



Asia-Pacific
Economic Cooperation



IFC

International
Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

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)*

The 8th APEC FIDN Conference

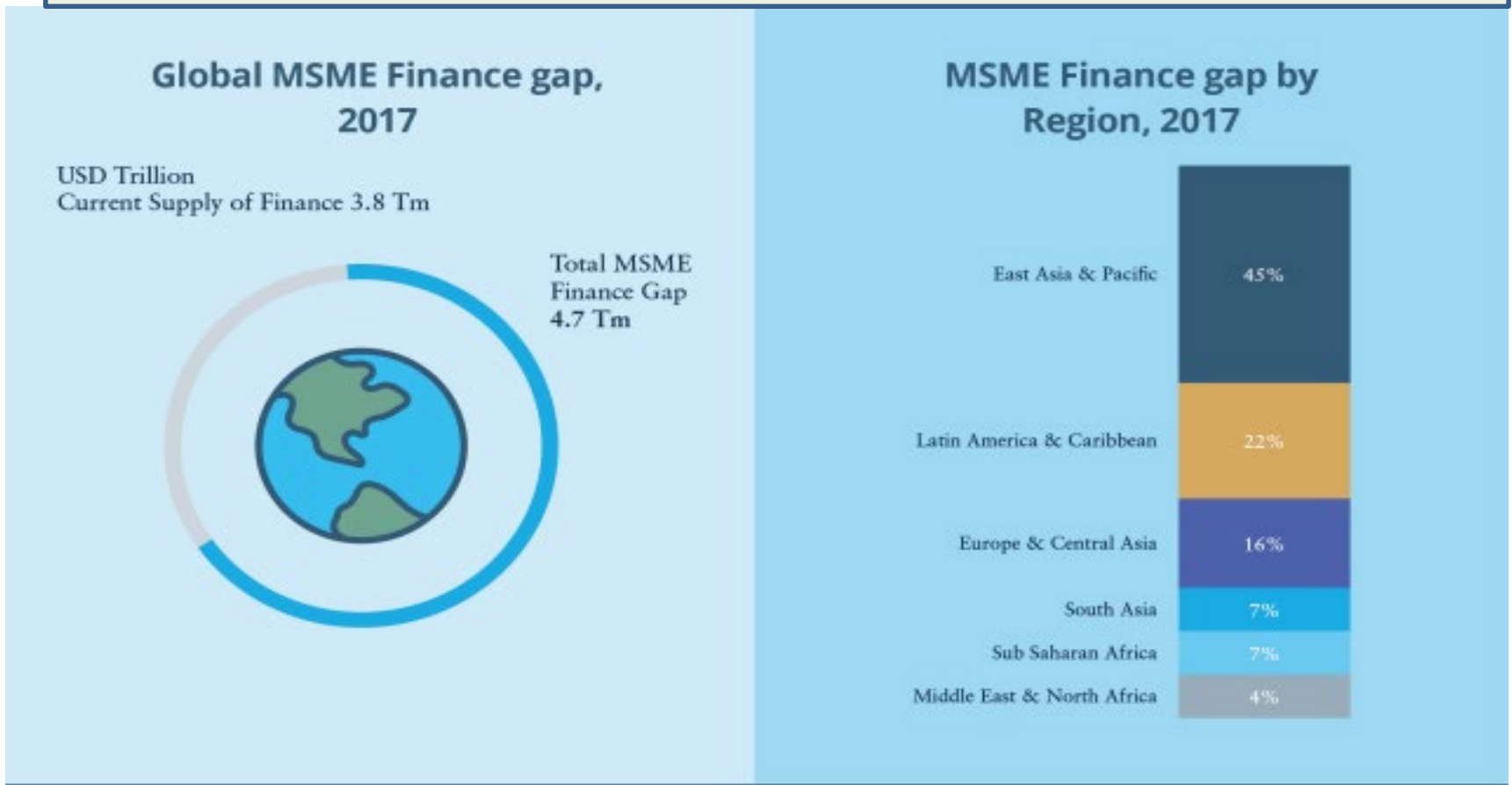
Ho Chi Minh City, November 26th, 2020

CONTENTS

- 1. SCF overview**
- 2. Role of non-bank financial institution in SCF**
- 3. Current state of NDTLs in Vietnam**
- 4. Recommendations**

