a viable option.

The study examines how six “soft” factors of the user-friendly dimension of accessibility (i.e., **Reliability**, **Responsiveness**, **Assurance**, **Empathy**, **Tangibility**, and **Convenience**) influence the access to formal and informal financial services by affecting customers’ decisions to choose each form of service.

From this perspective, the concern over risky, illegal, and abusive behaviors associated with informal financial services can be alleviated by improving such factors as **reliability** (strengthening the ability to complete the service and reducing error); **assurance** (building customers’ trust and confidence in service providers); and **empathy** (improving the caring attitude of service providers). For formal financial services, barriers to access can be overcome by improving factors that are often seen as lagging behind informal financial services. These are **responsiveness**, **empathy**, and **convenience** (placing the service facility in suitable locations and having appropriate working hours). Thus, while formal and informal financial services may not immediately share the “hard” criteria with regard to conditions, procedure, guarantee mechanisms, and surveillance, they can share the “soft” criteria with regard to the user-friendly dimension of accessibility.

The framework to measure the accessibility dimension is provided in Table 2.

### Study Sites

This study uses a survey questionnaire to examine the perception of traders and providers of financial services with regard to accessibility of financial services in the border-gate areas. The survey was conducted in five BEZs in Viet Nam (Lao Cai, Lao Bao, and Moc Bai), the PRC (Hekou), and Cambodia (Bavet). There are two pairs of BEZs: Lao Cai and Hekou, and Moc Bai and Bavet.
Lao Cai BEZ is located in Lao Cai city and Muong Khuong district, with four priority economic zones: Lao Cai international border-gate zone, North Duyen Hai Industrial Zone, East Pho Moi Industrial Cluster, and Kim Thanh Commercial Center. The Governments of the PRC and Viet Nam have constructed the Kim Thanh bridge to connect the Kim Thanh Commercial Center in Viet Nam and Hekou Border Economic Cooperation Zone in the PRC.

Hekou Border Economic Cooperation Zone is located opposite the Lao Cai BEZ in Hekou Yao Autonomous County, Yunnan province. Hekou County is one of the province’s major borderland port cities. Its major export products include locomotives, electrical power, and mechanical equipment, while key import goods include hardware, chemical products, steel, iron, and various minerals. Trading in agricultural products is also an important cross-border activity of the zone. The majority of trading partners come from Viet Nam.

At the Lao Cai border gate, a cooperation program facilitates trade between Lao Cai and the PRC’s Yunnan province, particularly in transport. The two provinces opened new overland routes, allowing about 100 to 150 trucks and cars to travel through the Lao Cai border gate each day. Goods can also be transported by railway to Lao Cai and Hekou stations. Since 2009, a certificate of origin can be issued in Lao Cai to help expedite cross-border trade.

Major Vietnamese banks, such as Agribank, Techcombank, VietinBank, Vietcombank, and MHB have opened their branches in Lao Cai. In Hekou, ICBC, BOC, CCB, and ABC formed a partnership with Vietnamese banks to provide financial settlement services to border trade. However, the number of services provided by banks is still limited. For instance, the cross-border trade payment services offered by Agribank in partnership with four PRC banks are foreign exchange, bank draft, documentary credit, telegraphic transfer, and the so-called cross-border trade payment voucher. Telegraphic transfer, collection, and foreign exchange are the main services provided by VietinBank, one of the most active banks in the northern border areas of Viet Nam.

Besides the bank branches and offices, there are also numerous money dealers or exchangers. They work in a demarcated section within the immigration office or in nearby streets. According to the regulations, money exchangers can only purchase and sell yen, and are free to determine the exchange rates. They are required to open a record book, pay tax, and report to their banks every quarter, and they are subject to the bank’s supervision. Although most of these money dealers or exchangers are not formal financial institutions, they are an important part of the financial services ecosystem in the border areas.

### Table 2 Framework to Assess Accessibility of Financial Services

<table>
<thead>
<tr>
<th>Accessibility Dimension</th>
<th>Functional Dimension</th>
<th>User-Friendly Dimension</th>
<th>Institutional Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions</td>
<td>Whether a user has access to a specific type of financial service</td>
<td>Service is accessible in a user-friendly manner</td>
<td>Service, whether formal or informal, is more accessible in a user-friendly dimension</td>
</tr>
<tr>
<td>Propositions</td>
<td>Mismatch between provision and use of service because the right types of financial services are not provided</td>
<td>A user-friendly service can favorably influence customers’ decisions to use the service</td>
<td>More accessible service favorably affects customers’ decisions to use the service</td>
</tr>
</tbody>
</table>

Source: Authors.
changers have work permits, they have informal ways of doing business such as speculating on
the exchange rates, facilitating tax evasion, and placing transactions outside the record book.

As elsewhere, working in the border black money market is not only a profitable but also an
extremely risky business. The money changers in Lao Cai are subject to a variety of risks, such
as robbery and clients’ default. A number of default cases by money changers themselves have
also been recorded in Lao Cai with people borrowing money then lending to others with higher
interest rates. Because of the impact of the economic recession, cross-border trade between
Lao Cai and Hekou dropped dramatically in 2008 and 2009 to almost half the 2007 level. The
decline in trade is said to affect severely the business of money changers. According to the
People’s Police Newspaper (2010), their revenues fell as much as from 80% to 30% and many
of them were forced to find other jobs.

Lao Bao BEZ—also known as Lao Bao Special Economic Trade Zone (STZ) or Lao Bao
free-trade zone—was established in 1998. Its special status was upgraded in 2002. Lao Bao
STZ is situated in Huong Hoa district of the central province of Quang Tri, 60 kilometers (km)
from Dong Ha provincial capital, 72 km from Cua-Viet port, 150 km from Hue city, and on the
East–West Economic Corridor and Route 9. Border trade in Lao Bao STZ has grown very fast
over the past years and this includes a large proportion of trade between Lao Bao and Densavan.
Opposite Lao Bao in Lao PDR territory is the Densavan Border Trading Commercial Zone.

