

Supply Chain Finance in Vietnam

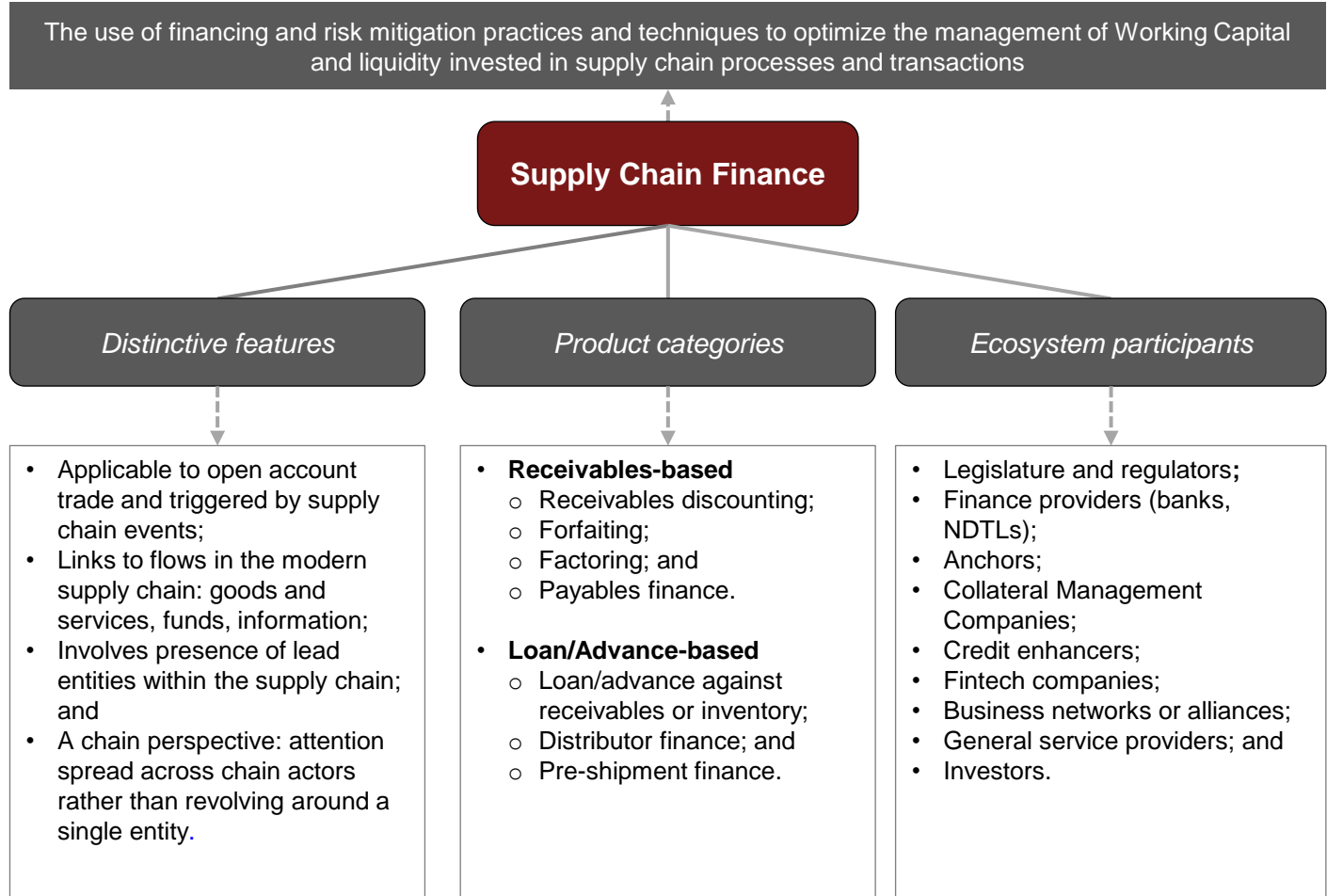
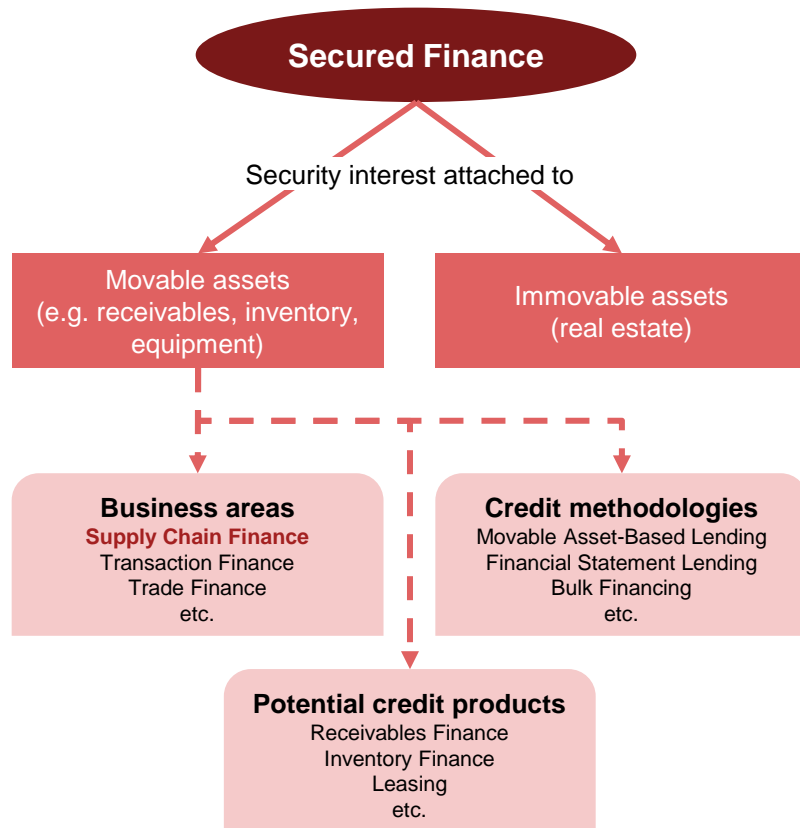
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With SCF being a solution to optimize working capital, developing the SCF market requires attention to distinctive features and diversity for all market participants to fully support the economy and financial inclusion for SMEs



