Enhancing the role of non-bank financial institutions in Vietnam’s Supply Chain Finance

Dr. Can Van Luc, Chief Economist, Bank for Investment and Development of Vietnam (BIDV)

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1. SCF overview


Source: IFC (Global SCF Knowledge Guide), 2018.
H.2: SCF development (2009-2017, +5%/ year)

Global SCF assets have grown steadily at ~5% p.a. over the last few years while captured assets have grown at ~17%.

Source: Capital IQ, expert interviews.
H.3: SCF types/products

SCF Products

- Receivables purchase
  - Receivables purchase
  - Forfeiting
  - Factoring
  - Payables finance
- Commodity loan
  - Receivables Finance
  - Distributor finance
  - Loans against inventory
  - Pre-shipment finance

Source: IFC (Global SCF Knowledge Guide), 2018.
H.4: Main products in Trade Finance and SCF

Figure 4. Most Used Instruments in Traditional Trade and Supply Chain Finance

- **Traditional trade finance**
  - Commercial Letters of Credit: 49%
  - Guarantees: 16%
  - Standby Letters of Credit: 11%
  - Collections: 24%

- **Supply chain finance**
  - Payables Finance: 28%
  - Receivables Finance: 25%
  - Factoring and its variations: 17%
  - Loan or Advance against receivables: 16%
  - Pre-shipment finance: 6%
  - Forfaiting: 4%
  - Loan or Advance against inventory: 3%
  - Distributor Finance: 2%

Source: ICC Global Survey on Trade Finance 2018.
H.5: SCF Ecosystem

Source: IFC (Global SCF Knowledge Guide), 2018.
2. Role of non-bank finance institution

- NBFI is "third party provider", including non-bank funder.
- **NBFI provides SCF solutions to SMEs having difficulties in accessing bank loans.**
- **NBFI contributes to product diversification and financial market structure**
- Global integration is increasingly deepened, international trade increases (about 6%/year in 2000-2017); demand for funding also increases
- Rapid digital transformation and Fintechs provide flexible finance and platforms;
- Basel III requires attention on counterparty risks, while SCF contributes to counterparty risk reduction; thereby, reducing the capital adequacy requirements.

*(IFC - Global SCF Knowledge Guide and author’s compilation).*
3. Current state of SCF in Vietnam

• SCF in Vietnam is on a small scale, while the import-export turnover has seen significant increase (about 14% per year in 2011-2019);

• Factoring is currently SCF’s main product, others are not widely available in Vietnam;

• SCF solutions are provided by commercial banks, NBFI (e.g., finance companies) has not yet entered the market.
Factoring in Vietnam

- Factoring in Vietnam remains modest scale, reaching **USD1.1 billion** in 2019 according to FCI;

- Commercial banks and specialized finance companies **have not yet to be allowed to provide non-recourse factoring service**, hindering the diversification of the factoring products on the market.
# H.5: Factoring volume by Country (2019, million USD)

## Source: FCI 2020.

<table>
<thead>
<tr>
<th>Year</th>
<th>Vietnam</th>
<th>China</th>
<th>Korea</th>
<th>Thailand</th>
<th>% Vietnam/World</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>335.0</td>
<td></td>
<td></td>
<td></td>
<td>0.01%</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>658.0</td>
<td></td>
<td></td>
<td>0.03%</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td>700.0</td>
<td></td>
<td>0.03%</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td>1100.0</td>
<td>0.04%</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td>1100.0</td>
<td>0.04%</td>
</tr>
</tbody>
</table>

| 2015 | 352876.0 |
| 2016 | 301635.0 |
| 2017 | 405537.0 |
| 2018 | 411573.0 |
| 2019 | 403504.0 |

| 2015 | 0.00% |
| 2016 | 0.01% |
| 2017 | 0.03% |
| 2018 | 0.04% |
| 2019 | 0.04% |

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Why is there no NFBI participation in supply chain finance?

- **Current legal framework** (*next slides*)
- **NBFI:**
  - Lack of affordable funding for SCF;
  - High requirement of KYC (Know Your Customer) and risk management capacity.
- **Demand side:**
  - Invoices and documents require transparency, resulting in businesses’ reluctance to adopt this service
  - Unawareness of SCF’s benefits;
  - Available products have high costs and strict collateral requirements, leading to businesses’ unwillingness to use SCF
SCF regulations in Vietnam

• Law on Credit Institutions 2010 allows financial institutions to provide factoring and discounting; "with the right of recourse"

• Factoring regulations according to Circular 02/2017 by the State Bank of Vietnam:
  – Players that can provide factoring services include commercial banks, general finance companies, factoring companies and foreign bank’s branches; the time limit for recourse does not exceed 60 days in case of domestic factoring, and 120 days in case of international factoring.
  – Non-recourse factoring is not allowed under circular.
International experience in factoring management

• China:
  – The world's largest factoring market in 2019;
  – In early 2020, China was the first country in the world to introduce factoring into the Civil Code, and provide further clarification on factoring regulations;
  – Recourse factoring and non-recourse factoring are both allowed;
  – Factoring is carried out mostly by financial companies.
International experience in factoring management (2)

• Korea:
  – Early introduction of factoring regulations (Law on Commerce, 1995);
  – Recourse factoring and non-recourse factoring are both allowed;
  – A variety of general finance companies and specialized finance companies provide factoring services in the market.

• Thailand:
  – Issuance of factoring regulations in 2013;
  – Recourse factoring and non-recourse factoring are both allowed.
4. Recommendations

• Regulators:
  – Complete of legal framework:
    + Revise the Law on Credit Institutions, defining SCF in a broader and more comprehensive sense (including factoring);
    + Allow non-recourse factoring (with respect to international practice and other countries’ practices);
    + Allow the participation of financial companies and fintech companies
    + Accelerate the development of the legal corridor for new business models (Fintech, peer-to-peer lending, e-KYC, open banking, data sharing mechanism, etc.).
  – Continue to develop the capital market, especially the corporate bond market.
Recommendations (2)

• **Non-bank financial institutions:**
  – Actively participate in the bond market to raise medium- and long-term capital with affordable costs;
  – Strengthen marketing and promotion of SCF products and services;
  – Develop policies on prices, collateral, and adequate processes - procedures to attract businesses;
  – Invest in IT platforms, database and human capital, especially improving risk analysis and management.

• **Businesses:**
  – Actively enhance knowledge on SCF solutions and benefits;
  – Increase information transparency, in order to access SCF products and financial services as a whole.