Most of the border trade activities with Lao PDR in the center of Viet Nam concentrate in
the Lao Bao–Densavan border gates because of the relatively higher level of development and
better infrastructure. More importantly, because of their special status as a free-trade zone, the
production and consumption of goods and services and the import of goods and services into
Lao Bao and Densavan are not subjected to tax. Domestic visitors to Lao Bao free-trade zone
are allowed to purchase tax-free goods up to D500,000 ($25) and foreigners can buy tax-free up
to $300. Lao Bao is known as the “Kingdom of Smuggling” as smuggled goods are transported
throughout the country. The most popular goods include electronics, cosmetics, medicine, and
cloth, which are brought from Thailand through Lao PDR territory to Viet Nam.

Unlike other places, the economy of Lao Bao was not affected by the economic recession
in 2008. Its cross-border trade volume continued to increase, especially business activities in
Lao Bao Free-Trade Zone where total trade volume increased more than 2.5 times in 2009
compared to 2008.

The Agribank of Viet Nam and the Phongsavanh Bank of Lao PDR have recently opened
their border settlement services in Lao Bao–Densavan, making these checkpoints the only site
on the border between Viet Nam and Lao PDR where banking border settlement services are
available. However, just as in other border-gate areas, there is a limited number of service
that these two banks can provide. Although the Agribank transaction office is located in a
very advantageous place, next to the border gate, it fails to compete with hundreds of money
dealers—the mobile banks or con xơng in local dialect—for their very convenient services.

These money dealers are visible everywhere and all the time during the day around the gate
to search for their clients, who can be business people, such as timber and plaster traders, but most
are tourists. Their peak season is summer when more tourists visit the free-trade zones or cross the
border and need Viet Nam dong or Lao PDR kip. However, in Lao Bao black money market, one
can get a variety of currencies, from Lao PDR kip, Thai baht, US dollar, to Singaporean dollar.
Most money changers are unregistered and can speak different languages such as Lao, Thai, and
English. They work and respect a few “unwritten rules” such as not taking the clients of others, and
following unified exchange rates that are set by chief dealers in Karol market (in Sepon district of
Lao PDR) early in the day. The majority of traders in Karol are Vietnamese.
Moc Bai BEZ is located in Trang Bang district and Ben Cau district in Tay Ninh province. It is situated on the Trans-Asian highway, 70 km from Ho Chi Minh City and 170 km from Pnom Penh. The zone has three border-crossing points: Moc Bai, Phuoc Chi, and Long Thuan. The zone has a number of trade facilities such as duty-free supermarkets, mini supermarkets, shopping malls, and restaurants. New roads have also been built and a few industrial projects have acquired land for construction.

Next to Moc Bai in the Cambodian territory is the Bavet special economic zone (SEZ) located in Bavet commune, Chantrea district, Svay Rieng province. Besides the advantage of geography that connects it with Viet Nam, the zone has a preferential trade policy that grants fiscal privileges, such as exemption from income tax for 5 years and no import tax for equipment, parts, and construction materials. Moreover, the zone enjoys special preferential conditions, including no transaction value-added tax, and single window for export and import procedures. Bavet area is quite developed in terms of services and tourism. However, much of the commerce through Bavet checkpoint comes from Viet Nam. Cambodian exports are few and small in scale.

Trading through the Moc Bai–Bavet border gates accounts for a large share of border trade between Viet Nam and Cambodia. In 2009, because of the impact of the economic crisis, cross-border trade in Moc Bai, especially through Moc Bai gate, decreased considerably compared to 2008. The issuance of Decision 33/2009/QD-TTg by the Prime Minister, which allowed only immigrants to buy duty-free goods, almost led to a temporary business suspension of Moc Bai’s duty-free supermarkets in early July 2009. A new regulation allows domestic visitors to Moc Bai duty-free zone to buy up to D500,000 of duty-free goods until 2012.

In 2006, Agribank and the Cambodian ACLEDA bank agreed to provide border trade financial settlement services in border-gate areas of the two countries, including Moc Bai and Bavet. The Bank for Investment and Development of Viet Nam also opened its office in Moc Bai, mostly to provide foreign exchange services. The black money exchange market is quite developed in Moc Bai. Although the US dollar is more favored on both sides of the border, Vietnamese dong can also be used in the Cambodian border areas. Another popular service in Moc Bai and Bavet is the transaction of casino chips or phỉnh in local language by the private dealers. Each day, particularly during weekends, thousands of people cross the border to visit the casinos in Bavet. The majority of them come from Ho Chi Minh city. It is reported that they also bring with them hundreds of thousands of US dollars.

Sample Profile

The survey was conducted with two main groups of respondents: (i) financial service providers (i.e., banks and nonbank providers, including individual money dealers); and (ii) the customers of financial services, including registered companies, and household and individual traders. The survey was conducted in Lao Cai, Hekou, Moc Bai, Bavet, and Lao Bao with a total of 380 users and/or customers and 106 providers of financial services (Table 3).

Table 4 describes the profile of the formal and informal financial service providers in five border-gate areas. At the time of the survey, the formal financial service providers in Bavet had been in business for an average of 4.3 months and the informal providers had been in business for 3.9 months. In Moc Bai, the formal financial service providers had been in business for an average of 16 months while the informal providers had been in business for 30 months (Table 4).

