Trade and Project Financing

How Do I Get Paid (Methods of Payment)

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Most U.S. firms exporting to Vietnam conduct business on a documentary basis and use various methods of payment, such as letters of credit (L/Cs), drafts and wire transfers. All foreign businesses dealing with Vietnam should insist on using confirmed, irrevocable L/Cs when initiating relationships with new importers and distributors. Vietnamese companies often will resist the use of confirmed L/Cs, because of the additional cost and collateral requirements required by Vietnamese and international banks.

Local companies with acceptable credit risk (mainly State-Owned (SOEs) and major private enterprises) have been able to obtain credit facilities, including import finance from foreign banks. For these importers, confirmation of L/Cs opened by their foreign bank may not be required and faster payment can be expected.

In the past, most Vietnamese companies have requested deferred payment L/Cs, with extensions of up to 360 and even 540 days. Most lenders have stopped this practice until the banking system's liquidity status improves. At present, sight L/Cs and L/Cs up to 60, 90 or 120 days are most common.

In years past, exporters had to ensure that Vietnamese banks opening L/Cs were located in Hanoi or Ho Chi Minh City, because they found a general lack of expertise in dealing with L/Cs at Vietnamese bank branches situated outside of these principal commercial centers. Most local banks have solved this issue by establishing two to three customer service centers to take care of L/Cs open at all bank branches, in an effort to provide customers with equivalent services. Care should also be taken as to which bank will open the L/C.

Foreign banks have greater capacity, but costs will be lower if the L/C is opened by one of the four state-owned banks or private banks. Costs will be higher if a foreign bank confirms the L/C, but L/C confirmation will shift risk from the Vietnamese bank and account party to a foreign bank, which can be a high quality risk. After establishing a commercial relationship with and the financial credibility of a local importer, U.S. exporters have offered goods against less restrictive forms of payment, including consignment, but this can be risky.

In 2006, the Government changed its regulation that required Vietnamese companies to deposit 80 percent of the L/C value prior to its opening at the bank. The banks now decide to collect the deposits from companies based on their credit worthiness. This deposit can range from 0-100 percent

How Does the Banking System Operate Return to top

The opening of Vietnam's economy has placed new demands on a financial sector that until the early 1990s operated largely in isolation from international standards and practices. Vietnam is making progress in developing the basic infrastructure to support a modern banking system and financial markets, but neither meets international standards.

The central bank, the State Bank of Vietnam (SBV), is the main financial regulatory agency. The SBV supervises two policy banks (the Social Policy Bank of Vietnam and the Vietnam Development Bank), four state-owned commercial banks (SOCBs) Vietinbank, BIDV, Agribank and the Housing Bank of Mekong Delta), 37 joint-stock (private) banks, five joint-venture banks, 53 representative offices of foreign banks, 37 branches of foreign banks, 15 financial companies and 13 financial leasing companies. The SBV is not an independent body like the U.S. Federal Reserve and it continues to operate under government oversight. In some key areas of operation, such as the provision of liquidity support, monetary policy, the management of foreign currency reserves and foreign exchange rates and issuance of banking licenses, the SBV's actions are subject to prime ministerial approval.

The banking trade association, Vietnam Bankers Association (VNBA), was founded in 1994 and acts as a link between the banks and the authorities, including: disseminating policies, mechanisms and laws on banking operations to its members; protecting the interests of the members; training and research, and; expanding international banking co-operation. VNBA's authority over its members is limited.

The International Monetary Fund, the World Bank, and other international donors, including the United States, are assisting Vietnam to implement financial reforms to ensure the stability and promote the effectiveness of the banking system and the financial sector. The reform program focuses on three main areas: restructuring of joint-stock banks, restructuring and equitization of the SOCBs, improving the regulatory framework and enhancing transparency. Other ongoing projects aim to modernize the inter-bank market, create an international accounting system and allow outside audits of major Vietnamese banks. The SBV is also in the process of strengthening its own internal processes and enhancing the level of inspection and supervision of the banks within its jurisdiction. The SBV is also preparing regulations to implement the Basel capital accord in calculating risk-adjusted assets and risk-adjusted capital ratios. Increasingly, more SOCBs are audited by independent auditing firms.

