

Greater Mekong Subregion–Phnom Penh Plan for Development Management

Research Report Series

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

Nguyen Hong Son and Dang Duc Son



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Abbreviations

ADB	- Asian Development Bank
Agribank	- Bank for Agriculture and Rural Development
BEZ	- border-gate economic zone
D	- dong
GMS	- Greater Mekong Subregion
IT	- information technology
MOIT	- Ministry of Industries and Trade
SEZ	- special economic zone
SETZ	- special economic trade zone
Techcombank	- Viet Nam Technological and Commercial Joint-Stock Bank
Vietcombank	- Joint Stock Commercial Bank for Foreign Trade of Viet Nam
VietinBank	- Viet Nam Joint Stock Commercial Bank for Industry and Trade

Foreword

The Greater Mekong Subregion (GMS) Phnom Penh Plan for Development Management (PPP) was launched in 2002 to build a core of highly trained development managers in the GMS countries who would play a key role in shaping policy choices towards the vision of a more integrated, prosperous, and harmonious subregion. The PPP's programs for capacity building include (i) learning programs for GMS civil servants, (ii) short-term high impact programs for top and senior level officials, and (iii) dialogues on development issues. In 2004, the PPP initiated the publication of the *Journal of GMS Development Studies*—a multidisciplinary publication that seeks to promote better understanding of development issues in the GMS among planners, policy makers, academics, and researchers.

As GMS countries continue to face increasingly complex challenges of economic development, the knowledge base required to inform policy choices has become increasingly important. Learning courses provide the tools but not the empirical basis for designing policy. Moreover, the differential impacts of policies among various publics need to be better understood to assess the appropriate trade-offs. This policy-knowledge gap is more apparent in the less developed GMS countries where research institutions have limited capacities and resources to conduct policy-based research. Recognizing this, and in an effort to bring its capacity building goal to a higher plane, the PPP Research Program was launched in March 2009 to help promote a more effective link between knowledge generation and policy formulation.

The PPP Research Program aims to engage research institutions in the policy process by supporting scholarly works that would bring multifaceted perspectives on development issues and provide new knowledge on the impacts and consequences of policy choices. By providing resources and opportunities to the GMS research institutions, the PPP Research Program could be a potent and active partner in the development process.

To carry out these objectives, the PPP Research Program provides financial support (grants) and technical assistance to indigenous GMS research institutions and think tanks for conducting research on subregional development issues. The grants are directed to research projects that tackle subregional issues confronting the GMS; this subregional focus intends to ensure that the PPP Research Program's outputs would be useful to the GMS Program agenda, and would not overlap with other research support provided to the study of national development issues.

The PPP Research Report Series features the scholarly works that have been supported by the PPP Research Program. It is hoped that by disseminating the research results to a wide audience, the breadth and depth of the GMS development challenges can be better appreciated and understood by policy makers, implementers, and other stakeholders in the subregion. Through this, the PPP Research Program would have made a modest contribution in responding to the opportunities and challenges brought about by greater economic integration in the subregion.

Alfredo Perdiguero
PPP Program Manager

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 services 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 service accessibility and how accessibility affects customers' decisions to use financial services in the border-gate areas.

1. Introduction

Since the early 2000s, cross-border trade has expanded rapidly among the countries in the Greater Mekong Subregion (GMS). Among other factors, the increase in cross-border trade has been stimulated by the application of a number of trade facilitation measures.

Facilitating cross-border trade is one of the five strategic thrusts of the 10-year Strategic Framework for the GMS Program that was 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 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 strategic framework does not exclude financial services, at present it emphasizes customs procedures, inspection and quarantine measures, trade logistics, and mobility of business people as the four priority cross-border trade facilitating measures. Similarly, 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 customs inspection; facilitation of the movement of goods, people and vehicles; and phytosanitary and veterinary inspection, and they have ignored the financial aspects of cross-border trade.

Inaccessibility is a major constraint to the use of financial services 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 these 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 the commercial banks; the rest is through barter or cash. For example, settlement through banks accounts for a mere 10% of the total cross-border trade volume between Viet Nam and the People's Republic of China (PRC). In 2008, the value of trade between Viet Nam and Cambodia was \$1.7 billion (\$1.0 billion was the border trade value) and only \$7.0 million (0.4%) of the cash was deposited into bank accounts by traders (Ministry of Industries and Trade [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 stipulate restrictive criteria (e.g., a minimum deposit and evidence of good credit history) that disqualify small and informal businesses. The excessive paper work and high fees make getting a loan cumbersome and too costly for many borrowers seeking only small amounts. Banks may demand collateral, and pose other nonpecuniary challenges, such as requiring greater literacy, which poor borrowers lack (Claessens 2005: 12). Moreover, bank offices may have inconvenient location at the border gate or unsuitable working hours. The capability of banks to provide services needed by local businesses may also be limited. As a result, individuals, households, and firms have to rely on informal financial services, which appear to be a viable option in 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), there are black market currency exchange points with hundreds of money changers eagerly searching for clients. Compared to the banks, these informal financial service providers are more flexible with regard to customers' needs and offer faster service. Nevertheless, informal services may be unreliable because they bear a high risk (e.g., exchange rate volatility, default, or transaction error), and easily become facilitators of illegal activities (e.g., tax evasion or money laundering). In addition, customers of informal services 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 have an advantage in terms of number of providers and flexibility of conditions, concerns about reliability, assurance, and empathy may adversely affect customers' decisions to use their services in the border-gate areas.