On average, formal financial service providers are located closer to the border gate than informal financial service providers. This brings an added advantage to the formal financial service
Improving Accessibility of Financial Services in the Border-Gate Areas to Facilitate Cross-Border Trade

However, in certain sites such as Lao Bao, the distance from the premises of formal and informal financial service providers to the border gate is still quite substantial, averaging over 5 km.

The financial service providers in Bavet and Hekou are relatively new to the business, compared to other sites where the informal financial service providers have begun their business quite some time before the formal providers arrived. Similarly, the users of financial services, such as household and individual traders, established their (informal) business activities earlier than the registered companies. Their length of establishment explains why informal financial services are more familiar to the local business community.

In general, users of financial services are located close to the border gates of the study sites, except in Bavet where household and individual users of financial service tend to locate their premises far away from the gate (22.5 km on average) because most of them are living near the border gates. The case of Bavet demonstrates the geographical difficulty of households and individuals in accessing financial services in the border-gate areas.

Both users and providers of financial services in the five study sites have businesses that range from small to medium-sized. The total annual revenues of financial service providers in 2009 were less than D15 billion on average. Some providers of financial services are temporary and therefore very small, with a total annual revenue of less than D100 million. Nonetheless, both providers and users of financial services have a relatively positive expectation about their future business prospects.

The survey data show that, for the formal financial service providers, the share of revenues from cross-border business to total revenue is very small (i.e., 12.5% in Lao Cai, 8.7% in Lao Bao, 5.6% in Moc Bai, 28% in Bavet, and 6% in Hekou). This share is much lower than that of the registered companies, and household and individual traders, as users of financial

### Table 3: Sample of Financial Service Providers and Users

<table>
<thead>
<tr>
<th>Study Sites</th>
<th>Lao Cai</th>
<th>Lao Bao</th>
<th>Moc Bai</th>
<th>Bavet</th>
<th>Hekou</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial service providers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal providers (banks and registered money exchangers)</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>16</td>
<td>30</td>
<td>106</td>
</tr>
<tr>
<td>Informal providers (informal nonbank organizations and unregistered money exchangers)</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>Informal providers (informal nonbank organizations and unregistered money exchangers)</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>25</td>
<td>64</td>
</tr>
<tr>
<td>Financial service users</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>70</td>
<td>70</td>
<td>380</td>
</tr>
<tr>
<td>Registered companies</td>
<td>30</td>
<td>30</td>
<td>40</td>
<td>4</td>
<td>57</td>
<td>161</td>
</tr>
<tr>
<td>Household and individual traders</td>
<td>50</td>
<td>50</td>
<td>40</td>
<td>66</td>
<td>13</td>
<td>219</td>
</tr>
</tbody>
</table>

Note: The sample of formal financial service providers was randomly selected from the list of banks and registered money changers provided by the local statistics offices. The sample of informal financial service providers was randomly selected from the list of nonbank organizations, such as jewelry shops and companies that were not registered as financial service providers but also provide financial service, as provided by the local statistics offices, and among unregistered money changers found in the field. The sample of financial service users and/or customers was randomly selected from the list of registered companies provided by the local statistics offices, and among household and individual traders found in the field.

Source: Survey data.
services. Table 5 shows that revenue from cross-border trade accounts for 75.0% of total revenue of registered companies in Lao Cai, 51.0% in Lao Bao, 71.4% in Moc Bai, and 66.2% in Hekou. For the household and individual traders, these shares are 72.4% in Lao Cai, 51.7% in Lao Bao, 75.8% in Bavet, and 38.0% in Hekou. Because there were few formal providers (e.g., banks) at that time in the border market, and the informal providers are limited in their financial capability, the above figures indicate a large unexploited market for financial service providers in the border-gate areas.
Table 5  Profile of Users of Financial Services

<table>
<thead>
<tr>
<th>Item</th>
<th>Users</th>
<th>Study Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Lao Cai</td>
</tr>
<tr>
<td>Duration of business in current location (mean number of months)</td>
<td>Registered companies</td>
<td>5.10</td>
</tr>
<tr>
<td></td>
<td>Household and individual traders</td>
<td>7.96</td>
</tr>
<tr>
<td>Distance of premises to the border gate (kilometers)</td>
<td>Registered companies</td>
<td>2.20</td>
</tr>
<tr>
<td></td>
<td>Household and individual traders</td>
<td>4.10</td>
</tr>
<tr>
<td>Average annual revenue in 2009(^a)</td>
<td>Registered companies</td>
<td>4.76</td>
</tr>
<tr>
<td></td>
<td>Household and individual traders</td>
<td>1.87</td>
</tr>
<tr>
<td>Evaluation of future business (1–2 years)(^b)</td>
<td>Registered companies</td>
<td>2.50</td>
</tr>
<tr>
<td></td>
<td>Household and individual traders</td>
<td>2.78</td>
</tr>
<tr>
<td>Revenue from cross-border trade (% total revenue)</td>
<td>Registered companies</td>
<td>75.00</td>
</tr>
<tr>
<td></td>
<td>Household and individual traders</td>
<td>72.40</td>
</tr>
</tbody>
</table>

\(^{\ldots}\) = data not available.

\(^a\) 1 = 0–100 million dong (D); 2 = D100 million–D500 million; 3 = D500 million–D3,000 million; 4 = D3,000 million–D10,000 million; 5 = D10,000 million–D15,000 million dong (D); 6 = greater than D15,000 million (providers in Hekou and Bavet converted their revenue into dong).

\(^b\) 1 = rapid growth (greater than 6%); 2 = gradual growth (0%–5%); 3 = unchanged (0%); 4 = decline (–5% to less than 0%); 5 = sharp decline (less than –6%).