The GVN requires all banks to establish controlling committees and institute internal audit functions. In practice, prudent banking practices are not always adhered to. According to the SBV's estimates, sector-wide non-performing loans (NPLs) deteriorated to 2.5 percent of system-wide loans at end-2009 (2008: 2.1 percent) and sector-wide special-mention loans (SMLs) were about 6.5 percent. However, the true level of non-performing and under-performing loans is difficult to gauge, as there is a very low level of transparency and disclosure in Vietnam's banking sector. Secrecy laws cover much of the banking industry's data and meaningful information on individual financial institutions is not readily available. Some analysts estimate that NPLs in Vietnam's banking system could actually account for 15-20 percent of outstanding loans.

In 2007, the SBV introduced rules for classification of non-performing loans, which conform to international standards. It also allowed banks to accelerate loan terms and gave them more discretion in setting penalty interest rates on overdue debts. As of December 2008, all financial institutions have instituted internal credit rating and risk assessment mechanisms.

Vietnam's banking system is very weakly capitalized, with the market being highly concentrated at the top and fragmented at the bottom. As required by SBV regulations, small banks are now in the process of raising additional charter capital to meet the increased minimum capital requirement of VND 3 trillion (USD 167 million), due by the end of 2010. Bank consolidations will likely take place before the end of the year with those banks unable to meet the new capital requirement.

The GVN says that it intends to partially privatize ("equitize") all SOCBs by 2010. The banking equitization process will allow foreigners to buy shares but will cap foreign equity at 30 percent. These restrictions will be lifted in 2012 (five years after WTO accession). The first pilot initial public offering (IPO), Vietcombank's, took place in December 2007 after years of delays. Vietinbank conducted an IPO in December 2008. Both banks plan to list on Vietnam's stock market. They, however, have not yet identified a strategic investor due to unsolved obstacles in pricing and the state remains the controlling shareholder.

Joint-stock banks have been more successful at raising private capital, selling part of their equity to foreign investors (mainly investment funds or financial institutions) or issuing convertible bonds or additional shares. The joint stock banks are on average much smaller than the SOCBs, but they are more efficiently operated and professionally managed. The non-performing loans of these banks are widely believed to be lower than those of SOCBs.

Domestic banks can take dollar deposits. Foreign banks can also do so, provided that they are properly licensed. Residents and non-residents can open and maintain foreign exchange accounts with authorized banks in Vietnam.

In 2008, the State Bank of Vietnam for the first time granted licenses to wholly foreign-owned banks: HSBC, Standard Chartered Bank, ANZ, Hong Leong and Shinhan Vina. The current ceiling for a foreign strategic shareholder in a local joint stock bank is set at 20 percent of the total charter capital.

Although the banking sector remains small, banking networks and services have been expanding rapidly and there is great potential for banks to develop the retail banking business (approximately 75 percent of Vietnam's 86 million people have never accessed banking services while the remaining 25 percent have not taken full advantage of banking services.)

In 2008, the GVN began paying its Hanoi and Ho Chi Minh City employees by direct bank deposit only, and since January 2009 all government employees nationwide (including provincial staff) are paid in this way.

Since 2000, banks have been required to insure all dong deposits. The maximum insured amount is VND50 million (nearly $3,000) per account or individual per bank. The effectiveness of deposit insurance has not been tested. Vietnamese banks do not have Bank for International Settlement (BIS) tier ratings.

Foreign-Exchange Controls

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Conversion of Vietnamese dong into hard currency no longer requires foreign exchange approval and Vietnam has not had a foreign exchange surrender requirement since 2003. The Law on Investment allows foreign investors to purchase foreign currency at authorized banks to finance current and capital transactions and other permitted transactions. The availability of foreign exchange has been an intermittent problem since the middle of 2008, largely because of an outflow of private portfolio investments.

Foreign businesses are allowed to remit in hard currency all profits, shared revenues from joint ventures, and income from legally-owned capital, properties, services and technology transfers. Foreigners also are allowed to remit royalties and fees paid for the supply of technologies and services, principal and interest on loans obtained for business operations and investment capital and other money and assets under their legitimate ownership.

In principle, most foreign investors are expected to be ‘self-sufficient’ for their foreign exchange requirements, although this sometimes proves impractical. The GVN guarantees foreign currency for certain types of foreign investors in the event that banks permitted to trade foreign currency are unable to fully satisfy their foreign currency demand.

