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Developing Financial Leasing Activities in Vietnam

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Abstract

Financial services have long been an extremely important source of capital for businesses. Along with the expansion in scale and number of businesses, financial services are also increasingly promoted. In the development trend, many types of financial services have been born and confirmed their effectiveness in operation. One of them is financial leasing activities. Activities contribute to providing capital for businesses to invest in machinery and equipment, expand production and business, creating an effective and relatively stable capital channel in business operations. Currently, in the world, financial leasing is one of the busiest and most developed markets. In Vietnam, financial leasing has

promoted its role in effective support for business investment capital, especially for small and medium-sized enterprises. However, in the current Vietnamese economy, the development of financial leasing activities has not yet kept up with the needs of businesses. A large number of Vietnamese businesses still cannot access financial leasing entities, or even do not know about these entities in the market. The article studies the theory of financial leasing, popular forms of financial leasing in Vietnam today, the current status of financial leasing activities in Vietnam and from there finds solutions to promote the development of this potential form.

Keywords: Financial Leasing, Sale and Re-lease, Vietnam

1. Introduction

It is an effective capital mobilization channel and a "door" that opens opportunities for businesses, especially small and medium-sized enterprises (SMEs), to invest in capacity and resources in the medium and long term. There is a lot of development potential, but the financial leasing market has not developed as expected.

Financial leasing is a form of finance company purchasing machinery and equipment at the request of a business, then transferring control and usage rights to the business for a certain period of time, usually is that in the long term of 3 years, 5 years, 7 years, the principal value and part of the interest will be recovered like bank credit.

In a context where the banking industry has too much money and cannot lend due to weak credit demand, financial leasing is considered a good medium and long-term capital support channel for small and medium-sized enterprises (SMEs) and startups. businesses and production and business households. While bank lending conditions require collateral, for financial leasing, the borrower does not need collateral.

Public investment continues to be promoted, becoming a driving force for the private economy and also an opportunity for financial leasing services to develop.

Green economy and circular economy need a large amount of green credit capital and green bonds from credit institutions, including financial leasing. New product lines in the electronics industry will open up opportunities to import machinery and equipment lines in which financial leasing plays an important role. Vietnam continues to be the destination for many FDI enterprises - which are familiar with financial leasing services. This is a signal that financial leasing still has great room for development.

Providing credit in the form of financial leasing is one of the optimal methods, helping businesses and people do business easily access credit capital without mortgaging assets. Tenants can resell their assets and rent the same assets again, thereby effectively releasing fixed capital to supplement business capital. Currently, the ratio of outstanding financial lease debt/GDP in Vietnam is very low, less than 0.4%, while the US is 22%, China is 18%. Not many Vietnamese people and small and medium-sized businesses know about financial leasing.

Therefore, studying the current situation of financial leasing activities in Vietnam and offering solutions to develop this form in the future is very meaningful and necessary.

2. Theoretical basis

Financial leasing concept

Financial leasing is a medium and long-term capital financing method for production and business, appearing since the 50s of the twentieth century in the United States. Due to the advantages in using capital, financial leasing began to develop in Europe in the 60s of the twentieth century and then quickly appeared in all continents. Financial leasing differs from normal asset leasing in the following points: First, financial leasing is a combination of asset leasing and credit provision. In terms of form, the lessor transfers assets choosing the lessee but actually providing capital because the total rental amount that the lessee must pay is at least equal to the value of the leased asset at the time of signing the contract; Second, the lease term is medium or long term, accounting for most of the asset's useful life; Tuesday; standards and technical features of the leased asset set by the lessee with the lessor; Fourth, a financial leasing contract cannot be canceled according to the will of one party in the contractual relationship. Although it is a form of capital supply, financial leasing is different from lending in that the assets formed from the capital provided by the lessor are still owned by the lessor. Or in other words, financial leasing is a form in which the lessor will grant credit to the lessee. The leasing company will use its available capital to purchase assets at the request of the party wanting to lease. At the end of the contract, the party wishing to rent will have to pay the financial leasing company.

To meet international trade requirements, in 1982, the International Accounting Standards Committee (IASC) issued standards on financial leasing. According to IASC regulations, a transaction considered a financial lease must satisfy one of the following criteria: First, when the lease term ends, ownership of the asset can be transferred to the lessee depending on the the agreement of the parties in the contract, secondly, the contract stipulates the lessee's right to bargain to buy the property; Third, the lease term accounts for most of the asset's useful life; Fourth, the present value of the rental payments must be greater than or equivalent to the value of the asset.