SCF is not a static concept; each technique has certain distinctive characteristics that have allowed it to evolve in line with technological advances

| | | Receivables Discounting | Forfaiting | Factoring | Payables Finance | Loan/Advance against receivables | Distributor Finance | Loan/Advance against inventory | Pre-shipment Finance |
|-------------------|-------------|---|---|---|---|---|---------------------------------|---|---|
| Variation/Synonym | | Receivables Purchase, Invoice Discounting | Discounting negotiable instruments | Receivables finance | Supplier finance Reverse factoring | Invoice financing Receivables lending | Buyer finance Dealer finance | Inventory finance Warehouse finance | Purchase order finance |
| Supply Chain Flow | Goods | Seller → Buyer | Seller → Buyer | Seller → Buyer | Seller → Buyer | Seller → Buyer | Seller → Buyer | Seller → Buyer | Seller → Buyer |
| | Funds | FP* → Seller Buyer → FP | FP → Seller Buyer → FP | FP → Seller Buyer → FP | FP → Seller Buyer → FP | FP → Seller Seller → FP | FP → Seller Buyer → FP | FP → Seller/Buyer Seller/Buyer → FP | FP → Seller Seller → FP |
| | Information | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ FP | Seller ↔ Buyer Buyer ↔ FP Seller ↔ FP | Seller ↔ Buyer Seller ↔ FP Buyer ↔ FP (indirect) |

Source: International Chamber of Commerce (ICC) – Standard Definitions for Techniques of Supply Chain Finance