The State Bank of Vietnam (SBV) has adopted a crawling-peg foreign exchange control mechanism. In 2008, the State Bank of Vietnam adjusted the official exchange rate (reference rate) and expanded the official trading band for dollar and Vietnamese dong exchange transactions several times, effectively devaluing the dong by 7.25 percent. The dong was devalued an additional 5.44 percent in November 2009, and the trading band for dollar was limited to 3 percent around the reference rate. Commercial banks are allowed to determine the differential between currency selling and buying prices within the stated trading band. Slowed exports coupled with declining FDI and portfolio investments in 2009 put additional pressure on hard currency availability in general, and on dollars in particular.

U.S. Banks and Local Correspondent Banks

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At present, five U.S. banks and financial institutions are operating in Vietnam. Citibank and Far East National Bank have branches, Wachovia and Visa International have representative offices, and JP Morgan Chase has both a branch and a representative office. GE Money used to have a financial company, but has since closed down its operations in Vietnam.

Of the state-owned banks, Vietcombank, Vietinbank, the Bank for Agriculture and the Bank for Investment and Development, have the most active correspondent relationships with U.S. banks. Several joint-stock banks also have correspondent relationships, such as the Asian Commercial Bank (ACB), East Asia Bank (EAB), Vietnam Export-Import Bank (EXIM Bank), the Maritime Bank, Saigon Commercial and Industrial Bank, Saigon Thuong Tin Commercial Bank (Sacombank), Vietnam Technological and Commercial Joint Stock Bank (Techcombank), and the Vietnam Commercial Joint-Stock Bank for Private Enterprise (VP Bank).

Project Financing

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United States Government-supported export financing, project financing, loan guarantee and insurance programs are available for transactions in Vietnam through the U.S. Export-Import Bank (EXIM Bank) and the Overseas Private Investment Corporation (OPIC). Both EXIM and OPIC have increased their engagement with and support for U.S. businesses in Vietnam during 2009. The establishment of these two agencies' programs in Vietnam, coupled with the activities of the U.S. Trade and Development Agency (TDA), which provides grants for feasibility studies, technical assistance, and training for commercial projects being pursued by U.S. firms, has enhanced the competitiveness of U.S. companies in Vietnam.

The Export-Import Bank (EXIM Bank) offers export financing of American products through loans and loan guarantees, as well as providing working capital guarantees and export credit insurance. Information on EXIM Bank programs in Vietnam can be accessed at www.exim.gov. The Overseas Private Investment Corporation (OPIC) encourages private American business investment in emerging economies by providing project financing, fund investments, and insurance against breach of contract, political risk, currency inconvertibility, expropriation and political violence. OPIC has been in operation in Vietnam since the Jackson-Vanik Waiver of 1998. Information on OPIC programs in Vietnam can be accessed at www.opic.gov.

In principle, state-owned banks could provide export financing to U.S. firms operating in Vietnam, but in reality, such financing is more likely to come from joint-stock banks or the branches of foreign banks in Hanoi or Ho Chi Minh City. Many foreign firms finance such exports internally.

When dealing with importers or financing originating in Vietnam, U.S. suppliers should request irrevocable letters of credit (L/Cs). They should have one of their correspondent banks confirm the L/Cs. Foreign banks tend to deal for trade financing only with the three state-owned banks (Vietinbank, BARD and BIDV) and major joint-stock banks (Vietcombank, ACB, EXIM Bank, Maritime Bank, SACOM Bank and Techcombank).

U.S. banks present in Vietnam include Citigroup, Far East National bank, JP Morgan Chase and Visa International. Other U.S. banks operate out of operations centers in nearby countries. All of the American banks offer trade financing services to U.S. companies, with Far East National, JP Morgan and Citibank offering on-shore services as licensed branches. Other large foreign banks operating in Vietnam include ABN Amro Bank, ANZ Bank, BFCE, Bank of China, Credit Lyonnais, Deutsche Bank, HSBC, ING Bank, May Bank, OCBC, Standard Chartered Bank and UOB. In 2008, the State Bank of Vietnam for the first time granted licenses to wholly foreign-owned banks: HSBC, Standard Chartered Bank, ANZ, Hong Leong and Shinhan Vina. Although almost all foreign banks concentrate on wholesale banking, some offer retail banking services, ATM and electronic on-line services. In October 2009, Citibank became the first U.S. bank to offer retail banking services, competing with ANZ, Standard Charter Bank, and HSBC in this unexploited market segment.