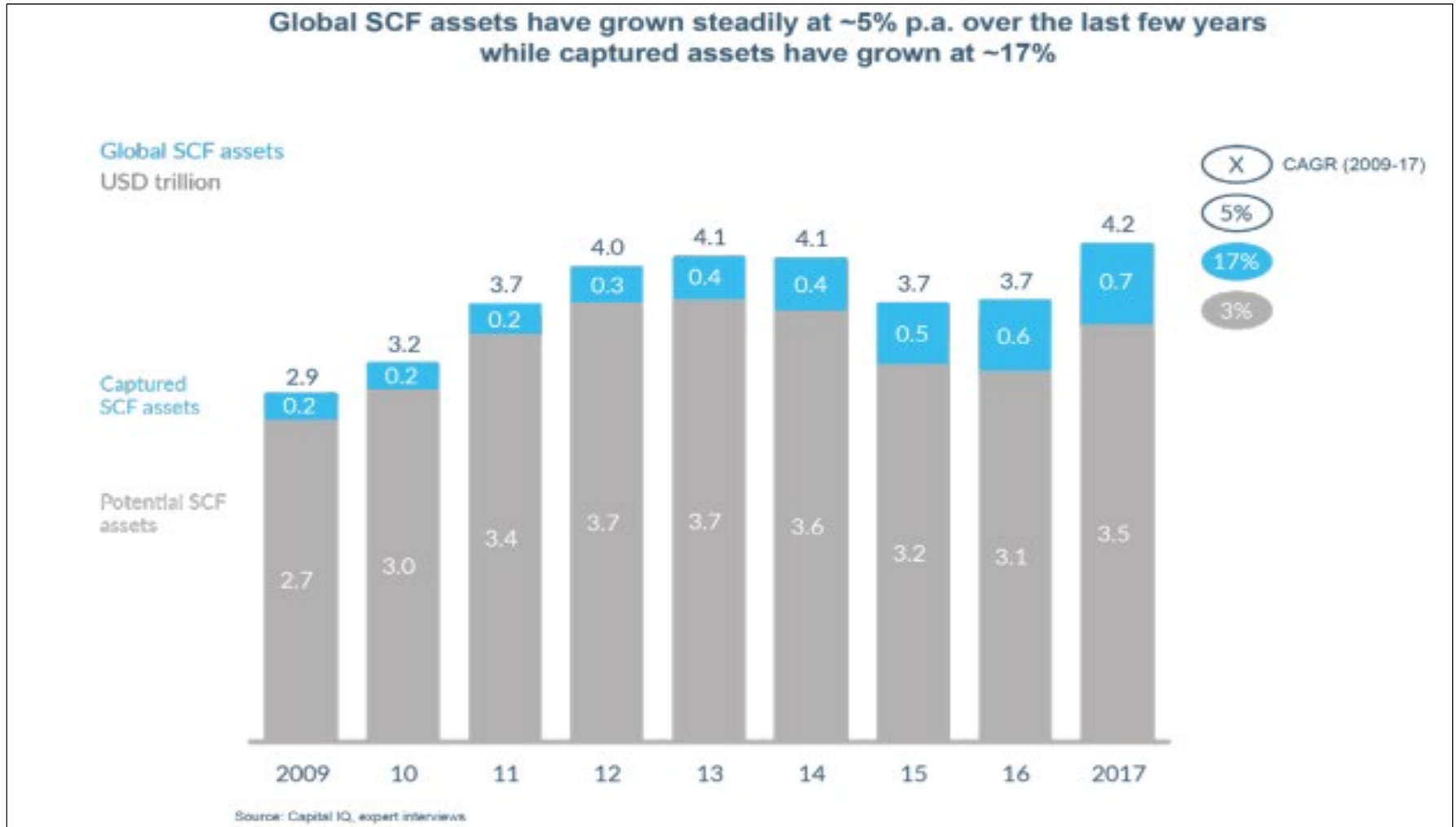
1. SCF overview

H.1: MSME Finance gap (2017)