The SCF ecosystem has five main players, with Legislature and Regulators forming the guiding principles of SCF market in each country



| Categories | Participant | Definition | Vietnam examples |
|---------------------------|---|--|---|
| Government Bodies | Legislature | The legislative branch of the Government. | National Assembly |
| | Policy makers and supporters | Formulate plans which the Government should promote/follow. | Ministry of Finance/Agriculture/Rural Development/Planning & Investment/Industry & Commerce |
| | Regulators | Regulate the financial services industry, including markets, exchanges and firms. | State Bank of Vietnam |
| Financing Providers | SCF providers | Institutions providing SCF programs, connecting lead entities, their suppliers/distributors, and other players within the ecosystem. | Banks only |
| | Investors | Provide direct funding to the third party e-platforms (discounting, factoring related primarily) | None, but potentially Funds, Government, etc. |
| Lead Firms | Anchors | A party, usually a large buyer/seller, who facilitates a SCF program for its suppliers/distributors. | Vinamilk, Nestle, Heineken, Masan Group, etc. |
| Support Service Providers | Collateral Management Companies | Entities that monitor and/or control inventory and receivables which can be used as collateral. | SGS Vietnam, Control Union, etc. |
| | SCF electronic platforms | Electronic platforms (e-platforms) are a technological solution for connecting suppliers, distributors, finance providers and other support services on a common platform. | HSBC, Citibank, etc. |
| | Supply Chain Management/Logistics Companies | Entities that provide sourcing and distribution services with the ability to track the movement of goods using technology. | DHL Supply Chain, ABIVIN, Li & Fung, etc. |
| | Other service providers | Providing additional rights/services such as insurance or third party guarantees to secure payment from a borrower or obligor. Also includes lawyers, consultants, credit information agencies, appraisers, commodity inspectors, etc. | PwC, IFC, Insurance companies, CIC, etc. |
| Community | Business network | Business association, community or alliance of SCF players | None |

Source: IFC. How to Develop a Supply Chain Finance Market

Our review and research also found a few misconceptions surrounding Supply Chain Finance in Vietnam which may have led to far less SCF penetration

| Element | Misconception | Reality |
|--|--|---|
| Regulations | <ul style="list-style-type: none"> Vietnam regulations do not allow SCF. | <ul style="list-style-type: none"> No SCF products are currently prohibited under Vietnam's laws and regulations. |
| Credit Risk Management | <ul style="list-style-type: none"> SCF products are unsecured; SCF products bear higher risks than traditional lending products; SCF products have higher default rates for SMEs; and Anchors acquire a negative balance sheet impact when they participate in these programs. | <ul style="list-style-type: none"> SCF products are basically secured (by accounts receivable and inventory); Generally, if properly managed, SCF products have less chance of turning into bad debt due to leveraging anchor and chain elements; These products do NOT bear higher risks than other lending products (some international statistics indicate low default rate); and Structured SCF programs give benefit to all actors of the supply chain and financial institution, with potential benefits to anchors. |
| Electronic Platforms | <ul style="list-style-type: none"> E-platforms are bank platforms only; Banks, anchors, and regulators have to own the platforms; Peer-to-peer lending platforms are SCF platforms; Fintechs are digital SCF ecosystem players; and Data is not very secure on e-platforms. | <ul style="list-style-type: none"> E-platforms may be developed by financial institutions or independent third parties, including governments Banks, anchors, and regulators may develop e-platforms in-house or resort to a third party solution; Peer-to-peer lending normally means person to person, SCF is business to business; Fintech comprises multiple business segments, including SCF e-platform providers; and E-platform only utilizes commercial trade data between supply chain members to facilitate SCF solutions. |
| Collateral Management Companies | <ul style="list-style-type: none"> Collateral Management has to be conducted by banks in-house; and It is extremely complex to value movable assets. | <ul style="list-style-type: none"> Collateral Management is primarily used for inventory/warehousing finance but can be used for non-inventory collateral too; Usually involves a three party agreement, Collateral Manager and/or borrower; and CMC monitors and controls designated collateral for the finance providers. |
| SCF providers | <ul style="list-style-type: none"> SCF providers, except banks, are mostly unregulated (they follow the statutory and regulatory guidelines); and NDTL credit is of higher risk. | <ul style="list-style-type: none"> There are a variety of funding providers which can fund an SCF program; These include banks, Commercial Finance Companies and/or investors (funds, anchors, companies etc.); Non-banks might be more flexible in the granting of credit to SMEs; Commercial Finance Companies can finance the borrowers, which banks sometimes cannot fund; and NDTLs have their own way to control risks. |
| KYC/AML requirements | <ul style="list-style-type: none"> SCF providers don't comply with KYC/AML. | <ul style="list-style-type: none"> SCF providers need to comply with KYC/AML requirements but under the chain context, and some flexibilities can be granted. |