Bilateral government tied aid, commonly offered by other governments, sometimes provides non-U.S. companies with a comparative advantage that affects American trade performance in Vietnam. These may take the form of soft loan programs designed to support a particular country's exporters. American firms, otherwise competitive on price and quality, sometimes lose contracts because they cannot compete with the low interest rates and/or soft repayment terms offered by the government of a competing company. EXIM and OPIC financial products may somewhat offset this disadvantage.

Project Financing: Vietnam secures a substantial portion of its development funding from Official Development Assistance (ODA), including from the multilateral development banks, primarily the World Bank (WB) and Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC), and the United Nations Development Program (UNDP). American firms can participate in projects funded by these agencies.

The World Bank maintains a relatively large funding program for Vietnam. Projects focus on macro-economic policy, financing policies, and infrastructure projects in the power, energy, transportation and environmental sectors. Procurements for World Bank funded projects are conducted using competitive bidding procedures.

The Asian Development Bank (ADB) provides the largest development funding for investment projects concentrating in power, transportation, fishing, agriculture and the environment. Tenders are also conducted based on international bidding standards. Both the World Bank, through the International Finance Corporation (IFC), and the ADB, through its Private Sector Group, offer both debt and equity for private sector projects in a wide variety of business sectors. Financing through these agencies can have long lead times (12 months or more), so U.S. firms need to apply early if they want access to support for investment projects.

The Japanese Bank for International Cooperation (JBIC) is a merger of the Overseas Economic Cooperation Fund (OECF) and the Japanese Export Import Bank (JEXIM). JBIC is a general untied funding agency, which provides financing for infrastructure projects. American firms are eligible to compete for JBIC loan projects in accordance with procurement notices published by the recipient Government or Government-related agencies. Opportunities can include prime contractor and sub-contractor roles. U.S. firms can also receive financing of up to 85 percent of an international trade transaction if the sale contains at least 30 percent Japanese goods.

The United Nations Development Program (UNDP) provides funding for industrial and agriculture development. UNDP is active in Vietnam across a broad range of industry and social sectors and sponsors numerous public sector, social, agricultural, and refugee assistance programs. Project tenders are conducted in the same manner as World Bank tenders.

In recent years, 12 domestic and international leasing companies have received licenses to conduct business in Vietnam. While the initial capitalization is small ($5-13 million), these companies could play a significant role as alternative financiers in the future, focusing on the leasing of capital equipment. At present, their ability to transact business is limited because credit insurance for leasers is not available in Vietnam. The leaser must therefore carefully scrutinize potential clients. There are also certain legal constraints to the ownership of leased goods.

Medium, and possibly longer-term, financing is also available from commercial banks in Vietnam, although loans are provided mostly in Vietnamese currency (Dong). Foreign investors are encouraged to approach the branches of major foreign banks, as the state banks tend to favor Vietnamese state-owned enterprises.

Another major source of project financing comes from over fifty private equity funds. These funds have been investing mostly in tourism, power, manufacturing, environment and infrastructure projects. As a result of the 2008-2009 global financial crisis, the availability of money through private equity funds has been more difficult to obtain than in the past.

Availability of loan guarantees: A wide variety of bilateral and multilateral loan guarantee programs are available to U.S. companies from such organizations as the Export-Import Bank of the United States, the Overseas Private Insurance Corporation, the World Bank, and the Asian Development Bank.

Although Vietnamese banks and their regulators tend to have a strong preference for collateral, it may be possible for U.S. firms to utilize parent company or third-party guarantees in seeking loans. That said, most foreign companies operating in Vietnam will not rely primarily on the local banking system for financing.

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.tda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: http://www.usaid.gov

Asian Development Bank: http://www.adb.org/

The World Bank: http://www.worldbank.org/

United Nations Development Program: http://www.undp.org/

Japanese Bank for International Cooperation: http://www.jbic.go.jp/en/