Source: Survey data.
Discussions of Findings

Importance of Financial Services Compared to Other Factors of Cross-Border Trade Facilitation

To see how providers and users of financial services evaluate the role of financial services in cross-border trade facilitation, the research team asked them to rank financial services together with six other factors (i.e., customs, regulations, trade documentation, transport, movement of people, and information technology [IT]) according to how they viewed the role of these factors in facilitating cross-border trade. Thus, the factor viewed as having the most important role in cross-border trade facilitation was ranked first. The factor viewed as having the least important role in cross-border trade facilitation, compared to the others, was ranked seventh.

The result shows that providers and users of financial services in the border-gate areas saw financial services as an important factor for cross-border trade facilitation. Compared to customs, regulations, trade documentation, transport, movement of people, and IT, more than 25% of financial service providers (30.9% of formal providers, and 25.4% of informal providers) reported financial services among the three most important factors for cross-border trade facilitation. Traders, including registered companies, households, and individuals, reported a greater appreciation for the role of financial services in cross-border trade facilitation, with more than half of them ranking financial services among the three most important factors (Table 6).

The results also show that 17% of formal financial service providers and 41% of informal financial service providers reported financial services as the least important factor for cross-border trade facilitation, compared to customs, regulations, trade documentation, transport, movement of people, and IT. This is in contrast to the small proportion of users who shared the same views: more than 3.5% of registered companies and almost 3% of households and individuals reported financial services as the least important cross-border trade facilitation factor.

Table 6  Rank of Financial Services among Cross-Border Trade Facilitation Factors (%)

<table>
<thead>
<tr>
<th>Respondent Type</th>
<th>Rank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>16.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Informal</td>
<td>9.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Total</td>
<td>12.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Users</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered</td>
<td>31.8</td>
<td>13.8</td>
</tr>
<tr>
<td>companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household</td>
<td>21.3</td>
<td>22.2</td>
</tr>
<tr>
<td>and individual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>traders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26.0</td>
<td>18.5</td>
</tr>
</tbody>
</table>

Notes:
Financial services were ranked together with six other trade facilitation factors: customs, regulations, trade documentation, transport, movement of people, and the role of information technology (IT).
A ranking of one indicates financial service as the most important among the seven factors; and a ranking of seven indicates financial service as the least important among the seven factors.
Source: Survey data.
Functional Dimension of Financial Service Accessibility

To examine the perception of the functional dimension of accessibility of financial services, the research team asked providers what types of financial services they provided, and asked users what types of financial services were accessible to them. Inherently, if there is no constraint between the supply and demand, all financial services provided should be accessible to users. In fact, many users may not meet certain criteria required by providers to apply for some financial products. The mismatch between the responses by providers and users thus presents a less robust picture of the overall situation of the accessibility of financial services in the border-gate areas. It is also important to note that this perception gap may indicate a state of self-exclusion, as qualified users may think that certain types of financial services are not accessible, either because they believe that their application would be refused, or simply because they do not have enough information.

Table 7 shows a relatively big gap between the perception of providers and users of financial services with regard to the functional dimension of accessibility. For example, around three-quarters of formal financial service providers reported that they were able to provide bank draft and documentary credit services, whereas less than half of users (both registered companies and household and individual traders) said that those services were accessible to them.

There are different levels of accessibility for different users, especially the more popular financial services and/or products, such as foreign exchange, money transfer, and bank accounts. The data shows that around 90% of registered companies said they had access to money transfer services compared to 69% of household and individual traders. A similar gap existed in banking account services, with 63% of registered companies saying that they had access, compared to 32% of household and individual traders. However, the share of household and individual traders who said they had access to foreign exchange services was twice as high as the share of registered companies who said they had access to foreign exchange services (87.2% compared

<table>
<thead>
<tr>
<th>Respondent</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>76.0</td>
<td>74.0</td>
<td>57.0</td>
<td>93.0</td>
<td>45.0</td>
<td>81.0</td>
<td>93.0</td>
</tr>
<tr>
<td>Users&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered companies</td>
<td>47.8</td>
<td>42.2</td>
<td>51.6</td>
<td>90.1</td>
<td>9.3</td>
<td>42.9</td>
<td>63.4</td>
</tr>
<tr>
<td>Household and individual traders</td>
<td>40.6</td>
<td>38.8</td>
<td>66.2</td>
<td>68.9</td>
<td>8.7</td>
<td>87.2</td>
<td>32.0</td>
</tr>
</tbody>
</table>

<sup>a</sup> Percentage of providers that said they provided financial service products. For the registered money exchangers, this could mean that they are able to connect the customers to the banks for these services.

<sup>b</sup> Percentage of users that said that financial service products were accessible to them.

Source: Survey data.

---

<sup>3</sup> For the registered money exchangers, this may mean that they are able to connect the customers to the banks for these services.
This may be explained by the fact that household and individual traders may face greater constraints compared to registered companies in accessing certain types of financial products only provided by formal institutions (e.g., bank accounts). However, they may have wider access to services provided by both formal and informal providers than registered companies (e.g., foreign exchange) because they had greater flexibility in approaching the informal service providers (Table 7).

Inaccessibility to financial services can result from the problem of asymmetric information or because potential users do not have enough information on the provision of services. The survey shows that the proportion of users with access to the information about the financial services from informal and indirect sources (e.g., tips and information from business partners) was still high (62%). In addition, the marketing and advertising activities of financial service providers were not very effective as they were only able to reach around 71% of users in the border-gate areas (Table 8).

### User-Friendly Dimension of Financial Service Accessibility resume here

From the user-friendly perspective, providers of financial services reported that Reliability, Responsiveness, Assurance, Empathy, Tangibility, and Convenience were six factors that influenced customers’ decision to use their service. Users of financial services also reported that these six factors influenced their decision to use the service of a particular provider (Table 9).

