State's conditions for investment credit tobe amended

VCN – The Ministry of Finance is researching adjusting the policy on conditions for State investment credit. It is expected new regulations will be issued in the second quarter of 2020.

It is easy for bank but difficult for implementing project

On March 31, 2017, the Government issued Decree 32/2017/ND-CP on State investment credit on the basis of summarisingcredit activities of Vietnam Development Bank. After two years of implementation, besides achieved results, Decree 32 has revealed a number of shortcomings and limitations that need to be revised and supplemented to suit the activities of the bank. Vietnam in the current period, in line with the orientation of the Restructuring Scheme associated with dealing with bad debts of the Vietnam Development Bank for 2019-2021 has been approved by the Prime Minister, as well as ensuring the uniformity of policiespromulgated in the coming time by Vietnam Development Bank.

One of the shortcomings is the condition for State investment credit. According to Clause 6, Article 6 of Decree 32, lending conditions include that “customers do not have bad debts at credit institutions at the time the Vietnam Development Bank considers lending, disbursing loan capital”.

This regulation aims to ensure credit safety for Vietnam Development Bank, butinvestment projects often take along timeto construct and install equipment, so it is difficult to avoid investors getting into temporary financial difficulties or temporarily having bad debts incurred at credit institutions. In that case, the Vietnam Development Bank havingto suspend the disbursement of loans under signed credit contracts will affect the progress of construction of project items, continuing to have a negative impact on project efficiency, resulting in the difficulty of recovering previously disbursed amounts because the project has not been further invested to complete, resulting in no source of debt repayment.Along with that, according to Clause 7, Article 6 of Decree 32, customers must “buy property insurance at an insurance enterprise operating legally in Vietnam for loan security assets”. This provision encounters obstacles in practice, especially for offshore investment projects, industrial park infrastructure investment projects andafforestation projects because insurance enterprises do not accept to sell insurance for this investment or due to the high cost of insurance, after completing the project (which has been fully disbursed by the Vietnam Development Bank), the customer does not buy insurance. In both cases, there is a risk forloans from the Vietnam Development Bank when the project fails to repay debts.

Regarding the term of the State’s investment credit loan, Clauses 1 and 3, Article 8 of Decree 32 states: “The loan term is determined according to the project’s capital recoverability and the client’s ability to repay debts suitable to the project’s production and business characteristics but not exceeding twelve years;particularly for Group A investment projects, the maximum loan term is 15 years.For special projects requiring loans exceeding the maximum loan term prescribed in Clause 1 of this Article, the Vietnam Development Bank shall evaluate and submit to the Prime Minister for consideration and decision”.

In fact, as the characteristics of the investment credit loan project at the Vietnam Development Bank are projects with large investment capital, long construction period, and long payback period for investment such as afforestation projects, infrastructure construction investment projects of industrial zones. Therefore, with the above loan term, it is difficult for projects to arrange repayment. Therefore, these projects have been allowed by authorities to extend the loan period to 15 years, even to 20 years.

Facilitate for disbursement

Currently, the Ministry of Finance is drafting a decree amending and supplementing Decree No. 32, which amended and supplemented the regulations on loan conditions at Vietnam Development Bank in the direction of removing the content of regulations on “except for special projects decided by the Prime Minister” in Clause 4, Article 6 of Decree 32, at the same time, to ensure loan effectiveness as well as the investors’ responsibilities when participating in a project.Removing this content in the regulation on minimum equity participation in the total investment of the project also helps solve difficultiesforthe Vietnam Development Bank in the implementation process, while ensuring effective loan results and the responsibilities of investors when participating in aproject.

Along with that, abolishing the condition that “customers do not have bad debts at credit institutions at the time Vietnam Development Bank disburses loans” to create conditions for customers to borrow capital at Vietnam Development banks fully access the State’s investment credit capital to complete and operate development projects.

The abolition will help the Vietnam Development Bank not suspend the disbursement of loans under credit signed contracts when customers incur bad debts at credit institutions because with ordinary investment projects with a long time of construction and installation, it is unavoidable during construction that investors are in the situation of temporary financial difficulties or temporarily incur bad debts at credit institutions. Thereby, contributing to ensure not affecting the progress of construction of project items, do not cause negative impacts on project efficiency and the consequences of difficultiesin recovering disbursed amounts in advance.

The Ministry of Finance also proposed supplementing the regulation “in case the loan security property cannot buy insurance, the customer must have other collateral already bought property insurance to guarantee the loan” in the Clause 7, Article 6 on the purchase of property insurance. This will help solve the situation that customers do not buy insurance for security assets after completing the project (which has been fully disbursed by the Vietnam Development Bank) because some insurance enterprises do not sell them insurance for some types of collateral or due to high insurance costs.

Regardingexisting provisions on the State’s investment credit lending terms, the Ministry of Finance plans to revise the direction “the loan term includes the extended loan term not exceeding 15 years”.

For Group A projects with production and business characteristics and apayback period of investment capital longer than 15 years, the Vietnam Development Bank shall reviewand submit to the Prime Minister for consideration and decision on atime limit for borrowing suitable to the time of investment capital recovery of the project ”;supplement regulations on loan extension in case the project has been decided by the Prime Minister to extend the loan term in excess of the maximum loan term. Theseprovisions will ensure support for the Vietnam Development Bank in lending for large projects, long payback period (the main customers of the bank), and at the same time ensuring rationality and transparency of “the maximum loan term including the loan extension period”, as well as cases submitted to the Prime Minister for consideration and decision on the loan term in excess of the loan term max.

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