Chapter 6

Small and Medium Enterprises Access to Finance in Vietnam

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CHAPTER 6

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This paper investigates the access to finance, and the financial gaps and factors constraining such access, of Vietnamese Small and Medium-sized Enterprises (SMEs), operating in the Textiles and Garment, Automotive Components Manufacturing, and Electrical and Electronics Industries.

The paper shows that capital shortage presents a serious barrier for SME development in Vietnam. Not all enterprises in the survey sample have access to finance. This can be because they have sufficient internal funds or they may experience difficulties with credit providers, perhaps due to weaknesses inherent to the SMEs themselves. However, access to finance only ranks fourth among the most serious impediments for those having access to capital, and sixth among those who have never raised external capital.

The survey results indicate that the constraints of SMEs in accessing finance are lack of collateral, being a younger enterprise, major owners having insufficient experience in running or owning businesses, micro size, and no participation in production networks. However, it seems that the enterprises having either collateral, or good credit profiles and sound business plan are better trusted by financial institutions.

The paper also shows that the success of SMEs, such as larger profit margins as well as earning profits in two consecutive years, is influenced by external factors, such as using two sources of finance, i.e. commercial or personal loans and credit lines from financial institutions including credit cards, and credit from State-owned credit institutions or Government grants, as well as relying on the SME policy support by government. In recent years, many SMEs have received both legal and direct support, the most common forms of which are improving legal framework and business environment, simplifying administrative procedures, and financial assistance in the form of solving tax and financial problems. Further narrowing the supply-demand gap in the capital market for SMEs requires more effort from all related parties, including the supply side, the demand side, and the Government.

1. Introduction

1.1. Overview

For more than two decades, Vietnam has pursued an open market and reforming policies in order to mobilize resources for economic development. Together with the implementation of the Enterprise Law and administrative reform, Vietnam has continuously reduced impediments in terms of the legal framework, administrative procedures and policy to facilitate the development of enterprises in all sectors in the economy, including SMEs and households.

According to Decree No. 56/2009/ND-CP dated 30 June 2009, SMEs comprise the businesses registered in accordance with the Enterprise Law, cooperatives and individual business households, of either micro, small, or medium size. There are two criteria for defining the type of SME, namely scale of total assets (as the prior criterion), and annual average number of employees. In particular, a micro-sized enterprise is defined as one having 10 or fewer employees.

Table 1. Classification of SMEs

Size / Sector	Micro-sized enterprise	Small-sized Enterprise		Medium-sized enterprise
	Number of employees	**Total asset**	**Number of employees**	**Total asset**
Agriculture, Forestry and Fishery	10 persons or fewer	VND 20 billion or less	Over 10 to 200 persons	Over VND 20 billion to VND 100 billion
Industry and Construction	10 persons or fewer	VND 20 billion or less	Over 10 to 200 persons	Over VND 20 billion to VND 100 billion
Trading and Services	10 persons or fewer	VND 10 billion or less	Over 10 to 50 persons	Over VND 10 billion to VND 50 billion

Source: Decree No. 56/2009/ND-CP.

Up to May, 2010, Vietnam has 496,101 enterprises and about 3.7 million individual business households[1] registered in provincial and district registration agencies. SMEs account for 97% of total registered enterprises in Vietnam, of which just over 55% are micro-sized enterprises with the number of permanent laborers being fewer than 10.

Table 2. Classification of SMEs by Scale of Labour Dimension

Year	2006	2007	2008
Micro-sized enterprise	56.97	55.14	55.01
Small-sized Enterprise	36.27	38.43	38.87
Medium-sized enterprise	3.64	3.61	3.07
SMEs	96.88	97.18	96.95
Large enterprise	3.12	2.82	3.05
Total	**100.00**	**100.00**	**100.00**

Source: White book on SMEs in Vietnam 2009.
Note: Unit in %

According to the White Book on SMEs in 2009, from 2000, the average registered capital of enterprises increased by 9 times over the 2000 - 2008 period. The increases were 0.962 billion, 3.14 billion, 8.1 billion and 8.7 billion VND in 2000, 2006, 2007 and 2008 respectively. However, due to the global economic recession and Vietnam's economic downturn, the average registered capital of enterprises in 2009 fell to 6.1 billion VND. The economic recession has created challenges for SMEs in accessing finance and, as a result, has negatively affected financial resources for SMEs.