For financial service providers, the score of a factor (e.g., Reliability) indicates the level of influence, as perceived by the provider, on customers’ decisions to use the service. For financial service users, the score of a factor indicates the level of influence, as perceived by the user, on his or her decision to use the service of a particular provider. The score of each factor was calculated by averaging the scores of its operational indicators as shown below:

(i) **Reliability.** The score was calculated by taking the average of scores (from 1 to 5) of five specific indicators:

- ability to perform the service as needed,
- prompt service provision,
- trust on provider to solve any problem if ever it occurred,
- ability to complete service at the right time, and
- free of errors.

(ii) **Responsiveness.** The score of was calculated by taking the average of scores (from 1 to 5) of three specific indicators:
Table 9  Six Factors of User-Friendly Dimensions

<table>
<thead>
<tr>
<th>Respondent</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reliability</td>
<td>Responsiveness</td>
<td>Assurance</td>
<td>Empathy</td>
<td>Tangibility</td>
<td>Convenience</td>
</tr>
<tr>
<td>Providers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>3.96</td>
<td>3.89</td>
<td>4.12</td>
<td>4.0</td>
<td>3.99</td>
<td>3.96</td>
</tr>
<tr>
<td></td>
<td>(0.53)</td>
<td>(0.68)</td>
<td>(0.52)</td>
<td>(0.66)</td>
<td>(0.63)</td>
<td>(0.67)</td>
</tr>
<tr>
<td>Informal</td>
<td>3.06</td>
<td>3.1</td>
<td>3.31</td>
<td>3.33</td>
<td>3.36</td>
<td>3.29</td>
</tr>
<tr>
<td></td>
<td>(0.76)</td>
<td>(0.64)</td>
<td>(0.37)</td>
<td>(0.5)</td>
<td>(0.43)</td>
<td>(0.41)</td>
</tr>
<tr>
<td>Users</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered companies</td>
<td>3.35</td>
<td>3.3</td>
<td>3.46</td>
<td>3.45</td>
<td>3.5</td>
<td>3.38</td>
</tr>
<tr>
<td></td>
<td>(0.7)</td>
<td>(0.73)</td>
<td>(0.7)</td>
<td>(0.74)</td>
<td>(0.66)</td>
<td>(0.67)</td>
</tr>
<tr>
<td>Household and individual traders</td>
<td>3.36</td>
<td>3.33</td>
<td>3.54</td>
<td>3.52</td>
<td>3.54</td>
<td>3.45</td>
</tr>
<tr>
<td></td>
<td>(0.6)</td>
<td>(0.69)</td>
<td>(0.59)</td>
<td>(0.66)</td>
<td>(0.62)</td>
<td>(0.61)</td>
</tr>
</tbody>
</table>

Notes:
Standard deviations are reported in parentheses.
Scores are ranked from 1 to 5, where: 1 = unimportant, 2 = rather important, 3 = important, 4 = very important, and 5 = extremely important.
Source: Survey data.

- state of being informed when service is done,
- provider’s response to the request, and
- speed of transaction.

(iii) **Assurance**. The score was calculated by taking the average of scores (from 1 to 5) of four specific indicators:
- trust in the employees who serve,
- confidence in the completeness and safety of transactions,
- politeness of employees, and
- knowledge of employees.

(iv) **Empathy**. The score was calculated by taking the average of scores (from 1 to 5) of two specific indicators:
- employees’ caring attitude, and
- advice and understanding of the customers’ needs.

(v) **Tangibility**. The score was calculated by taking the average of scores (from 1 to 5) of three specific indicators:
- modern equipment,
- cleanliness of the premises, and
- dress of employees.

(vi) **Convenience**. The score was calculated by taking the average of scores (from 1 to 5) of five specific indicators:
- availability of the employees,
- ample seating,
- suitable location,
- convenience of premises, and
- suitable working hours.

The financial service providers seem to give more weight to the factors of **Assurance**, **Empathy**, and **Convenience** than the users with regard to how those factors affect their decisions to use financial services. The result shows a statistically significant difference in the mean scores of those factors between the providers and users of financial services. However, the difference
in the mean score of Reliability, Responsiveness, and Tangibility is not statistically significant between providers and users. This means that users and providers may share the same view on the level of influence of Reliability, Responsiveness, and Tangibility on users’ decisions to use financial services (Table 10).

### Institutional Dimension of Financial Service Accessibility and User Choice

It is expected that users may have different evaluations regarding the accessibility of financial services supplied by formal and informal service providers from the user-friendly perspective. Users who place greater emphasis on certain factors of the user-friendly dimension will likely choose based on whether they perceive those factors as better in formal or informal financial services. Thus, the choice of users—between formal and informal financial services—also indirectly reflected their evaluation of the current state of the user-friendly factors in those two types of services. For example, if Reliability positively affects the user to choose a formal financial service, it is more likely that this user thinks the formal financial service is more reliable than the informal financial service.

To test how users’ views of the user-friendly dimension of financial service accessibility affected their choice between formal and informal financial services, the research uses two logistic models:

**Model 1:**

\[
\text{Logit (choice)} = \alpha + \beta_1 \text{Reliability}_i + \beta_2 \text{Responsiveness}_i + \beta_3 \text{Assurance}_i + \beta_4 \text{Empathy}_i + \beta_5 \text{Tangibility}_i + \beta_6 \text{Convenience}_i + \epsilon_i 
\]

**Model 2:**

\[
\text{Logit (choice)} = \alpha + \beta_1 \text{Reliability}_i + \beta_2 \text{Responsiveness}_i + \beta_3 \text{Assurance}_i + \beta_4 \text{Empathy}_i + \beta_5 \text{Tangibility}_i + \beta_6 \text{Convenience}_i + \beta_7 \text{North}_i + \beta_8 \text{South}_i + \epsilon_i 
\]

of which:

- Choice = where users preferred formal financial service, 0 otherwise.
- Reliability, Responsiveness, Assurance, Empathy, Tangibility, and Convenience are six factors of user-friendly dimension of service accessibility. The score of a variable indicates how much influence the factor has on the user’s decision to use the financial service of a particular provider.