Benchmarking Vietnam's building blocks for SCF with matured markets indicates most areas as emerging/underdeveloped

Legend ■ Developed ■ Emerging ■ Not yet developed

| Major Building Blocks | Objectives | Key Considerations (non-exhaustive) | Matured markets | Vietnam market | Key reforms/promotions to address |
|--|---|--|-----------------|----------------|---|
| Lenders, Borrowers, & Service Providers | <ul style="list-style-type: none"> Good corporate governance Adequate strategies Appropriate credit methodologies, staffing, risk management, incentive structure, etc. suitable for respective segment | Do lenders understand the SCF market opportunity? | ■ | ■ | <ul style="list-style-type: none"> Promote SCF market development |
| | | Do lenders have appropriate strategies and resources to profit from the market? | ■ | ■ | <ul style="list-style-type: none"> Educate lenders through regulators and business associations |
| | | Do lenders have internal competencies (process, tools, resources, IT, etc.) appropriate to SCF business? | ■ | ■ | <ul style="list-style-type: none"> Promote/develop digital solutions and SCF competencies |
| | | How do lenders develop relationship with anchor entities? | ■ | ■ | <ul style="list-style-type: none"> Push FIs to leverage corporate relationships, increase formalization of SCM |
| | | Do lenders have incentives and capacities to develop SCF program for selected industries? | ■ | ■ | <ul style="list-style-type: none"> Promotion/Incentive initiatives by regulators for SCF programs, FI - corporate linkage development |
| Sector Capacity, Regulation and Supervision | <ul style="list-style-type: none"> Fair entry requirements Sufficient competition Risk-based regulation Practical operating standards and conditions Development of NDTLs and operating infrastructure | Is there an active NDTLs industry? | ■ | ■ | <ul style="list-style-type: none"> Expansion of commercial NDTL sector |
| | | Do anchor entities understand the value of SCF for their business? Are they generally cooperative? | ■ | ■ | <ul style="list-style-type: none"> Promote use of SCF as part of sustaining supply chain; encourage development of e-platforms |
| | | Any relevant business associations/alliances? | ■ | ■ | <ul style="list-style-type: none"> Formalize a SCF centric Industry association/alliance |
| | | Any initiatives to formalize and digitalize supply chain? | ■ | ■ | <ul style="list-style-type: none"> Develop innovative digital supply chain solutions and third-party SCM services |
| | | Any third-party collateral management services? Are CMCs licensed? Any supply chain management players? Any third party e-SCF platforms? | ■ | ■ | <ul style="list-style-type: none"> Promote formation and expansion of the support service sector |
| | | Any industry standards and accepted good practice? | ■ | ■ | <ul style="list-style-type: none"> Formalize understanding of SCF concept and practice |
| Financial Infrastructure | <ul style="list-style-type: none"> Legal and institutional arrangements that enable lenders to overcome the difficulties of information, incentive and transaction cost in debt finance operation | Can AR and inventory be used as collateral conveniently and safely? | ■ | ■ | <ul style="list-style-type: none"> Promote receivables purchase transactions; update existing decrees/circulars following new Civil Code |
| | | Other supporting financial infrastructure? | ■ | ■ | <ul style="list-style-type: none"> Improve regulatory understanding |
| | | Are there understanding regulator(s)? | ■ | ■ | <ul style="list-style-type: none"> Initiate dialogues between ministries about SCF |
| | | Any unintentional restrictions from existing regulation or practice? | ■ | ■ | <ul style="list-style-type: none"> Provide necessary regulatory permission and support |
| | | Any undue restrictions on cross-border transactions? | ■ | ■ | <ul style="list-style-type: none"> Encourage the use of international e-platforms for financial service support to cross-border trade |
| | | Any incentive initiatives from government/industry leader? | ■ | ■ | <ul style="list-style-type: none"> Issue SCF promotion and support policies |