Inadequate policy attention to financial service development does not mean that there is little demand for financial services in the border-gate areas. Rather, it may reveal the mismatch between policy priorities and the needs of the local business community and residents. 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 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.

2. Financial Services in Cross-Border Trade of Viet Nam

Cross-border trade between Viet Nam and Cambodia, the PRC, and the Lao People's Democratic Republic (Lao PDR) has grown rapidly (Table 1). Border trade turnover between Viet Nam and Cambodia was \$1.1 billion in 2008. It increased by 39.5% compared with 2007, and accounted for 65.7% of total bilateral trade between Viet Nam and Cambodia in 2008. Viet Nam had border trade surplus with Cambodia of \$252.7 million in 2007 and \$415.1 million in 2008. Viet Nam had a border trade deficit with the Lao PDR of \$103.5 million in 2007 and \$123.3 million in 2008. During 2002–2008, the border trade turnover of Viet Nam's seven border provinces with the PRC grew at an annual rate of 46.3%. Viet Nam had a large trade deficit with the PRC but it had a border trade surplus of \$1,056.0 million in 2007 and \$639.2 million in 2008 (MOIT 2009).

Table 1 Cross-Border Trade among Cambodia, People's Republic of China, Lao People's Democratic Republic, and Viet Nam

Countries	2007		2008	
	Trade Turnover (\$ million)	% Change Compared to 2006	Trade Turnover (\$ million)	% Change Compared to 2007
PRC	5,467.90	103.2	6,507.81	19.0
Cambodia	772.06	12.1	1,077.15	39.5
Lao PDR	312.00	20.1	423.00	35.6
Total	6,551.96	80.1	8,007.96	22.2

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 Of the 26 BEZs, there are 9 major BEZs which are accorded priority in the development policy of the Government of Viet Nam: 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.

1 A BEZ is defined in the Decree 29/2008/ND-CP in 2008 by the government as the economic zone located 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.

It is difficult to provide an adequate assessment of 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 virtually non-existent data on informal financial providers.

Few attempts have been made to redress the undersupply of formal financial services in the border areas of Viet Nam. The State Bank of Viet Nam has signed bilateral settlement agreements with the People's Bank of China (1993), the Bank of the Lao PDR (1998), and the National Bank of Cambodia (2005). These financial settlements allow the commercial banks to exploit the potential of the border financial market. This includes the agreements between the Viet Nam Joint Stock Commercial Bank for Industry and Trade (VietinBank), the Bank for Agriculture and Rural Development (Agribank), and the Viet Nam Technological and Commercial Joint-Stock Bank (Techcombank) of Viet Nam with the Industry and Commercial Bank of China, the Agricultural Bank of China, the China Construction Bank, Bank of China, and some banks in Cambodia and the Lao PDR.

Despite these efforts, there remains a "current financial service problem" as evidenced by the scarcity of commercial banks and other formal financial institutions in the border-gate areas. Some major banks opened more branches and improved their services in the border-gate areas. For example, Techcombank and the Mekong Housing Bank reached an agreement with the Industry and Commercial Bank of China in Guangxi Zhuang Autonomous Region to provide border trade settlement services at their branches in Lang Son (Tan Thanh and Huu Nghi border gates) and Quang Ninh (Mong Cai border gate) and Pingxiang and Dongxing in Guangxi Zhuang Autonomous Region. Similarly, Agribank reached an agreement with Phongsavanh Bank of the Lao PDR in Savannakhet to offer services in Lao Bao (Quang Tri Province in Viet Nam) and Densavan (Savannakhet Province in the 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 in Viet Nam. Thus far, five state-owned commercial banks (Vietcombank, the Mekong Housing Bank, Agribank, Bank for Investment and Development of Viet Nam, and VietinBank), and two joint-stock commercial banks (Techcombank and Sacombank) of Viet Nam provide 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 also only one branch of Phongsavanh Bank in Densavan (the paired border gate of Lao Bao in the Lao PDR territory) and one branch of ACLEDA Bank in Bavet (the paired border gate of Moc Bai in the Cambodian territory).

For informal financial services, 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), border money markets grew naturally in response to the demands of traders in the border areas. These markets facilitate the exchange of local currencies, and this service appeared before formal financial institutions were established by the governments. However, a number of researches have pointed out the inherent risk in border money market because of the problems of default, cheating, robbery, and abuse of small providers in the network, as well as harassment of customers by providers (Hoat and Ha 2010, Vinh 2003).

Informal trade creates the demand for informal financial services; habit is another. Traders in the border market, including individuals and microenterprises, are accustomed to using cash and providing credit on the basis of trust (Nguyen and Cu 2005), and few have bank accounts. Furthermore, many traders do not want to use bank services because of high service fees relative to their small trading value, as well as for tax-evasion reasons. In some border-gate areas (e.g., Lao Bao and Moc Bai), informal money market exists to serve 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 market currency exchanges, one can get a variety of hard currencies—from euro, United States (US) dollar, and Japanese yen to Singaporean dollar—at a unified and up-to-date exchange rate. 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 Vietnamese dong and the PRC yuan account for only 10%–15% of total cross-border trade turnover between Viet Nam and the PRC (MOIT 2009).

On the supply side, money market services are said to be easily accessible because of the large number of providers, their convenience, and the less time-consuming procedures. For example, the *People's Police Newspaper* (6 February 2010) estimates that there are as many as 300 people working as money dealers in Lao Cai, and they are easy to find around the streets leading to the gate. In Lao Bao, the Agribank office is located in a favorable location next to the border gate, but there are also hundreds of money dealers or “mobile banks” in the area. These money dealers are visible everywhere and are accessible at any time of the 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. At Tan Thanh border gate of Lang Son Province, almost all cross-border trade is facilitated through the informal 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 “branches” 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.

3. Access Dimensions of Financial Services

There is no unanimous definition of access to financial services as it can have various dimensions (Claessens 2005: 6). A very comprehensive review of literature by Stijn Claessens (2005: 6) shows that access to financial services typically involves the question of the availability, costs, types, and quality of financial services offered. These dimensions can also be categorized as reliability (i.e., availability of financial services when needed), convenience (i.e., ease of access to financial services), continuity (i.e., repeated access to financial services), and flexibility (i.e., tailoring of financial products to the needs of the users) (Claessens 2005: 6, Morduch 1999).

Studies of access to financial services are often concerned with the exclusion of consumers—either voluntary or involuntary (Claessens 2005; Kumar 2005; Morduch 1999; Beck, Demirgüç-Kunt, and Maksimovic 2004; Hawkins 2010). Individuals, households, and firms can be involuntarily excluded from financial services because they do not meet the 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 surveyed expressed a lack of interest in having a bank account, whereas almost two-thirds of survey respondents in India did not feel a need for a bank account (Kumar 2005: 6). Claessens (2005: 12) notes that the demand for financial services may not exist if individuals, households, and firms do not want to use the financial services, even if these are easily available and accessible. Kempson, et al (2000) distinguish between five types of exclusion in financial services: (i) access exclusion (the customer fails to meet the provider's requirement through risk screening), (ii) condition exclusion (the product design is inappropriate for the needs of some people), (iii) price exclusion (the financial products are too costly), (iv) marketing exclusion (some groups are effectively excluded by target market and sales), and (v) self-exclusion (some groups do not apply 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: the functional dimension, the user-friendly dimension, and the institutional dimension.

For the *functional dimension*, the focus is on whether a user has access to a specific type of financial service. A lack of access may arise if there is a mismatch between the provision and use of the service when potential users restrain their demand because the right types of financial services are not provided (Claessens 2005: 12). Further, financial service providers may not wish to give all customers access to certain 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 service are used in cross-border trade. We look at a few popular financial products that act as lubricants to trade, rather than at the trade in financial services themselves across country borders. The financial products include 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 and absence of a service, and moves toward accessibility of the service in a user-friendly manner (Kumar 2005: 10). From this perspective, service accessibility is very close to service quality and the user's perception of what constitutes a user-friendly service that can affect the decision to use the service. To evaluate this accessibility dimension of financial services, based on the SERVQUAL model,² we develop six factors:

- i. **Reliability:** the ability to perform the service promptly as needed, trust in the provider to solve any problem that may occur, the ability to complete the service at the right time, and an absence of errors.
- ii. **Responsiveness:** the state of being informed when the service has been done, time for providers to respond to the requests of customers, and serving customers without delay or hesitation.
- iii. **Assurance:** trust in the employees' services, confidence in the completeness and safety of transactions, and politeness and knowledge of employees.
- iv. **Empathy:** employees' caring attitude, advice and guidance, and understanding of customers' needs.
- v. **Tangibility:** modern equipment, cleanliness of the premises, and attire of the employees.
- vi. **Convenience:** suitable location of the service provider, working hours, and convenient arrangement of facilities.

For the *institutional dimension*, a common view is that there is a distinction between formal and informal financial services because each form of service allows for different levels of accessibility along with "hard" or legal criteria, such as a minimum deposit, evidence of good credit history, collateral, administrative procedure, and fees (Claessens 2005, Kempson et al. 2000, Kumar 2005). These criteria may also serve as barriers to the access to formal financial services that cause customers to choose informal financial services instead. However, it is neither easy nor appropriate to lower these barriers to make formal

² In its original form, the SERVQUAL model contains 22 pairs of statements across 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 consumer's 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).

financial services more accessible because formal financial services must follow the legal standard terms, conditions, procedures of service provision, and surveillance; and efforts to break those standards will make them more fraudulent, risky, and contingent.

Access to informal financial services in border-gate areas can also be reduced by customers’ concerns over the risky, illegal, and abusive behaviors of informal financial service providers (e.g., exchange rate volatility, default, and cheating), while applying such “hard” criteria is not immediately a viable option.

The study examines how six “soft” factors of the user-friendly dimension of accessibility—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 the risky, illegal, and abusive behaviors associated with informal financial services can be alleviated by improving such factors as reliability (e.g., strengthening the ability to complete the service and reducing errors), assurance (e.g., building the trust and confidence of customers in service providers), and empathy (e.g., promoting a caring attitude in the service providers). For formal financial services, the barriers to access can be overcome by improving factors that cause it to lag behind informal financial services, such as responsiveness (e.g., increasing the ability to respond quickly to requests), empathy (e.g., improving employees’ attitude and understanding of the customers’ needs), and convenience (e.g., ensuring premises have suitable locations and appropriate working hours). Thus, while formal and informal financial services may not immediately share the “hard” criteria on conditions, procedures, 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.

Table 2 Framework to Assess Accessibility of Financial Services

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

Source: Authors.

4. Study Sites

The 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 Cambodia (Bavet), the PRC (Hekou), and Viet Nam (Lao Cai, Lao Bao, and Moc Bai). This includes 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 and has 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 Kim

Thanh Bridge to connect the Kim Thanh Commercial Center in Viet Nam and the 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 of Yunnan Province in the PRC. Hekou County is one of Yunnan's major land-border port cities. Hekou's major export products include locomotives, electrical power, and mechanical equipment; while its 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, certificates of origin can be issued in Lao Cai to help expedite cross-border trade.

Major Vietnamese banks, such as Agribank, Techcombank, VietinBank, Vietcombank, and the Mekong Housing Bank, have opened their branches in Lao Cai. In Hekou, the Industry and Commercial Bank of China, the People's Bank of China, China Construction Bank, and Agricultural Bank of China 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, cross-border trade payment services offered by Agribank in partnership with the four PRC banks are foreign exchange, bank drafts, documentary credit, telegraphic transfer, and the so-called cross-border trade payment voucher, even though Agribank has had the longest foothold in the area. To the same extent, 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 changers. They work in a demarcated section within the immigration office or in nearby streets. According to regulations, these money changers can only buy and sell the PRC yuan, 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 subjected to the banks' supervision. Although most of these money changers have work permits, they have informal ways of doing business, such as speculating on exchange rates, facilitating tax evasion, and placing transactions outside the record book, among others.

As elsewhere, working in the border black money market is not only 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 economic recession, cross-border trade between Lao Cai and Hekou dropped dramatically in 2008 and 2009 to almost half the 2007 level. Trade decline is said to have severely affected the business of money changers. According to the *People's Police Newspaper* (6 February 2010), their revenues fell from as high as 80% to 30% and many of them were forced to find other jobs.

Lao Bao Special Economic Trade Zone (STZ)—also known as Lao Bao BEZ, 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 in 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 and this includes a large proportion of trade between Lao Bao and Densavan. Opposite Lao Bao in the Lao PDR territory is the Densavan Border

Trading Commercial Zone (BTZ).

Most of the border trade activities in the center of Viet Nam with the Lao PDR concentrate in the Lao Bao–Densavan border gates because of the relatively higher level of development and better infrastructure in the area. 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 subject to tax. Domestic visitors to Lao Bao Free Trade Zone are allowed to purchase tax-free goods of up to D500,000 (\$25) and foreigners can buy up to \$300-worth of tax-free goods. Lao Bao is known as the “Kingdom of Smuggling” as smuggled goods are brought from Thailand via the Lao PDR to Viet Nam. The most popular goods include electronics, cosmetics, medicine, and cloth.

Unlike other areas, the economy of Lao Bao was not affected by the economic recession in 2008. Its cross-border trade volume continued to increase, especially the 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 Phongsavanh Bank of the Lao PDR have recently opened their border trade settlement services in Lao Bao–Densavan, making these checkpoints the only site along the border between Viet Nam and the Lao PDR where banking services are available. However, as in other border-gate areas, there is a limited number of services that these two banks can provide. Although Agribank’s transactions office has a very advantageous location beside the border gate, it fails to compete with hundreds of money dealers—the mobile banks, or *con xong* 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 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 Singapore 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 set by chief dealers in Karol Market (in Sepon District, Lao PDR) early in the day. The majority of traders in Karol are from Viet Nam.

Moc Bai BEZ is located in Trang Bang and Ben Cau districts in Tay Ninh Province. It is situated on the Trans-Asia Highway, 70 km from Ho Chi Minh City and 170 km from Phnom Penh. The zone has three border-crossing points—Moc Bai, Phuoc Chi, and Long Thuan. The zone is full 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 Cambodian territory, is the Bavet Special Economic Zone located in Bavet Commune, Chantrea District, Svay Rieng Province. Besides the advantage of geography that connects it with Viet Nam, the zone offers preferential trade policies, including exemption from company income tax for 5 years and no import tax for equipment, parts, and construction materials for the entire life of companies locating there. Moreover, the zone enjoys special preferential conditions that include no transaction value-added tax and a single window for export and import procedures. The 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-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 of the Prime Minister, which allowed immigrants only 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 Cambodia's ACLEDA Bank agreed to provide border trade financial settlement services in border-gates areas of the two countries, including in 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. Black market currency exchange 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 *phình* in the local language, by private dealers. Each day, particularly during the weekend, thousands of people cross the border to visit the casinos in Bavet. The majority of them come from Ho Chi Minh City. It is said that they also bring with them hundreds of thousands of US dollars.

5. Sample Profile

The survey was conducted with two main groups of respondents: (i) financial service providers (banks and nonbank providers, including individual money dealers); and (ii) financial service users, including registered companies, households, and individual traders. The researchers surveyed 380 financial service users and 106 financial service providers in Lao Cai, Hekou, Moc Bai, Bavet, and Lao Bao (Table 3).

Table 3 Sample of Financial Service Providers and Users

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

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, 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.

Table 4 describes the profile of the formal and informal financial service providers in five border-gate areas. In terms of business duration, the formal financial service providers in Bavet had been in business for an average of 4.3 months at the time of the survey, and the informal service providers had been in business

for an average of 3.9 months. The formal financial service providers in Moc Bai had been in business for an average of 16.2 months and the informal service providers had been in business for an average of 30.7 months.

On average, the formal financial service providers are located closer to the border gate than the informal financial service providers. This brings an added advantage to the formal financial service providers in facilitating cross-border trade compared to informal providers at the border gate. 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 substantial, averaging over 5 km.

Table 4 Profile of Formal and Informal Financial Service Providers

Item	Types of Providers	Study Sites				
		Lao Cai	Lao Bao	Moc Bai	Bavet	Hekou
Duration of business in current location (months)	Formal	9.4	13.0	16.2	4.3	9.2
	Informal	26.0	19.9	30.7	3.9	5.3
Distance of premises to the border gate (kilometers)	Formal	3.5	5.7	2.9	2.2	1.5
	Informal	4.4	6.7	4.0	5.4	1.7
Average annual revenue in 2009 ^a	Formal	4.9	5.2	5.1	3.0	1.0
	Informal	1.0	4.0	...	4.9	1.7
Evaluation of future business (1–2 years) ^b	Formal	1.2	1.0	1.0	1.6	1.8
	Informal	...	1.0	...	2.9	2.8
Revenue from financial services provided to cross-border trade (% of total revenue)	Formal	12.5	8.7	5.6	28.0	6.0
	Informal	...	2.3	...	93.0	45.0

... = 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, 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.

The financial service providers in Bavet and Hekou are relatively new to the business compared to other sites where the informal financial service providers began their business considerably earlier. Similarly, the users of financial services, such as households and individual traders, established their (informal) business activities earlier than the registered companies (Table 5). The duration 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 households and individual users of financial services 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.

The businesses of both users and providers of financial services in the five study sites range from small to medium-sized. The average annual revenues of financial service providers in 2009 were less than D15 billion. Some providers of financial services are very small and temporary, with total annual revenues of

less than D100 million. Nonetheless, both providers and users of financial services have a fairly positive expectation about their business prospects.

The survey data show that, except in Bavet, formal financial service providers' share of revenues from cross-border business in their total revenue is very small (12.5% in Lao Cai, 8.7% in Lao Bao, 5.6% in Moc Bai, and 6.0% in Hekou). This is much lower than the share of revenues from cross-border trade in the total revenue of the registered companies, households, and individual traders that are the users of financial services. Revenues from cross-border trade account for 75% of the total revenues of registered companies in Lao Cai, 51.0% in Lao Bao, 71.4% in Moc Bai, and 66.2% Hekou (Table 5). For the households and individual traders, the shares are 72.4% in Lao Cai, 51.7% in Lao Bao, 75.8% in Moc-Bai, 16.1% in Bavet, and 38.0% in Hekou. Because there are a few formal providers (e.g., banks) in the border market and the informal providers are limited in their financial capability, these figures indicate a large unexploited market for financial service providers in the border-gate areas.

Table 5 Profile of Users of Financial Services

Item	Users	Study Sites				
		Lao Cai	Lao Bao	Moc Bai	Bavet	Hekou
Duration of business in current location (mean number of months)	Registered companies	5.10	4.40	5.55	3.25	6.40
	Household and individual traders	7.96	6.68	7.12	7.23	7.80
Distance of premises to the border gate (kilometers)	Registered companies	2.20	2.70	1.90	3.70	2.70
	Household and individual traders	4.10	1.00	5.70	22.50	5.50
Average annual revenue in 2009 ^a	Registered companies	4.76	3.90	4.95	5.50	2.75
	Household and individual traders	1.87	2.22	2.90	2.00	3.15
Evaluation of future business (1–2 years) ^b	Registered companies	2.50	2.37	2.35	1.75	2.57
	Household and individual traders	2.78	2.10	3.00	2.17	2.70
Revenue from cross-border trade (% of total revenue)	Registered companies	75.00	51.00	71.40	...	66.20
	Household and individual traders	72.40	51.70	75.80	16.13	38.00

... = 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, 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 (equal 0%), 4 = decline (–5% to less than 0%), 5 = sharp decline (less than –6%).

Source: Survey data.

6. Discussion of Findings

6.1 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—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, a factor viewed as having the most important role in cross-border trade facilitation was ranked 1st. A factor viewed as having the least important role in cross-border trade facilitation was ranked 7th.

The result shows that 58.6% of users ranked financial services as among the first three most important factors for cross-border trade facilitation. On the other hand, 31.4% of financial providers rated financial services as the least important of the seven factors, although 27.5% ranked it among the first three. Traders, including registered companies and households, had greater appreciation of the role of financial services in cross-border trade facilitation, with more than half ranking financial services among the three most important factors and 26.0% said that it is the most important factor, compared to customs, regulations, trade documentation, transport, movement of people, and IT (Table 6).

The result also shows that 16.7% of formal financial service providers and 41.3% of informal financial service providers reported financial services as the least (ranked 7th) important factor for cross-border trade facilitation. This is in contrast to the small proportion of users who shared the same views: 3.8% of registered companies and 3.0% of households and individual traders reported financial services as the least important cross-border trade facilitation factor.

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

Respondent	Type	Rank							Total
		1	2	3	4	5	6	7	
Providers	Formal	16.7	4.7	9.5	23.8	16.7	11.9	16.7	100.0
	Informal	9.5	6.4	9.5	11.1	12.7	9.5	41.3	100.0
	Total	12.4	5.7	9.4	16.0	14.3	10.5	31.4	100.0
Users	Registered companies	31.8	13.8	13.8	14.4	10.0	12.5	3.8	100.0
	Household and individual traders	21.3	22.2		13.9	16.3	8.9	2.97	100.0
	Total	26.0	18.5	14.1	14.1	13.5	10.5	3.3	100.0

Notes:

1. Percentages may not total 100% because of rounding.
2. 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. A ranking of 1 indicates financial services are seen as the most important cross-border trade facilitation factor among the seven factors, and a ranking of 7 indicates financial services are seen as the least important cross-border trade facilitation factor among the seven factors.

Source: Survey data.

6.2 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 offered, and asked users what types of financial services were accessible to them. If there is no constraint between supply and demand, all financial

services provided should be accessible to users. However, 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 to them, either because they believe that their application would be refused, or simply because they do not have enough information.

Table 7 shows that there is a relatively large gap between the perceptions 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,³ whereas less than half of users (both registered companies and households 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 products, such as foreign exchange, money transfer, and bank accounts. The survey data show that 90.1% of registered companies said they had access to a money transfer service, compared to 68.9% of the households and individual traders. A similar gap existed in bank account services, with 63.4% of registered companies saying that they had access to this financial product, compared to only 32.0% of households and individual traders. However, the proportion of households and individual traders who said they had access to foreign exchange services was twice as high as the registered companies which had access to the same financial service (87.2% compared to 42.9%). This may be explained by the fact that households and individual traders may face greater constraints compared to registered companies in accessing certain types of financial product (e.g., bank accounts) that are only provided by formal institutions. However, they may have wider access to services (e.g., foreign exchange) provided by both formal and informal providers than registered companies because they have greater flexibility in approaching the informal service providers (Table 7).

Table 7 Accessibility of Financial Service Products (%)

		1	2	3	4	5	6	7
		Credits to Buyers and Sellers			Money Transfer	Export Credit Insurance	Foreign Exchange	Bank Accounts
Respondent		Bank Draft	Documentary Credit					
Providers ^a	Formal	76.0	74.0	57.0	93.0	45.0	81.0	93.0
Users ^b	Registered companies	47.8	42.2	51.6	90.1	9.3	42.9	63.4
	Household and individual traders	40.6	38.8	66.2	68.9	8.7	87.2	32.0

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

^b Percentage of users that said that financial service products were accessible to them.

Source: Survey data.

³ For the registered money changers, this may mean that they are able to connect the customers to the banks for these services.

Inaccessibility of financial services can occur because potential users have asymmetric or insufficient information on the provision of services. The survey shows that the proportion of users who have access to information about financial services from informal and indirect sources (e.g., tips from business partners) was high (62.0%). Meanwhile, marketing and advertising by financial service providers were not very effective, as they were only able to reach 71.3% of users in the border-gate areas (Table 8).

Table 8 Sources of Information for Financial Service Users (%)

Proportion of respondents who said they knew the availability of financial service by	%
Receiving advertisements from local financial service providers	71.3
Receiving advice from financial experts	38.5
Retrieving information from databases and/or information centers	28.7
Looking for information on the internet	41.5
Approaching informal and indirect sources of information (e.g., tips, information from business partners, etc.)	62.0

Source: Survey data.

6.3 User-Friendly Dimension of Financial Service Accessibility

From the user-friendliness perspective, providers of financial services reported that reliability, responsiveness, assurance, empathy, tangibility, and convenience were six factors that influenced customers' decisions on whether to use their services. Users of financial services also reported that these same six factors influenced their decisions to use the service of a particular provider (Table 9).

Table 9 Six Factors of the User-Friendly Dimension of Financial Service Accessibility

Respondent	Type	1	2	3	4	5	6
		Reliability	Responsiveness	Assurance	Empathy	Tangibility	Convenience
Providers	Formal	3.96 (0.53)	3.89 (0.68)	4.12 (0.52)	4.00 (0.66)	3.99 (0.63)	3.96 (0.67)
	Informal	3.06 (0.76)	3.10 (0.64)	3.31 (0.37)	3.33 (0.50)	3.36 (0.43)	3.29 (0.41)
Users	Registered companies	3.35 (0.70)	3.3 (0.73)	3.46 (0.70)	3.45 (0.74)	3.50 (0.66)	3.38 (0.67)
	Household and individual traders	3.36 (0.60)	3.33 (0.69)	3.54 (0.59)	3.52 (0.66)	3.54 (0.62)	3.45 (0.61)

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 and calculations by authors.

