



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

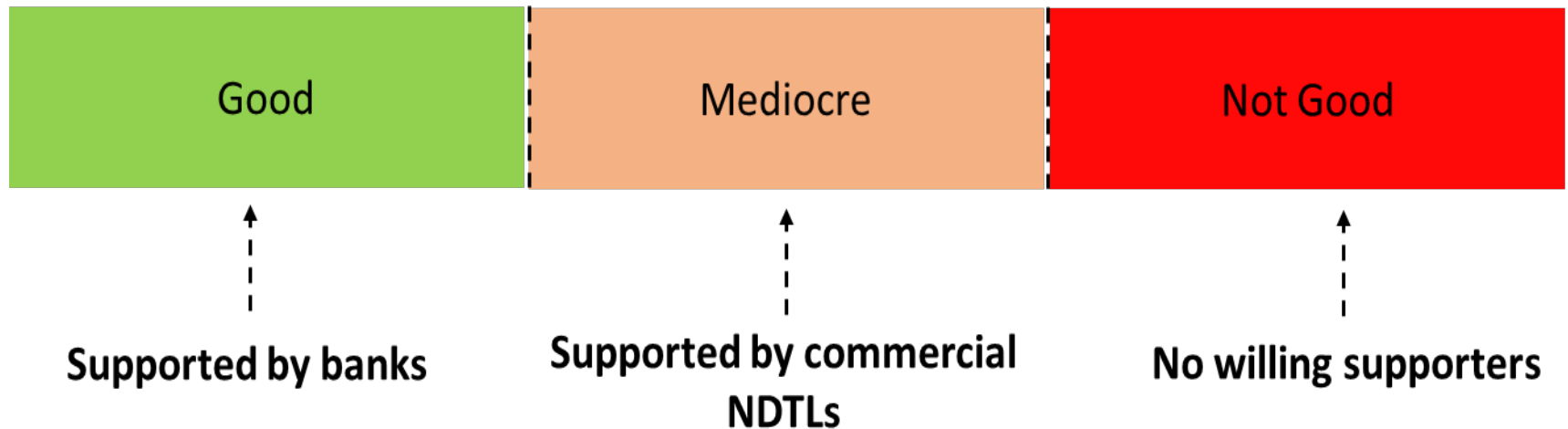
The Need for Commercial NDTLs

- 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



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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