### Table 10: Comparison Between Users and Providers of the Six Factors of the User-Friendly Dimension of Service Accessibility

<table>
<thead>
<tr>
<th>Factor</th>
<th>Users (mean)</th>
<th>Providers (mean)</th>
<th>T</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>3.35</td>
<td>3.44</td>
<td>(0.98)</td>
<td>0.33</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>3.32</td>
<td>3.42</td>
<td>(1.19)</td>
<td>0.23</td>
</tr>
<tr>
<td>Assurance</td>
<td>3.51</td>
<td>3.65</td>
<td>(2.17)</td>
<td>0.03a</td>
</tr>
<tr>
<td>Empathy</td>
<td>3.49</td>
<td>3.63</td>
<td>(1.95)</td>
<td>0.05b</td>
</tr>
<tr>
<td>Tangibility</td>
<td>3.53</td>
<td>3.63</td>
<td>(1.55)</td>
<td>0.12</td>
</tr>
<tr>
<td>Convenience</td>
<td>3.40</td>
<td>3.57</td>
<td>(2.28)</td>
<td>0.02a</td>
</tr>
</tbody>
</table>

( ) = Negative.

* Statistically significant at 5%.

* Statistically significant at 10%.

Source: Survey data.
In Model 1, the likelihood ratio is 12.08, the p-value is 6%, and pseudo $R^2$ is 0.04. Model 2 includes two additional explanatory variables—$North$ and $South$. Model 2 has a better goodness of fit than Model 1. In Model 2, the likelihood ratio is 16.62, the p-value is 3%, and pseudo $R^2$ is 0.06. The goodness of fit test results show that these are relatively good models.

In both models, the logit regression results show that an increase in the value of $Reliability$, $Assurance$, and $Convenience$ tends to reduce the likelihood of users’ choice of formal financial services because the coefficients of these variables have a negative sign. In other words, if factors such as $Reliability$, $Assurance$, and $Convenience$ have greater influence on the users’ decision to use the services of a financial service provider, the less likely it is that they will choose a formal financial service (or the more likely it is that they will choose an informal financial service). This also reveals that users may think informal financial services are better than formal services in terms of $Reliability$, $Assurance$, and $Convenience$.

In contrast, an increase in the value of $Empathy$ and $Tangibility$ tends to increase the likelihood of users’ choosing a formal financial service because the coefficients of these variables have a positive sign. In other words, if factors such as $Empathy$ and $Tangibility$ have greater influence on the users’ willingness to use the services of a financial service provider (or the higher the value of $Empathy$ and $Tangibility$), the more likely it is that they will choose formal financial service. This also indicates that the users may think formal financial services are better than informal service in terms of $Empathy$ and $Tangibility$.

### Table 11  Logistic Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th></th>
<th>Model 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficients</td>
<td>p-value</td>
<td>Coefficients</td>
<td>p-value</td>
</tr>
<tr>
<td>Intercept</td>
<td>(0.10)</td>
<td>0.88</td>
<td>(0.44)</td>
<td>0.56</td>
</tr>
<tr>
<td>Reliability</td>
<td>(0.29)</td>
<td>0.28</td>
<td>(0.32)</td>
<td>0.24</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>0.05</td>
<td>0.83</td>
<td>(0.06)</td>
<td>0.80</td>
</tr>
<tr>
<td>Assurance</td>
<td>(0.56)</td>
<td>0.06b</td>
<td>(0.64)</td>
<td>0.04a</td>
</tr>
<tr>
<td>Empathy</td>
<td>0.63</td>
<td>0.01a</td>
<td>0.70</td>
<td>0.01a</td>
</tr>
<tr>
<td>Tangibility</td>
<td>0.42</td>
<td>0.09a</td>
<td>0.49</td>
<td>0.05b</td>
</tr>
<tr>
<td>Convenience</td>
<td>(0.19)</td>
<td>0.47</td>
<td>(0.16)</td>
<td>0.54</td>
</tr>
<tr>
<td>$North$</td>
<td>(0.26)</td>
<td>0.37</td>
<td>(0.62)</td>
<td>0.04a</td>
</tr>
<tr>
<td>$South$</td>
<td>(0.62)</td>
<td>0.37</td>
<td>(0.62)</td>
<td>0.04a</td>
</tr>
<tr>
<td>Model LR</td>
<td>12.08</td>
<td>0.06</td>
<td>16.62</td>
<td>0.03</td>
</tr>
<tr>
<td>p-value</td>
<td>0.06</td>
<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td>Pseudo $R^2$</td>
<td>0.04</td>
<td>0.03</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>Frequencies of responses</td>
<td>0:172</td>
<td>1:208</td>
<td>0:172</td>
<td>1:208</td>
</tr>
</tbody>
</table>

( ) = Negative.

* Significant at 5% level.

b Significant at 10% level.

Source: Survey data.
Responsiveness is the only variable that shows the opposite sign in the two models. However, because the coefficient Responsiveness is small in absolute values (0.05 in Model 1 and 0.06 in Model 2) and not statistically significant (the p-values are 0.83 in Model 1 and 0.8 in Model 2), it implies that the impact of Responsiveness on the choice of financial services is negligible.