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 the 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 in provider to solve any problem that occurs,
 - ability to complete service at the right time, and
 - absence of errors.
- ii. **Responsiveness.** The score was calculated by taking the average of scores (from 1 to 5) of three specific indicators:
 - 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 all six factors of the user-friendly dimension of service accessibility than the financial service users with regard to how those factors affect the decisions to use financial services. The mean scores given by the financial service providers are higher than that given by the financial service users across six factors. However, the t-test only shows a statistically significant difference (at the 5% level) in the mean scores of the factors of assurance and convenience between the providers and users of financial services. This further confirms that, compared with the financial service users, the financial service providers give a greater emphasis to the influence that assurance and convenience have on the decisions to use financial services (Table 10).

Table 10 Comparison between Users and Providers of the Six Factors of the User-Friendly Dimension of Financial Service Accessibility

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

() = Negative.

^a Statistically significant at 5%.

^b Statistically significant at 10%.

Source: Survey data and calculations by authors.

6.4 Institutional Dimension of Financial Service Accessibility and User Choice

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

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

(Model 1)

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

(Model 2)

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

of which,

- Choice = where users preferred formal financial service, 0 otherwise.
- Reliability, responsiveness, assurance, empathy, tangibility, and convenience are the six factors of the user-friendly dimension of service accessibility. The score of a variable indicates how much influence the variable has on the user's decision to use the financial services of a particular provider.
- North = if respondents are located in Lao Cai or Hekou, 0 otherwise.
- South = if the respondents are located in Moc Bai or Bavet, 0 otherwise.

Table 11 Logistic Regression Results

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

() = Negative.

^a Significant at 5% level.

^b Significant at 10% level.

Source: Authors.

In Model 1, the likelihood ratio is 12.08, the p-value is 6%, and pseudo R² 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 R² 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 choosing formal financial services because the coefficients of these variables have a negative sign. In other words, the greater influence users think reliability, assurance, and convenience have on their 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 values of empathy and tangibility tends to increase the likelihood of users choosing a formal financial service because the coefficients of these variables have positive signs. In other words, the greater influence users think empathy and tangibility have on their willingness to use the service of a financial service provider (i.e., the higher the value of empathy and tangibility), the more likely it is that they will choose a formal financial service. This also indicates that the users may think formal financial services are better than informal ones in terms of empathy and tangibility.

Responsiveness is the only variable that shows the opposite sign in the two models. However, because the coefficients of responsiveness are small in absolute value (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 0.80 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 coefficient of assurance is -0.56 and the coefficient of tangibility is 0.42 . They are statistically significant at the 10% and 5% level, respectively. This means that, all other things being equal, as the value of assurance increases by 1 unit⁴ (e.g., a user thinks assurance has a "very important" influence rather than an "important" influence on making a decision to use the service of a financial service provider⁵), 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, all 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 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 of assurance is -0.64 and is statistically significant at the 5% level, whereas tangibility has a coefficient of 0.49 and is 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, all 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 0.70 in Model 2), which are statistically significant at the 5% level. It follows that, all other things being equal, in Model 1, as the value of empathy increases by 1 unit,⁶ the odds in favor of choosing formal financial services 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 formal financial service by more than 100%.

The regression results provide the evidence to support our preliminary observation that the greater influence the users think assurance has on their willingness to use the services of a financial service 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 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 (Lao Cai, Hekou, Moc Bai, and Bavet) appear less likely to choose formal financial service providers than those in the central border-gate area (Lao Bao), holding other variables constant, because the coefficients for north and south variables have a negative sign.

4 The mean of the scores of four specific indicators—(i) trust on the employees who serve, (ii) confidence on the completeness and safety of transactions, (iii) politeness of employees, and (iv) knowledge of employees—increases by 1 unit.

5 Overall, the indicators, which include 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 user's decision to use the service of a financial service provider.

6 The mean of the scores of two specific indicators, i.e., employees' caring attitude and advice and understanding of needs, increases by 1 unit.

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

7. Policy Recommendations

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

Financial services have 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 the GMS cooperation policy.

With the increased number of companies and people participating in cross-border trade and the rising value of their 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 needs. The GMS border economy is now so integrated and has reached such a dynamic level of development that financial services are a crucial part of it.

However, the problem of inaccessibility prevents financial services from making a greater contribution to facilitating cross-border trade.

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

Second, not only have restrictive criteria (e.g., minimum deposit, collateral, and fees) hindered the access to financial services, especially banking services, the user-unfriendly features (e.g., unresponsiveness and lack of empathy of employees, unreliable service provision procedures, inconvenient location of the service providers, and unsuitable office working hours) have also adversely affected customers' willingness to use financial services.

Third, users perceive informal financial services to be more familiar and accessible than formal financial services. Despite the advantages of the large number and flexible conditions of services of informal financial service providers, their accessibility can be counterbalanced by customers' concern over the high risks associated with their user-unfriendly features.