Source: PwC research and analysis

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There are also some visible gaps in the SCF ecosystem in Vietnam

There are limited digitization, support services and Financing providers operating in Vietnam which serve the SCF market needs

| SCF players | Participant | Current situation in Vietnam | Typical situation in more developed markets |
|--------------------------------|---------------------------------------|--|--|
| Government Bodies | Legislature | <ul style="list-style-type: none"> KYC / AML process is still conducted manually, therefore being highly time consuming. | <ul style="list-style-type: none"> Facilitating quicker KYC / AML by reducing manual processes. |
| | Policy makers | <ul style="list-style-type: none"> The SCF market has not been focused. | <ul style="list-style-type: none"> Promoting SCF programs as part of inter-ministry policy decisions. |
| | Regulators | <ul style="list-style-type: none"> Some definitions of SCF are not clear, meaning players in the SCF ecosystem may be confused. | <ul style="list-style-type: none"> Clarity in language and content in regulatory provisions across the SCF business areas (e.g. financing solution vs. lending activity) |
| Financing Providers | SCF providers (banks and NDTLs) | <ul style="list-style-type: none"> Banks are the only SCF providers as of now; and There are no Commercial Finance Companies amongst the ~20 Consumer Finance Companies. | <ul style="list-style-type: none"> At least 10 times as many Commercial Finance Companies compared to Banks |
| | Investors | <ul style="list-style-type: none"> Limited banks and anchors lead to limited investors. | <ul style="list-style-type: none"> Participation of funds / institutional investors, becoming SCF funding partners. |
| Lead Firms | Medium and large buyers and sellers | <ul style="list-style-type: none"> The numbers of lead firms participating in SCF programs are currently believed to be inferior to other countries. | <ul style="list-style-type: none"> Promoting the role of lead firms in facilitating SCF programs (73% of respondents are either deploying SCF programs or considering implementation - SCF Barometer FY18/19); and Considering some incentives to assist the value chain |
| Support Services | Collateral Management Companies | <ul style="list-style-type: none"> Most CMCs in Vietnam are SMA; and Most CMCs are logistics / warehousing firms. | <ul style="list-style-type: none"> Outsourcing of Movable Asset Collateral Management to third parties; and Entry of professional Collateral Management Companies rather than just Stock Monitoring Companies. |
| | Electronic platforms (SCF e-platform) | <ul style="list-style-type: none"> There are several e-platforms operating in Vietnam, most of which are bank-led. The penetration of third party e-platform providers, however, is not strong. | <ul style="list-style-type: none"> Promoting digitization to reduce lead times and data accuracy so that ecosystem players can operate efficiently; and Promoting electronic platforms for the sourcing of data (buyer, seller or SME information). |
| | Supply Chain Management | <ul style="list-style-type: none"> There are not many SCM Companies in Vietnam and most of which are logistics companies and integrating AI features into their systems. | <ul style="list-style-type: none"> Promoting, through industry association, the usage of mature Supply Chain Management Companies, providing efficiency and data visibility across the supply chain. |
| | Other service providers | <ul style="list-style-type: none"> Lack of professional institutions with comprehensive knowledge about SCF in Vietnam. | <ul style="list-style-type: none"> More participation of specific elements of specific service providers (advisors, professional services, insurance, credit enhancers, etc.). |
| Community and Promotion | Business network | <ul style="list-style-type: none"> In contrast to other countries, Vietnam is yet to see any association / forum. | <ul style="list-style-type: none"> Promoting the establishment of an SCF association which regularly interacts with ecosystem players and consolidates needs and assistance from regulators. |