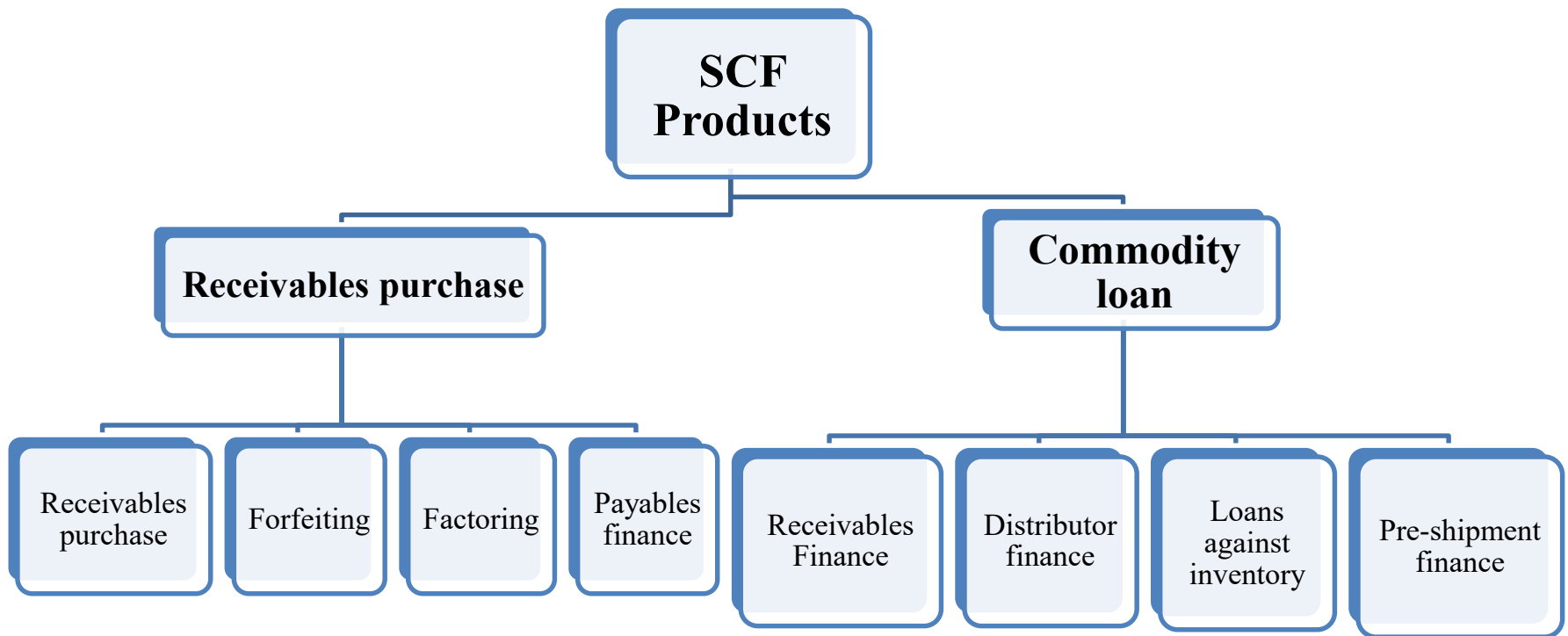


Source: IFC (Global SCF Knowledge Guide), 2018.