Shortage of capital poses a serious problem for SMEs, according to recent studies and ERIA's SME research project in financial year 2009. The proportion of under-capitalized SMEs was 77%, 34.8% of which believe that shortage of capital is a significant barrier. In particular, in 2008, because of tightened monetary policy, access to finance became difficult

[1] According to Vietnamese legislation, the concept of enterprise includes those in the form of private enterprise, limited liability company, joint stock company and partnership company, except individual business household. A limited liability company wholly owned by foreign owner(s) is called a 100% foreign owned company, and a limited liability company jointly owned by domestic and foreign owners is called a joint-venture.

for all, enterprises including SMEs. In 2009, several enterprises still suffered from under-capitalization. There are two major reasons for this, resulting from factors either internal to or external of the enterprises themselves.

Findings from ERIA's SME research project in financial year 2009 confirm that access to finance is amongst the determinants of the competitiveness of regional SMEs and their capacity to fully exploit and participate in the global economy, and business opportunities from regional economic integration and, in particular, participation in regional production networks.

The challenges of SMEs' access to finance from banks and financial institutions in the process of global and regional economic integration have been the subject of warnings since the early 2000s. At that time, about 20% of the loans of SMEs came from banks and financial institutions, with the remaining 80% mainly from non-financial institutions, relatives, and friends, who impose an interest rate 3-6 times higher than that of banks (Hoang Hai, 2004).

John Rand *et al.,* (2008) show that 23.2% of the SMEs had had loan requests rejected by banks and financial institutions, or had submitted documents found faulty. The corresponding figures from other studies in 2005 and 2009 were 26.5% and 20.3% respectively (CIEM, DoE, ILSSA, 2006 and 2010). This group of SMEs is therefore identified as a group of credit constrained enterprises, i.e. those having problems getting a formal loan, and/or those in need of a loan despite approved formal loans, and/or firms that did not apply for a loan due to high interest rates, application problems or lack of collateral.

Trinh Duc Chieu *et al.,* (2010) shows that the development of SMEs is determined by several factors such as land (production premises), taxes and fees, capital (finance), human resource, technology, market and the business environment. Capital is among the factors which significantly and usually affect the business operations of SMEs, because they have difficulty in accessing finance, particularly medium- and long-term loans. This difficulty is caused by both the SMEs and the financial institutions. On the one hand, the limitation of their labor force and their ability leads SMEs to find it difficult to prepare investment projects and business development plans which could persuade banks and financial institutions to grant loans. On the other hand, many banks are fearful of giving loans to SMEs because their loan-financed projects are largely small-scale, with higher risks than those of large enterprises, and procedure fees are also high. The rejection of SMEs' loan requests rests on the following grounds: (i) riskiness (especially for young SMEs, with insufficiently credible credit profile); (ii) larger transaction costs than those of large enterprises; (iii) lack of collateral; and (iv) insufficient accounting record of loan applicants. In addition, the SMEs are frequently small-sized, so the opportunity of mobilizing equity capital is limited, thereby affecting their development. The research team applied binary logistic regression to evaluate the policy impact. The result of estimation shows that capital (ability to access credit: formal loans, interest rates) and the 3 factor groups - namely human resources, market and business environment - have significant impacts on revenue growth of the sampled SMEs.

The focus of this study is to understand SMEs' access to finance in Vietnam. It also intends to elaborate upon the two points, namely the extent to which SMEs are systematically disadvantaged and rationed with respect to external financing, and the characteristics of SMEs that contribute to high performance, which in turn facilitates access to finance.

1.2. