3. Trade Finance in Vietnam: Supporting Growth for MSMEs[90]

1. **Access to finance constitutes a major hurdle for many MSMEs, despite their prominent role in Vietnam's economy.** MSMEs account for around 98 percent of all registered enterprises and employ around 70 percent of the country's workforce.[91, 92] However, many MSMEs face difficulties in securing funding; only about 30 percent have access to bank credit, and about a quarter consider financial access the main obstacle in their business operations.[93]

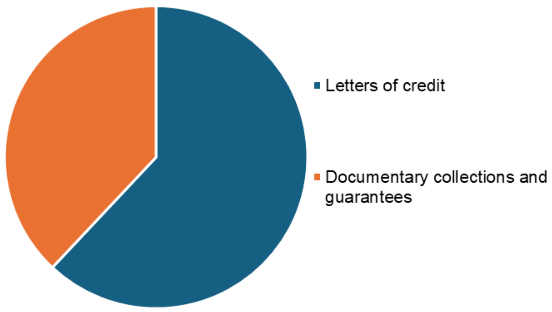
2. **For MSMEs involved in international trade, financial access can be enhanced through greater usage of trade finance, a term that encompasses a variety of financial instruments used to facilitate payments between exporters and importers (Figure A3.1).** In Vietnam, domestic enterprises tend to have greater demand for trade finance than foreign enterprises, as the latter can normally rely on financing from parent companies and foreign banks. Among domestic enterprises, trade finance is used more by large enterprises than by MSMEs, whose demand for trade finance is not adequately met. It has been estimated that if the share of trade covered by trade finance is increased by 20 percentage points and trade financing cost is reduced to advanced economy levels, Vietnam's imports and exports can be increased by 6 percent and 9 percent, respectively.[94]

Figure A3.1. Common Trade Finance Instruments

Aspect	Instrument
Payment methods	• Letters of credit • Documentary collections • Open account payments
Guarantees	• Payment guarantees and stand-by letters of credit • Bid bonds and performance bonds
Loans	• Pre-export finance • Post-shipment/import finance
Supply chain finance	• Supplier finance • Factoring

Source: WTO and IFC (2024)

Figure A3.2. Bank-Intermediated Trade Finance Transactions (Value)



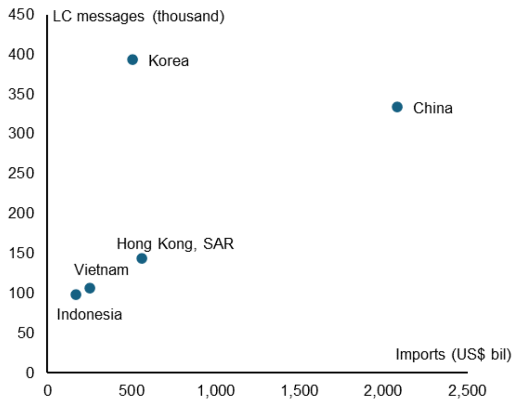
Source: WTO and IFC (2024), AMRO staff calculations.

3. **Trade finance instruments used in Vietnam are mostly provided by banks, such as letters of credit (LC), documentary collections, and guarantees.** While there are several types of trade finance instruments that address various aspects of cross-border trade—ranging from payment methods and guarantees to supply chain finance—and are generally offered by different types of financial institutions, most trade finance in Vietnam is provided by banks. As of 2022, Vietnam's trade finance transactions in banks amounted to USD82.5 billion, or around 11.4 percent of total trade.[95] About 62 percent of these transactions were in the form of LC—according to SWIFT, the global company that provides financial messaging services, usage of LC in Vietnam appears to be in line with the country's trade

[90] Prepared by Jade Vichyanond, Economist.
[91] ADB (2023). *2023 ADB Asia SME Monitor - Viet Nam*.
[92] Ministry of Information and Communication, quoted in Viet Nam News (2023). *SMEs development fund plans further reduced interest rates*.
[93] OECD (2021). *SME and Entrepreneurship Policy in Viet Nam.*
[94] WTO and IFC (2024). *Trade Finance in the Mekong Region*.
[95] Ibid. Export financing in the forms of working capital and other loans is not included as it is sometimes difficult to distinguish it from non-trade-finance loans.

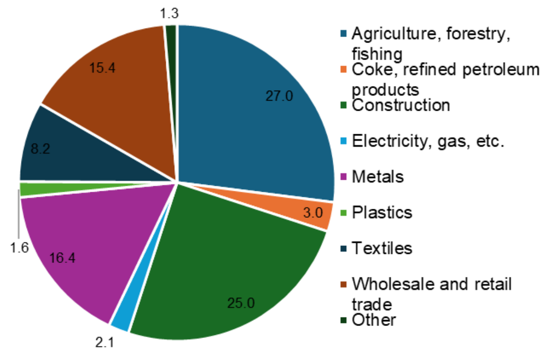
volume (Figures A3.2 and A3.3).[96] Documentary collections and guarantees constituted the remaining 38 percent of the banks' trade finance transactions.

Figure A3.3. SWIFT LC Messages



Source: International Chamber of Commerce (2020), SWIFT, AMRO staff calculations.

