Non-Deposit-Taking Lenders Are Indispensable Players in SME Finance Market

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Main Sources of Debt Finance for Businesses

- Deposit-Taking Lenders
- Non-Deposit-Taking Lenders (NDTLs)
- Trade Credit; Occasional Finance
- Government Finance Institutions
- Informal Finance
- Bond Market
NDTL as A Business

Comparing with commercial banks, NDTL advantages and disadvantages:
- Less regulatory burdens
- No public interests to protect
- More innovative and agile
- Often with segment specialization & know-how
- Mostly use movable assets and data & data analytics
- Higher cost of funding
- Smaller in size, less resources
- Less branch network

Investors of NDTLs:
- Large corporates (captive players)
- Commercial banks
- Services providers (e.g., e-commerce platforms, logistics and collateral management firms, equipment wholesalers)
- Other private sector investors
- Government bodies
The Need for Commercial NDTLs

- NDTLs can go under different names (general finance companies, enterprise finance companies, leasing companies, factoring companies, auto finance companies, microfinance companies, consumer finance companies, Fintech lenders, etc.)
- There are broadly two categories: consumer NDTLs and commercial NDTLs
- **Commercial NDTLs are critical for SMEs** as banks tend to support only the top tier ones
- In Vietnam, **commercial NDTLs are missing** from the market except for some 10 financial leasing companies
- The development of a commercial NDTL industry will greatly promote SME finance. SCF market will not develop fully either without commercial NDTLs (e.g., factoring companies)
- Normally, NDTLs only require **non-prudential regulations**
Role of NDTLs
Taking up Clients That Should Be Supported but Banks Cannot Reach

Spectrum of SMEs by Credit Quality and Natural Selection by Lenders

- **Good**
  - Supported by banks
- **Mediocre**
  - Supported by commercial NDTLs
- **Not Good**
  - No willing supporters
Some Country Cases

- In the more matured markets, the # of NDTLs is around 10 times the # of commercial banks
- US: 5,177 banks and savings institutions (end-2019); roughly 40,000 formal NDTLs (does not include very small ones)
- China: 4,044 banks and credit cooperatives; about 45,000 NDTLs
  ✓ Commercial (non-bank) factoring companies supported 1.2 million SMEs with 1.2 trillion Yuan (USD 180 billion) in 2018. Source: CFEC
- Mongolia: 12 banks; 530 NDTLs (NBFIs)
- South Africa: 18 banks; at least 6,500 NDTLs, large or small
Thank You!

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