Pursuant to Clause 7, Article 3 of Decree 39/2014/ND-CP stipulating the concept of financial leasing as follows: "Financial leasing is a form of medium and long-term credit for the purpose of investment and purchase. Purchasing machinery, equipment, and means of transportation to serve production and business." Accordingly, the financial leasing company will buy assets from the supplier according to the requirements and choices of the business. After that, businesses and individuals will be able to rent this property to use for production and business purposes.

The enterprise will make periodic asset rental payments including principal and interest according to the decreasing loan balance. After the end of the lease term, the financial leasing company will transfer ownership to the business.

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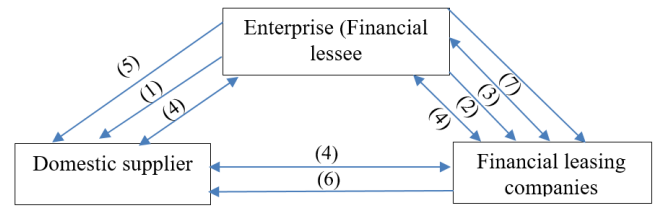
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Forms of financial leasing

Form of domestic financial leasing

Domestic financial leasing is when the financial leasing company representing the Lessee will buy assets from a domestic Supplier and sublease the assets to the Lessee according to the payment schedule shown in the Lease Contract.

Domestic financial leasing is also a method of providing medium and long-term credit for investment projects to purchase machinery and equipment, production lines, and means of transportation of businesses.



Source: Chailease Vietnam

Diagram 1: Domestic financial leasing process

- (1) Equipment selection
- (2) Submit financial lease application
- (3) Sign the lease contract
- (4) Sign equipment purchase contract
- (5) Equipment handover
- (6) Pay for purchased equipment
- (7) Pay the rent

When leasing finance, the lessee will choose the type of equipment, supplier or manufacturer. You can also directly negotiate the purchase price, warranty and necessary after-sales services with the supplier. Based on your rental application, the financial leasing company will purchase the correct type of equipment and accompanying services and deliver it to the lessee to use. At the end of the lease term, the lessee will transfer ownership of the equipment, or simply understood, during the financial lease period, the right to use the financial leased asset will belong to the lessee and the ownership will belong to the lessee lease.

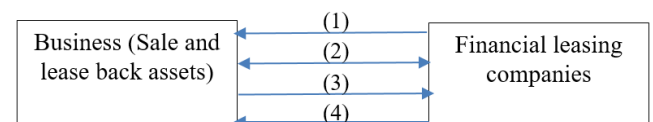
Form of imported financial leasing

Imported financial leasing is when a financial leasing company represents the Lessee to purchase assets from an overseas Supplier and sublease the assets to the Lessee according to the payment schedule specified in the Lease Contract.

Some financial leasing companies such as Chailease financial leasing company have the form of opening letters of credit to import leased assets for customers to support small and medium-sized enterprises that cannot perform this operation.

Financial leasing form of purchase and sublease

Buying and subleasing in the form of financial leasing (hereinafter referred to as Buying and Subleasing) means that the financial leasing company purchases assets owned by the Lessee and subleases that same asset to the Lessee in the form of form of financial leasing for the Lessee to continue to use for its operations during times when the Lessee has financial difficulties in paying suppliers. In a purchase and sublease transaction, the Lessee is also the Rental Asset Supplier.



Source: Chailease Vietnam

- (1) Submit financial lease application
- (2) Sign equipment purchase contract and rental contract

- (3) Payment for ordered equipment
- (4) Rent payment

This is a way to finance capital to restructure capital for medium and long-term businesses. The assets that the business has invested in and used will have their ownership transferred to the financial leasing company within a certain period of 2-5 years. Besides, this business can be financed up to 90% of the remaining value of the equipment. With this special method, businesses will be able to supplement working capital, rebalance capital sources or make new counterpart capital for other projects, other purposes and etc. Or when you need working capital for production and business, you can also use this service for any existing machinery and equipment at your business. This service helps businesses depreciate and convert equipment into cash while still having full use of the equipment.

Form of operating financial lease

Also known as Operating Leasing, is a form of asset leasing, whereby the customer uses the leased asset of the financial leasing company for a certain period of time and will return the asset to the other party. Lease at the end of the lease term. The financial leasing company retains ownership of the leased asset and the customer is responsible for making payments according to the lease contract.

A business does not necessarily need to own assets to make a profit. For some specific industries, it is only necessary to use the right to use assets for a certain period of time to serve production and business activities. Furthermore, technological achievements are developing more and more rapidly, so buying specific machinery and equipment may make the business obsolete or "out of fashion" and cause many obstacles to business development. This is considered an effective solution to help businesses limit risks in technology, price, maintenance and repair costs, asset liquidation costs and etc. This type of service is very suitable for businesses that need to use rented assets for a short period of time and always need to update technology.

Advantages of financial leasing

The form of financial leasing has four main advantages that are very suitable for the current context, especially SME businesses.

Firstly, financial leasing is financed directly in kind. This will help avoid misuse for businesses or causing bubbles in the economy. In fact, it has been proven that the average revenue from business activities in the last 5 years reached about over 1,000 billion VND/year; Credit quality is well controlled, most companies' bad debt is below 1%.

Second, businesses will be able to use capital according to their structure, short-term to short-term, medium-term to medium-term. At the same time, it helps businesses diversify their capital mobilization channels in the context of a difficult economic situation.

Third, financial leasing is an additional channel that will help businesses maintain their bank loan limits. Currently, the financial leasing market has also launched preferential interest rate packages and bank-like loan differentials with interest rates of about 8.5-9.5%. Leasing procedures are also gradually being reduced to suit businesses.

Fourth, the funded capital can be up to 90%, even 100% of the rental property value without requiring collateral. Along with that, financial leasing also has sales and rental products. Businesses can use machinery and equipment that

are operating normally to sell to a financial leasing unit, then the financial unit will lease it back to the business for long-term use. Then the business will have a liquid and flexible cash flow during difficult times.

With those advantages, small and medium-sized businesses are considered the most suitable customers for this type.

3. Current status of financial leasing activities in Vietnam

According to the Vietnam Association of Small and Medium Enterprises, the country has about 800,000 businesses, of which small and medium enterprises account for over 98%.

From the above numbers, Vietnam is considered to have a lot of potential to develop this form of financial leasing.

Reality shows that in many large countries around the world such as the US, UK, Germany, China, Japan,... financial leasing is considered by businesses to be an effective capital mobilization channel in addition to other channels. such as banks, bonds, stocks. In China, financial leasing sales over total machinery and equipment sales are 10%. In 2023, the US financial leasing market is expected to grow at a compound annual growth rate of up to 5.4% and be worth 316.71 million USD by 2030. Notably, Japan is a country with 90% of businesses use financial leasing with annual financial leasing sales reaching about 4-5 trillion Yen (equivalent to 750 - 950 trillion VND) and there are about 230 companies in this field. work. According to statistics, in 2022, the total world financial leasing turnover will be 1,500 billion USD, equivalent to 1.5% of global GDP.

Despite strong development in the world, in Vietnam the current financial leasing market is not yet developed. Currently, there are only 10 financial leasing units in the country, including six Vietnamese companies, one BSL joint venture company and three 100% foreign-owned companies. As of December 31, 2022, the total assets of member financial leasing companies reached over 40,000 billion VND. Total outstanding rental debt reached nearly 33,000 billion VND. If including financial leasing companies present in the market, outstanding leasing debt reaches nearly 40,000 billion VND, equivalent to 0.33% of outstanding credit debt of the entire economy. The number of businesses using financial leasing services accounts for only 1%, about 5,000-7,000 out of a total of 700,000 businesses. Sales of machinery and equipment purchased through financial leasing only account for about 1% of total machinery imports. Average revenue from business activities in the last 5 years reached over 1,000 billion VND/year. At the same time, credit quality is well controlled, most companies' bad debt is below 1%.

By the end of 2023, the total outstanding financial lease debt of 6 companies of the Vietnam Financial Leasing Association reached 37.2 trillion VND, an increase of 13.75% compared to the end of 2022. The number of lease contracts includes 8,403 contracts, an increase of 18.3% compared to 2022.

Especially the subjects of financial leasing are increasingly diverse: Car leasing of all types with outstanding debt of 6.6 trillion VND, an increase of 17.03% compared to the end of 2023; Outstanding debt for leasing construction and mining machinery is 3.2 trillion VND, an increase of 49.41%; Medical equipment 162 billion VND, an increase of 55.2%; Production lines have increased very strongly, outstanding debt reached 7,110 billion VND, an increase of 183.49%

compared to the end of 2022; The bad debt ratio is controlled at an average level of less than 1%. For example, Junk&Co Vietnam Company leased 4 trucks and received 70% of the vehicle's value from the financial leasing company. As a business with capital in Japan, they are used to renting assets, both promptly obtaining equipment and minimizing operational risks. Mr. Takatoshi Nakamura, Managing Director of Junk&co Vietnam, said: If we invest in assets with our own capital, we will have to invest a large amount of capital right from the beginning, but we are not sure that the financial investment will whether the product will be effective in the future or not. Compared to financial leasing, we only need to spend a small amount of capital. We can evenly divide the money to buy assets over a long period of time, helping to reduce initial investment costs.

Limitations of financial leasing activities in Vietnam

Currently, the scale is very modest while the legal corridor is still unclear. There are also many difficulties related to tax policies and fees regulating the operation of financial leasing. Currently, the biggest obstacle is the market barrier. Conditions for financial leasing companies to enter the market are difficult.

First, financial leasing companies in Vietnam that want to enter the market must have a minimum charter capital of 150 billion VND or more.

Financial companies are quite limited in mobilizing capital, for example they are only allowed to mobilize medium and long-term capital from parent banks. Meanwhile, many financial companies do not have a parent bank. They mobilize capital from a number of other economic organizations, but it is mainly short-term. While they rent out medium and long-term properties.

Second, financial leasing companies are limited to operating within the specified license subjects. Not allowed to operate freely like other businesses.

Currently there are only about 10 financial leasing companies. To expand operations, businesses propose to expand the scope of lending for business purposes, while also allowing other operations such as installment loans or factoring.

While normal lending activities are a two-party relationship, between the lender and the borrower, financial leasing activities are a three-party relationship, with two separate contracts, one between the buyer and the other. the equipment seller, the lessor and the lessee. Vietnam needs to amend the legal framework. For example, in the Civil Code there are no specific regulations on financial leasing. The Law on Credit Institutions only regulates licensing and management of financial institutions and regulations on financial leasing companies are unclear.

Third, the financial service products that are allowed to operate are limited

The number of financial companies and financial service products is still small, with products such as factoring, financial consulting, etc. Although member companies all have experience and staff with professional skills. good, but not allowed to supply yet.

Fourth, many types of fees in financial leasing activities

The main types of financial leasing fees are providing credit with assets, but it is not allowed to collect some additional service fees from credit or providing additional services as mentioned above, so the income of companies is not allowed. Member companies still only rely on credit

granting activities, so income risks are quite high.

4. Solutions to improve financial leasing activities in Vietnam

First, the legal corridor solution

Firstly, the conditions for financial companies to enter the market need to be simpler. Second, financial leasing companies need the right to lease all types of assets, machinery and equipment on the market except aircraft. In the progressive aviation field, there must be a clear distinction. Currently, the Government has decided to establish a private aircraft leasing company because this is a major asset. But modern flying equipment such as small planes and pesticide spraying tools in agriculture can be rented by financial leasing companies.

In addition, there are other devices in the Decree that do not clearly explain what they are. For example, in the Government's national digital transformation program, all computers, photocopiers, and even software of small and medium-sized businesses can be fully leased financially. However, this has not been specified in detail in legal documents.

Second, diversify operating capital sources through joint ventures with insurance companies, domestic and foreign suppliers, and financial institutions to create rental sources in the form of syndicated leasing, lease in installments or deposit capital for a term at the company at a reasonable interest rate.

Third, deploy the operation of selling receivables from finance company contracts to financial institutions and increase business capital by using the deferred payment purchase method.

Fourth, promote bond issuance to attract capital from the economy through the stock market.

Fifth, diversify forms of financial leasing such as purchase and sublease, syndicated leasing, and expand forms of service provision such as back-to-back leasing, operating leasing, and trust leasing, consulting and guarantees related to financial leasing activities. In addition, it is necessary to diversify rental calculation methods to suit all customers.

Sixth, improve appraisal quality including appraisal of leased assets, leased projects and leased customers. At the same time, strengthen asset management during and after leasing and actively handle bad debts and control arising bad debts to have solutions such as debt restructuring and solutions to minimize losses.

Seventh, build business partnerships with relevant entities. The motto for this group of customers is "sharing opportunities, successful cooperation" to focus on solving two major problems: Ensuring the ability to best implement the relationship between the company and the tenant until the end. when the financial leasing contract is liquidated and creates capital for the company during its operations. Therefore, companies need to build strategic partnerships with insurance companies, manufacturers, rental property providers, and financial institutions.

Eighth, promote marketing strategy. Advertising and marketing must be done methodically and professionally to create an impression on first-time customers. Gradually eliminate the service style that bears a strong state mark, implementing the motto "find customers for yourself, not wait for customers to find you". Disseminating knowledge about financial leasing requires combining many advertising methods through mass media such as radio, television,

newspapers and the internet... to thereby grasp the opportunities. direct contact with businesses. Advertising forms must be assigned to a separate department within the company to carefully prepare to avoid errors that may negatively affect the company's image.

5. Conclusion

The development of financial company activities not only diversifies funding sources for the economy but also perfects the financial system in Vietnam. Therefore, it is necessary to research and evaluate the current status of financial leasing activities in Vietnam in recent times to evaluate the achievements, limitations and causes, thereby finding solutions to develop the activities. This is a very meaningful work in the future in the current conditions in Vietnam. For financial leasing activities to develop, it is not simply necessary to implement the above solutions, but it is important to change the awareness and regulations of leaders and businesses at all levels regarding financial leasing activities.

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