Figure A3.4. Trade Finance Usage by Sector

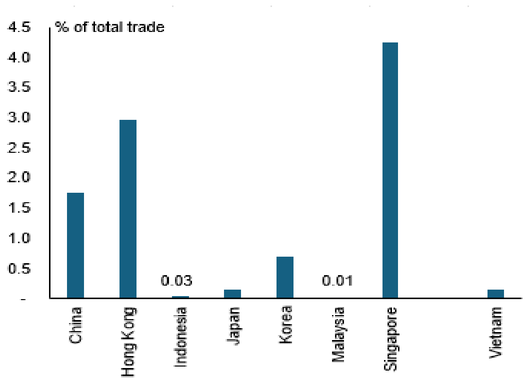


Source: WTO and IFC (2024), AMRO staff calculations.

4. Trade finance instruments intermediated by banks in Vietnam are mostly used in the agriculture/forestry/fishing, construction, and metals sectors (Figure A3.4). This can be attributed to the fact that these sectors consist largely of locally owned companies, some of which may not have sufficient internal funds for export and import activities. Meanwhile, usage of bank-intermediated trade finance instruments by the electronics and textile/garment sectors, which command substantial shares of Vietnam's exports, is minimal, as these sectors are dominated by foreign companies, which can rely more on intra-firm financial support and syndicated arrangements with international banks.

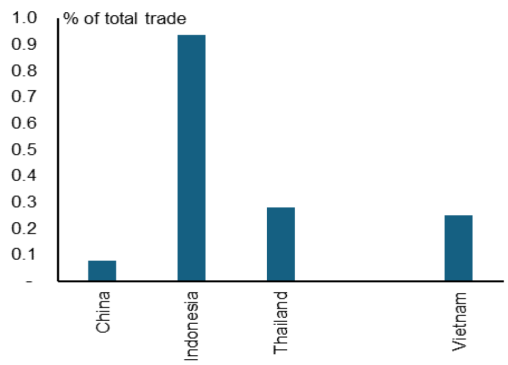
5. Factoring and trade insurance are some of the non-bank-intermediated trade finance instruments used in Vietnam. Factoring, a type of invoice purchase whereby a seller of goods/services (exporter) sells an invoice at a discount to a finance provider ("factor"), who then collects the payment, is also used by some companies in Vietnam, although the amount is relatively low, at USD1.1 billion, or 0.15 percent of total trade, in 2022 (Figure A3.5). Similarly, there is limited usage of trade insurance, such as export credit insurance and political risk insurance, in Vietnam; political risk insurance amounted to USD1.6 billion, or 0.25 percent of total trade, in 2022 (Figure A3.6).

Figure A3.5. Factoring



Source: Factors Chain International (2022), AMRO staff calculations

Figure A3.6. Political Risk Insurance



Source: Berne Union (2022), AMRO staff calculations

[96] About 90 percent of global LC transactions go through SWIFT.

6. **Some of the key challenges MSMEs face in accessing trade finance are high collateral requirements and insufficient documentation.** On average, domestic companies need to have collateral worth at least 90 percent of the financing need, compared to less than 10 percent for foreign companies.[97] At the sectoral level, collateral requirements for the low-tech manufacturing and wholesale/retail trade sectors, both of which are the domain of MSMEs, are on average around 60 percent and 95 percent, respectively while those for high-tech manufacturing companies are less than 10 percent on average. Besides lack of collateral, insufficient documentation is often cited as one of the key reasons behind trade finance application rejections in Vietnam. Despite both paper and online filing being legally accepted for most trade finance instruments, most applications are filed on paper and sometimes incomplete, resulting in rejections.[98]

7. **On the supply side, trade finance usage in Vietnam is constrained by banks' customer limits, limited correspondent bank relationships, and relatively high costs of trade finance products.** First, according to the current regulation, trade finance products are treated similarly to other products in the calculation of banks' customer limits, despite the difference in the risk profiles and other product characteristics. As a result, it can be challenging for a company to access trade finance if it has almost reached its bank's limit due to substantial usage of, say, working capital loans.[99] Second, lack of correspondent bank relationships on the part of local banks sometimes prevents them from providing trade finance. Some of the main constraints for local banks' ability to establish correspondent bank relationships with overseas banks are increased regulatory requirements related to anti-money laundering and counter-terrorist financing (AML/CFT) and insufficient line limits. Lastly, trade finance products in Vietnam tend to be more expensive than in other countries. The average fee for LCs in Vietnam is 3.25 percent of the transaction value, compared to the average of 2 percent for emerging markets.[100]

8. **Looking ahead, in order to deepen the trade finance market in Vietnam, concerted efforts by relevant parties are vital.** For banks, enhancement in the process of evaluating financing requests may help them better understand MSMEs' needs and risks and thus lower the amount of required collateral. On the part of the authorities, establishing a separate agency to help MSMEs develop business plans and prepare financial statements, such as Korea's Ministry of SMEs and Startups, can help facilitate the approval process. From a regulatory perspective, adjustments to banks' customer limits may be considered with a view to easing the rules on credit extensions for trade finance products. Lastly, it is important that the authorities and the financial sector promote awareness among the business community, particularly smaller companies, of the various types of trade finance products available, as greater awareness and interest could help increase the number and diversity of trade finance providers and lower the costs of trade finance going forward.

[97] WTO and IFC (2024). *Trade Finance in the Mekong Region.*
[98] International Chamber of Commerce (2020). *2020 ICC Global Survey on Trade Finance.*
[99] Hanoi Times (2024). *Enhanced local trade finance in Vietnam: A potential US$55 billion annual trade boost.*
[100] WTO and IFC (2024). *Trade Finance in the Mekong Region*.