Similarly, looking at the level of statistical significance of each variable, the logit regression results of both models show that Reliability and Convenience may not affect the likelihood of users’ choice between formal and informal services because their coefficients are not statistically significant at the 10% level.

Assurance, Empathy, and Tangibility seem to be relatively good explanatory variables for the logit model. The sign of these three coefficients is unchanged, with Assurance bearing a negative sign and Empathy and Tangibility showing positive signs in both models.

In Model 1, the coefficients Assurance and Tangibility are −0.56 and 0.42 respectively, and they are statistically significant at the 10% level. It means that, other things being equal, as the value of Assurance increases by 1 unit (e.g., a user thinks Assurance has “very important” influence rather than an “important” influence on his decision to use the services of a financial service provider), the log of the odds in favor of choosing a formal service will decrease by 56% (i.e., the odds in favor of choosing a formal service will decrease by 43%). Similarly, other things equal, a 1 unit increase in the value of Tangibility will lead to the increase in the log of the odds in favor of choosing a formal service by 42% (i.e., the odds in favor of choosing a formal service will increase by 52%).

In Model 2, the coefficient Assurance is −0.64 and statistically significant at the 5% level, whereas Tangibility is 0.49 and statistically significant at the 10% level. It means that, other things being equal, as the value of Assurance increases by 1 unit, the log of the odds in favor of choosing a formal service will decrease by 64% (i.e., the odds in favor of choosing a formal service will decrease by 47%). Similarly, other things being equal, a 1 unit increase in the value of Tangibility will lead to the increase in the log of the odds in favor of choosing formal financial service by 49% (i.e., the odds in favor of choosing a formal financial service will increase by 63%).

Empathy proves to be the most influential explanatory variable in both models. It has the largest coefficients (0.63 in Model 1, and 0.7 in Model 2), which are statistically significant at the 5% level. It follows that, other things being equal, in Model 1, as the value of Empathy increases by 1 unit, the odds in favor of choosing a formal financial service will increase by 88%, whereas in Model 2, a 1 unit increase in the value of Empathy will produce an increase in the odds in favor of choosing a formal financial service of more than 100%.

The regression results provide the evidence to support the study’s preliminary observation that, the greater influence the users think Assurance has on their willingness to use the services of a financial services provider, the less likely it is that they will choose a formal financial service. In contrast, the greater influence the users think Tangibility and Empathy have on their willingness to use the services of a financial service provider, the more likely it is that they

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4 That is, the mean score of the four specific indicators: trust in the employees who serve, confidence in the completeness and safety of transactions, politeness of employees, and knowledge of employees, increases by 1 unit.

5 Overall, elements including trust in the employees who serve, confidence in the completeness and safety of transactions, politeness of employees, and knowledge of employees, have a “very important” influence rather than an “important” influence on users’ decisions to use the services of a financial service provider.

6 The mean score of the two specific indicators: employees’ caring attitude, and advice and understanding of the users’ needs, increases by 1 unit.
will choose a formal financial service. It follows that, overall, users may think formal financial services are better in terms of *Empathy* and *Tangibility*, whereas informal financial services are better in terms of *Assurance*.

The regression result in Model 2 shows that users in the northern and southern border-gate areas (i.e., Lao Cai, Hekou, Moc Bai, and Bavet) appear less likely to choose a formal service provider than those in the central border-gate area (i.e., Lao Bao) holding other variables constant, because the coefficients *North* and *South* have negative signs.

However, looking at the level of statistical significance of the *North* and *South* variables, there is evidence to say that users in the northern and central border-gate areas (i.e., Lao Cai, Hekou, and Lao Bao) may not differ in their choice of formal financial service (holding other variables constant) because the coefficient *North* is not statistically significant at the 5% level. The coefficient *South* is −0.62 and it is statistically significant at the 5% level. This means, holding other variables constant, that the odds in favor of choosing a formal financial service by users in the southern border-gate areas (Moc Bai and Bavet) is 46% smaller than the odds in favor of choosing a formal financial service by users in the central border-gate area (Lao Bao).

### Policy Recommendations

#### Financial Services as an Important Policy Initiative for Cross-Border Trade Facilitation

Financial services have so far been overlooked in GMS cooperation on cross-border trade facilitation. This paper, however, shows that for the local business community, financial services are an important factor for cross-border trade facilitation, and they should be given adequate attention in GMS cooperation policy.

With the increased number of companies and people participating in cross-border trade and the increasing value of transactions, the demand for financial services in the border-gate areas of the GMS has become an important issue. This also leads to the rejection of a very popular proposition that small and informal businesses in the border-gate areas do not require a developed financial service sector to meet their demand. The GMS border economy is now so integrated and has reached such a dynamic development level that financial services are a crucial part of it.

However, inaccessibility prevents financial service’s from making a greater contribution to facilitating border trade.

*First*, there is an inadequate presence and low level with familiarity with banks in the border-gate areas. As a result, only a small proportion of the cross-border trade in the GMS is financed through the commercial banking system, and the rest is in the form of barter or is paid in cash.

*Second*, not only have restrictive criteria (e.g., minimum deposit, collateral, administrative burden, and fees) reduced access to financial services, especially banking services, the user-unfriendly features (e.g., unresponsiveness and apathy of employees, unreliable service, inconvenient location, and unsuitable office working hours) have also adversely affected the customers’ willingness to use financial service.