Thank you

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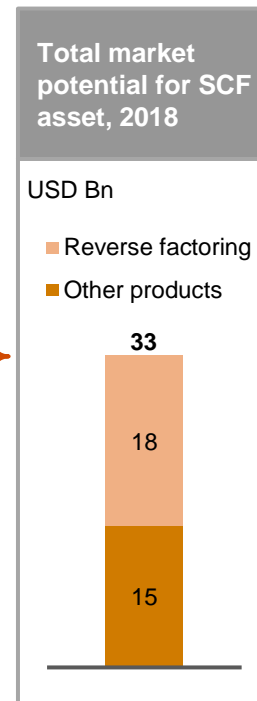
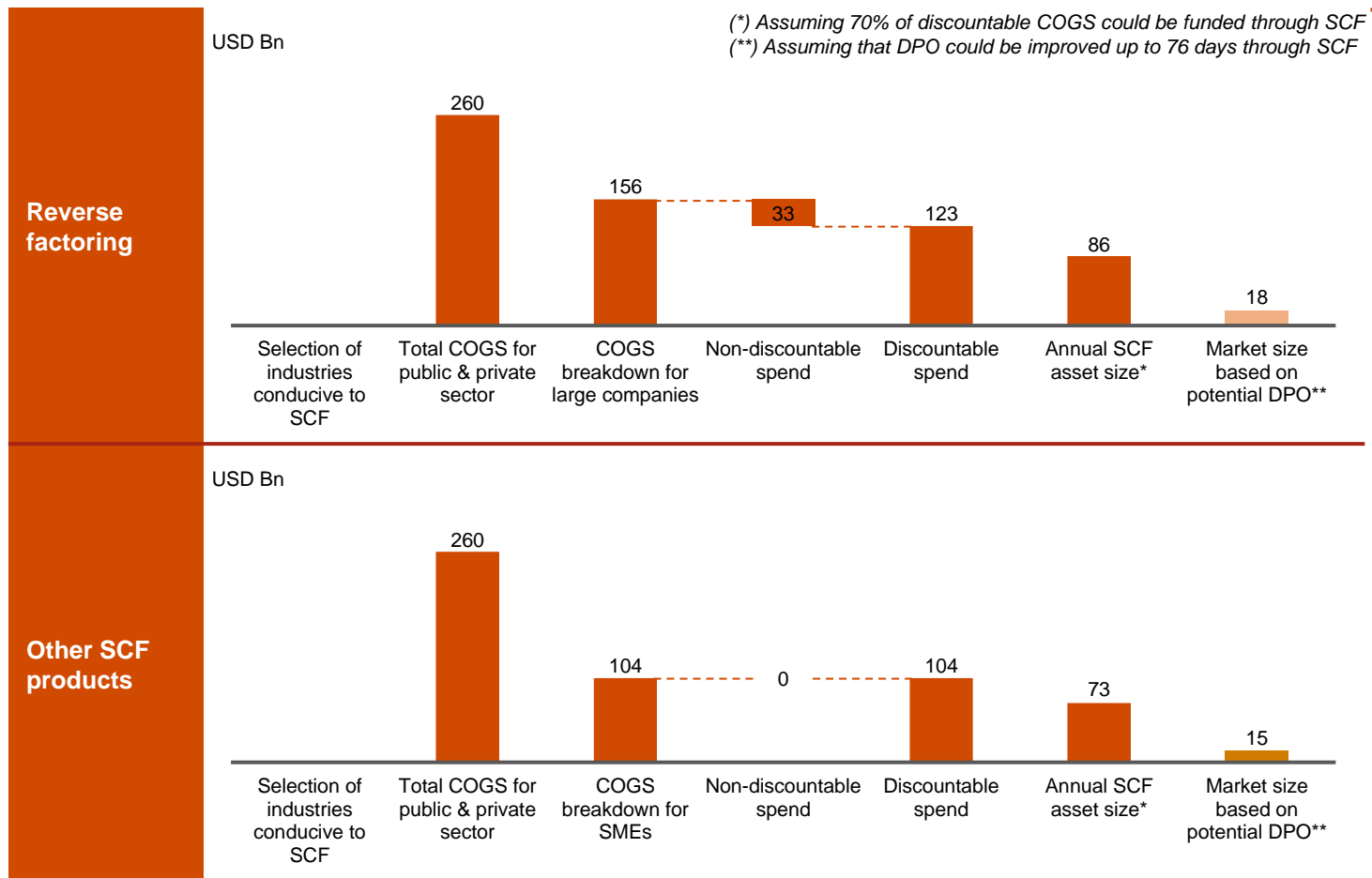
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Potential SCF market in Vietnam was estimated to be USD 33 billion in 2018, with only a very small fraction currently realized