H.2: SCF development (2009-2017, +5%/ year)



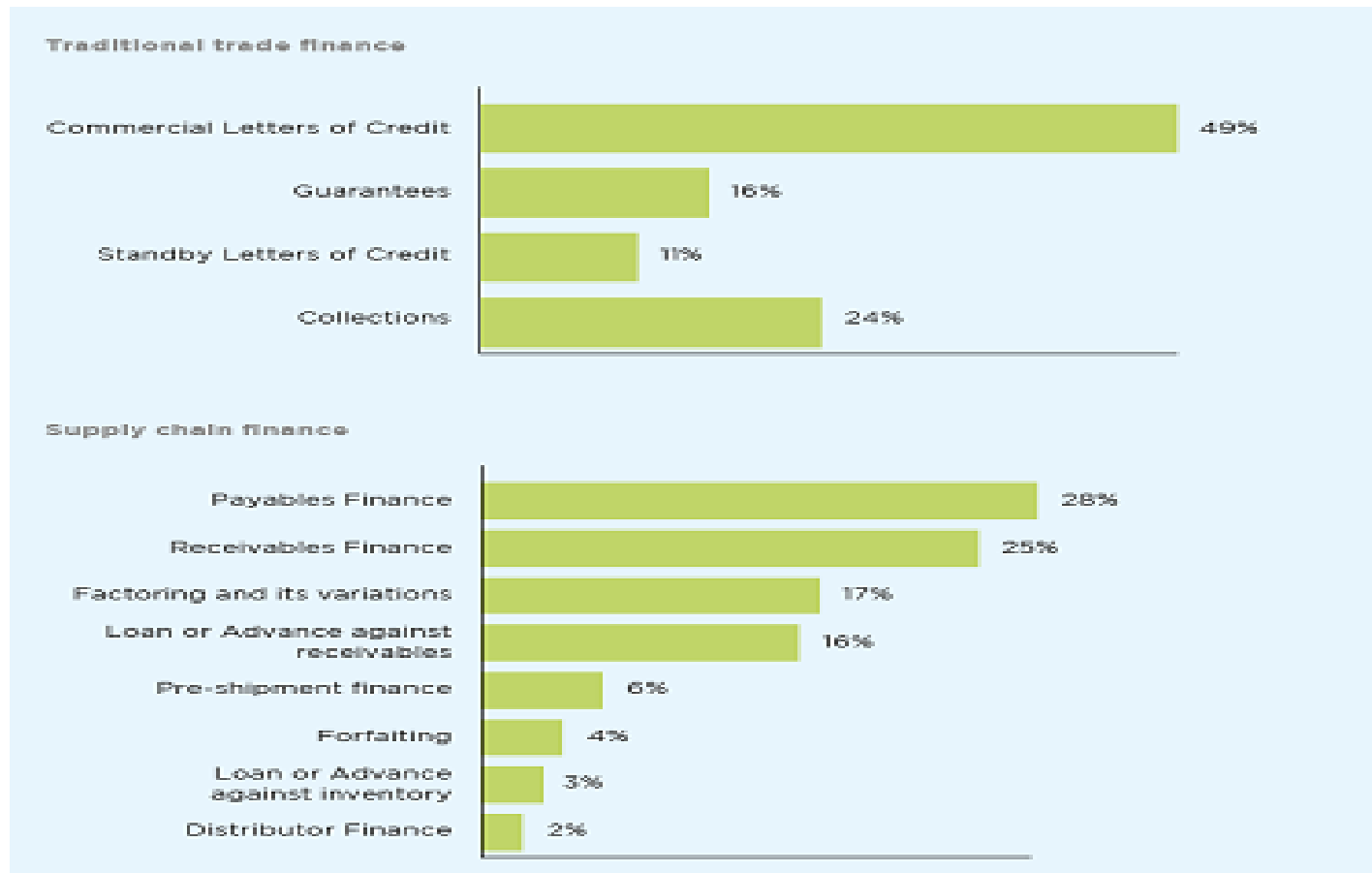
H.3: SCF types/products



Source: IFC (Global SCF Knowledge Guide), 2018.