*Third*, informal financial services dominate formal financial services in terms of familiarity and accessibility by the users. Despite their flexibility and large number, accessibility to informal financial services can be constrained by customers’ concern over the high risks associated with their user-unfriendly features.
Increasing the Presence of Financial Organizations in the Border-Gate Areas

Increasing the presence of financial organizations is the first important step toward increasing access to financial services while reducing the risky transactions often experienced with informal financial service providers—mostly unregistered money exchangers—in the border-gate areas. In the GMS, especially in Viet Nam, major banks have already recognized the potential of financial development in the border-gate areas but they have been slow to tap this market because of the huge unexploited inland market. In addition, formal financial service providers are concerned about the higher business risks (e.g., default of customers) in the border areas.

Although banks are important, they are not the only choice of financial organizations in the border areas. Other forms of financial service providers, such as credit cooperatives and local funds, can also be effective given their greater flexibility and simplicity (in terms of easier business registration, smaller capital requirement, and fewer requirements for infrastructure development). These organizations handle transactions of smaller value and collect lower service fees. They also tailor their products to low-income customers while possessing better connections and information channels in the local areas to assess the financial risks (e.g., by recruiting local people as their agents and credit evaluators).

For many years, people’s credit organizations—a form of credit cooperative—have been very popular in the rural areas of Viet Nam. This study recommends that more low-cost financial service providers, such as people’s credit organizations, be established in the border areas with expanded functions to provide better financial services to cross-border trade.

Overcoming Problems of Asymmetric Information

Although financial service providers deny financial services to most traders because they were not qualified, overcoming the problem of asymmetric information is crucial to removing the self-exclusion phenomenon. Increasing access to formal financial services may require an increase in communication between financial service providers and traders.

Greater efforts, however, must come from the supply side by making financial service providers and their products visible and accessible to traders. Establishing their business premises in the border-gate areas is only a first step to meeting the demands of traders. The next step should be familiarizing financial service providers with the local business community.

Financial providers, such as banks, should do better in terms of marketing and advertising their products and services to the local community by providing printouts, brochures, and pamphlets to the local people and constructing and upgrading their websites.

Help desks with information on available financial services in the local area should be set up (e.g., in the general information centers at the border gates). The general information center can also provide printouts, brochures, and pamphlets of financial providers, and other related information on financial services.

Making Financial Services More Friendly to Users

Making a service friendly to users is important to increase people’s willingness to use it. This study linked the characteristics of a user-friendly financial service to six factors: Reliability, Responsiveness, Assurance, Empathy, Tangibility, and Convenience. It found that all these factors are seen as having important influence on traders’ decisions to use the services of a financial service provider, and on providers’ decisions to make their services more attractive to customers.
The study also shows that these factors can influence the choice of users between formal and informal financial services. There is evidence to conclude that the greater the influence the users think **Assurance** has on their decision to use the service of a financial service provider, the less likely it is that they will choose a formal financial service. In contrast, the greater the influence the users think **Empathy** and **Tangibility** have on their decision to use the services of a financial service provider, the more likely it is that they will choose a formal financial service. In other words, users may think that, overall, a formal financial service is better in terms of **Empathy** and **Tangibility**, and an informal financial service is better in terms of **Assurance**. However, users may think that there is not a significant difference between formal and informal financial services in terms of **Reliability**, **Responsiveness**, and **Convenience**, or at least this difference, if any, does not affect users’ choice between the two forms of financial service.

For providers of financial services, the focus on six factors of user-friendly dimension means the following:

1. To have a more reliable service: increase the ability to perform the service as needed, provide the service promptly, solve problems, complete the service at the right time, and reduce errors.
2. To have a more responsive service: increase the ability to keep customers informed, respond effectively and in a timely manner to the request, and increase the speed of transaction.
3. To have a service with higher degree of assurance: build customers’ trust in the employees (e.g., through the latter’s behaviors), and customers’ confidence in the completeness and safety of transactions; and increase politeness and knowledge of employees.
4. To have a more empathic service: develop employees’ caring attitude, and increase the ability to provide advice and understand the needs of customers.
5. To have a more tangible service: invest in modern equipment, ensure the cleanliness of the premises, and pay greater attention to appearance (e.g., dress) of employees.
6. To have a more convenient service: ensure the availability of the employees to serve the customers, have a suitable location and working hours, and have a convenient arrangement of facilities within the business premises.

### Providing Skills Trainings to Providers and Users of Financial Service

Providers of financial services should be provided with skills training to be able to improve their services, for instance, in the above six factors of the user-friendly dimension. Skills training is necessary for informal financial service providers, such as individual money changers in the black market, not only to help them provide more user-friendly services but also to have more secure business transactions.

Users and potential users of financial services, such as individuals, households, and companies, also need the skills to be able to use different kinds of service effectively and properly. Misuse of financial services in business transactions may lead to higher costs in time and money than non-use of these services.

Local business associations (e.g., banks and other credit organizations) can cooperate to organize training with the help of local organizations, such as women’s unions, youth unions, and the informal networks of traders and money changers. Dissemination of printouts of tips and guidance in providing financial services can be an effective way of transmitting knowledge to informal financial service providers.
Formalize the Informal Service Providers

Formalizing or registering informal service providers can be the next step following skills training. Service providers who have undergone the training can be granted a working license and become registered. This process requires close cooperation rather than competition between the banks and informal financial service providers.

There is a need to enlarge the access of informal providers to the registration process. This can be done by reducing training and registration fees, as well as other follow-up costs such as tax on registered businesses.

Bridge the Gap between Formal and Informal Financial Service Providers Through User-Friendly Features

While users may think that there is no significant difference between formal and informal financial services in terms of Reliability, Responsiveness, and Convenience, in the overall analysis, formal financial services are better in terms of Empathy and Tangibility, while informal financial services are better in terms of Assurance. This means that while financial service providers should try to improve all six factors of the user-friendly dimension, formal service providers should pay greater attention to Assurance, whereas informal financial service providers should pay special attention to Empathy and Tangibility.
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