Market Potential



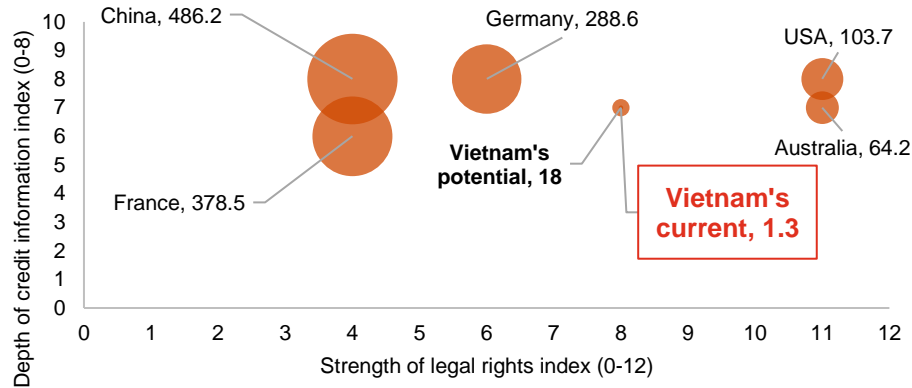
Methodology

- The potential value of Vietnam's SCF market is derived from estimating values of assets that are subject to SCF products (i.e. reverse factoring and other receivables and inventory loans products).
- It is estimated that, in 2018, approximately 60% of GDP is contributed by large companies, while the remaining is contributed by SMEs.
- By selecting industries that are most conducive to SCF, such as FB&T, Capital Goods, Energy, etc. the total COGS (for both private and public sector) was estimated at ~USD 260 Bn.
- After considering COGS breakdown by company size (in reference to GDP contribution), non-discountable spend, potential percentage of COGS funded through SCF, and optimal DPO, it is estimated that ~USD 18 Bn worth of finance could be provided to businesses via reverse factoring programs, and another ~USD 15 Bn could be provided via other SCF products.