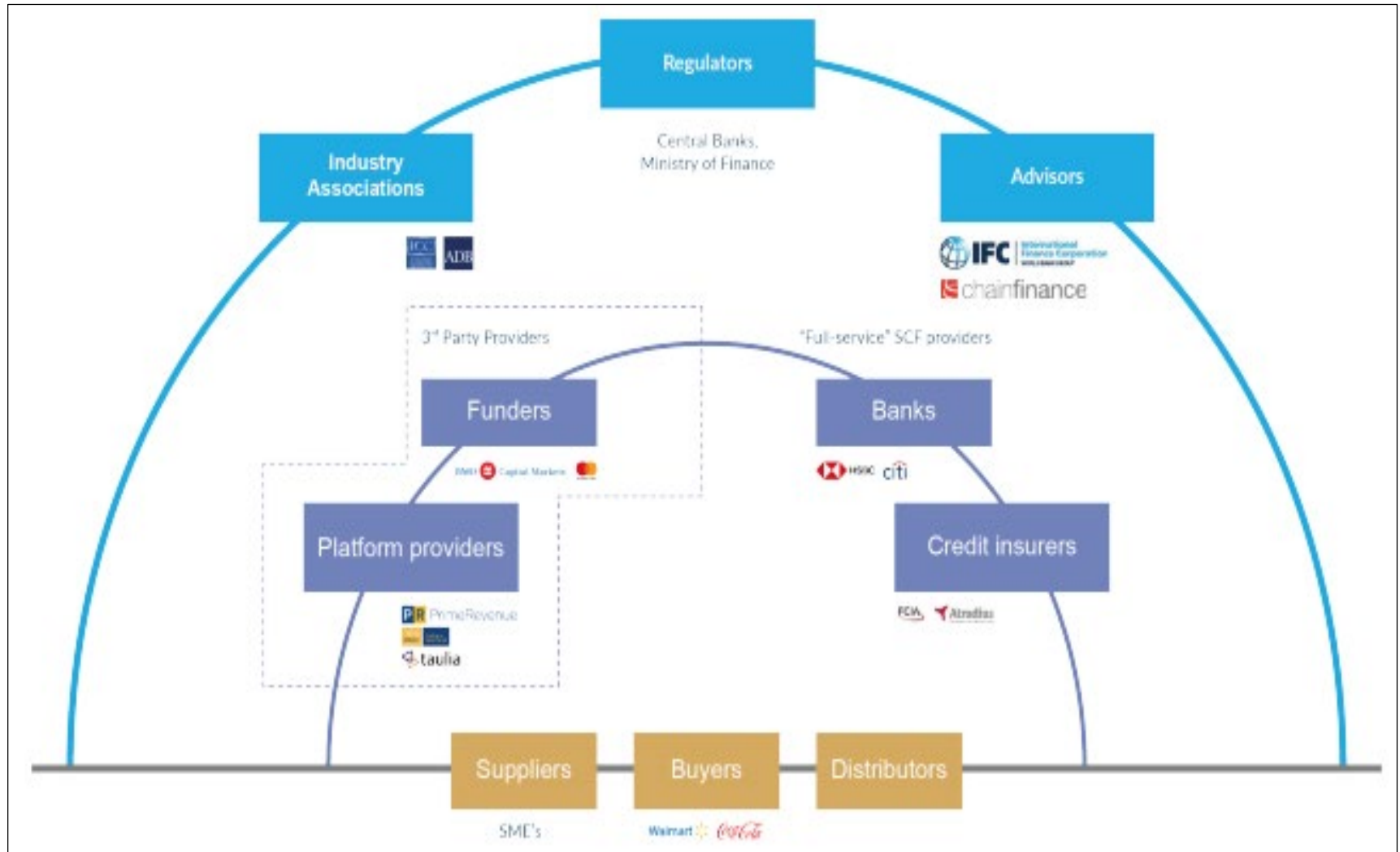
H.4: Main products in Trade Finance and SCF

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



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

- NBFIs are "third party providers", including non-bank funders.
- **NBFIs provide SCF solutions to SMEs** having difficulties in accessing bank loans.
- **NBFIs contribute 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).