7.2 Increasing the Presence of Financial Institutions in the Border-Gate Areas

Increasing the presence of financial institutions is a first important step toward increasing access to financial services while reducing the risky transactions often associated with informal financial service providers—mostly unregistered money changers—in the border-gate areas. In the GMS, and 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 there is still a huge unexploited inland

market. In addition, formal financial service providers are very concerned about the higher risks (e.g., default of customers) to their business in the border areas.

Banks are important but they are not the only choice of financial institution 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, for example, in terms of easier business registration, smaller capital requirement, and fewer requirements for infrastructure development. These institutions handle lower-value transactions and collect lower service fees. They also tailor their products to low-income customers and possess better local connections and information channels to assess 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. We recommend that more low-cost financial service providers, such as people's credit organizations, are established in the border areas with expanded functions to provide better financial services to cross-border trade.

7.3 Overcoming Problems of Asymmetric Information

Although most businesses, households, individuals, and traders are denied access to financial services by financial service providers because they do not qualify, overcoming the problem of asymmetric information is crucial to removing the phenomenon of self-exclusion. Increasing access to formal financial services may require greater communication between financial service providers and the potential financial service users.

Financial service providers must also make themselves and their products visible and accessible to traders. Establishing their offices in the border-gate areas is the first step to meeting the demands of traders. The next step should be to familiarize themselves with the local business community.

Financial service providers, such as banks, should also market themselves better and advertise their products and services to the local community, for example, by providing printouts, brochures, and pamphlets to local people and constructing and upgrading their websites.

There should be help desks for providing and disseminating information on financial services in the local area, for example, inside the general information centers in the border gates. The general information center can also provide printouts, brochures, and pamphlets of financial providers and other information on financial services.

7.4 Making Financial Services More Friendly to Users

Making a service friendly to users is important to increase people's willingness to use it. We linked the characteristics of a user-friendly financial service to six factors: reliability, responsiveness, assurance, empathy, tangibility, and convenience. The study found that all of these factors are seen as having an important influence on traders' decisions to use the product of a financial service provider, and on providers' decisions to make their services more attractive to customers.

The study findings further show that these factors can influence the choice of users between formal and informal financial services. There is evidence to conclude that the greater influence assurance has on the users' decisions to access the service of a financial service provider, the less likely it is that they will choose formal financial services. In contrast, the greater the influence empathy and tangibility have on their decisions to use the service of a financial service provider, the more likely it is that they will choose

formal financial services. In other words, users may think that, overall, formal financial services are better in terms of empathy and tangibility, and informal financial services are better in terms of assurance. However, users may think that there is no significant difference between formal and informal financial services in terms of reliability, responsiveness, and convenience; or if there is any difference, the users' choice between these two forms of financial service will not be affected.

The investigation into the six factors of user-friendliness of financial service accessibility yielded the following findings:

- i. *To have a more reliable service* means increasing the ability to perform the service as needed, provide service promptly, solve problems, complete service at the right time, and reduce errors in providing service.
- ii. *To have a more responsive service* means increasing the ability to keep customers informed, respond effectively and timely to the request, and increase the speed of transaction.
- iii. *To have a service with higher degree of assurance* requires building customers' trust in the employees (e.g., through the latter's behavior) and customers' confidence in the completeness and safety of transactions, and increasing politeness and knowledge of employees.
- iv. *To have a more empathic service* requires employees to develop caring attitude and increase their ability to provide advice and to better understand the needs of customers.
- v. *To have a more tangible service* requires investing in modern equipment, ensuring cleanliness of the premises, and paying greater attention to appearance (e.g., dress) of employees.
- vi. *To have a more convenient service* involves ensuring the availability of the employees to serve the customers, having a suitable location and working hours, and having a convenient arrangement of facilities within the premises.

7.5 Providing Skills Training to Providers and Users of Financial Services

Providers of financial services should be given skills training to improve their services, for instance in the above six factors of the user-friendliness dimension. Informal financial service providers, such as individual black market money changers, need skills training not only to help them provide a more user-friendly service but also to ensure their business transactions are more secure.

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 services effectively and properly. Misuse of financial services in business transactions may lead to higher costs in terms of time and money than non-use of these services.

Local business associations, such as banks and other credit organizations, can cooperate to organize training for providers and users of financial services with the help of local organizations, such as women's unions, youth unions, and the informal networks of traders and money changers. The dissemination of printouts of tips and guidance in providing financial services can be an effective way of transmitting knowledge to informal financial service users.

7.6 Formalizing the Informal Service Providers

Formalizing or registering informal service providers can be the next step following skills training. Trained providers can be granted working licenses and can become registered. This process requires close cooperation, rather than competition, between the banks and informal financial service providers.

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

7.7 Bridging the Gap between Formal and Informal Financial Service Providers through User-Friendly Features

Users may think that there is not a significant difference between formal and informal financial services in terms of reliability, responsiveness, and convenience. However, overall, formal financial services perform better in terms of empathy and tangibility, and informal financial services are stronger in terms of assurance. This means that, while financial service providers should try to improve all six factors of the user-friendliness dimension of accessibility, formal service providers should pay greater attention to the factor of assurance, whereas informal financial service providers should pay particular attention to the factors of empathy and tangibility.

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