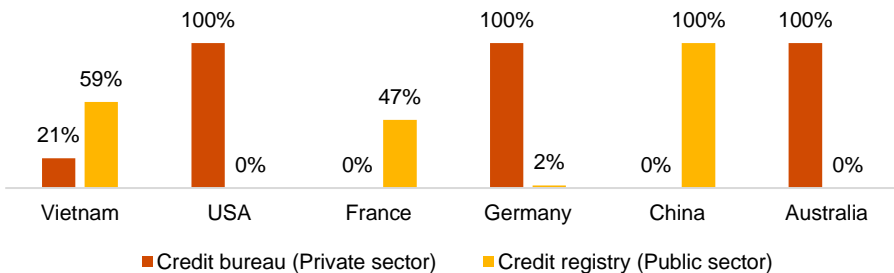
Source: Vietnam IO data, Team Analysis

Despite having a detailed and descriptive secured transaction framework, SCF penetration is limited in Vietnam. There is an opportunity to develop/grow SCF by 5-6 times over the next 5 years

Vietnam's factoring volume compared to other FCI member countries, 2018 (USD billion)

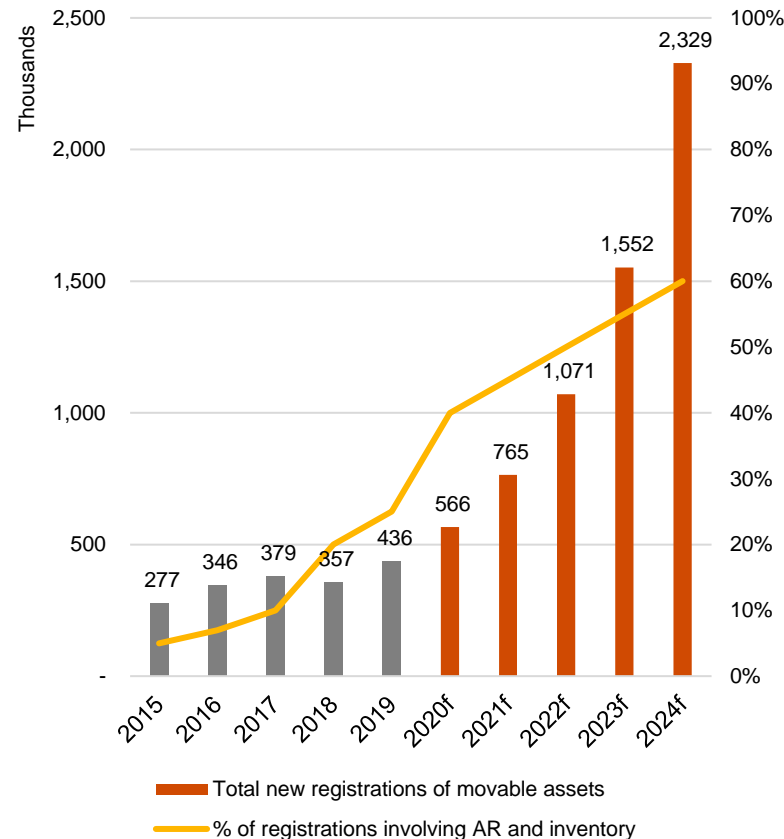


Vietnam's credit information coverage compared to other countries, 2020 (% of adult population)



Source: World Bank. Doing Business 2020; FCI. Annual Review 2019
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Vietnam's forecasts of new registrations of movable assets



Source: PwC Analysis

Key Observations

- Vietnam's secured transactions framework is more descriptive than some other countries (e.g. China, France, Germany, etc.) where SCF products, such as factoring, are commonly provided to businesses.
- Despite availability of credit information agencies, Vietnam's low coverage of credit information indicates limited visibility of financing opportunities.
- Out of USD 33 billion in financing that could be provided via SCF in 2018, approximately USD 18 billion could be delivered via factoring and reverse factoring programs.
- By actively promoting movable asset finance and SCF, Vietnam may experience significant increases in new registrations of movable assets and proportion of AR and inventory.
- Assuming that 50% of AR and/or inventory registrations relate to SCF products, and that each SCF package is worth USD 50,000, Vietnam's forecasted SCF market size is estimated at USD 5.7 billion in 2020 and may reach to USD 35 billion in 2024.