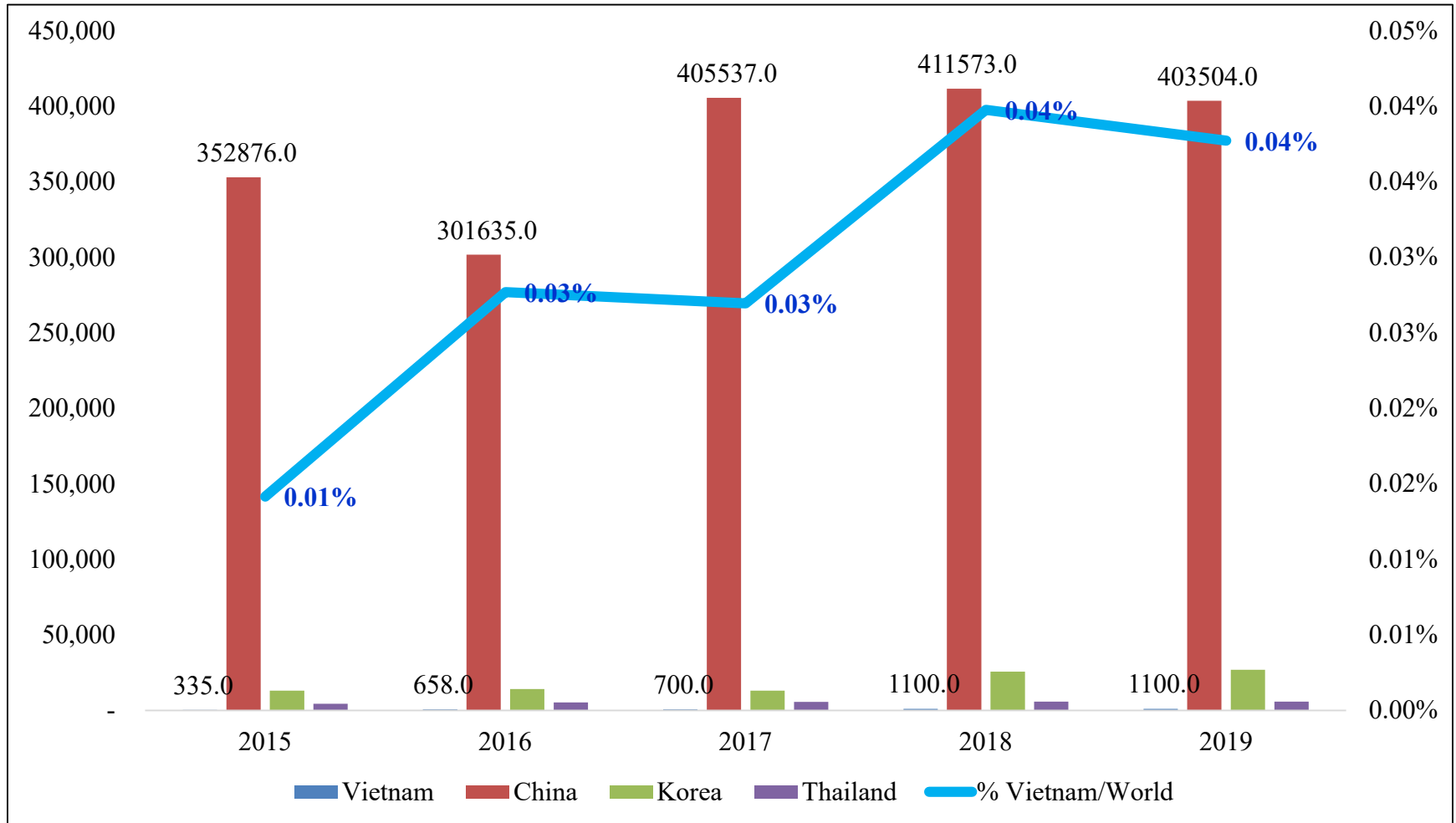
3. Current state of SCF in Vietnam

- **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.

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.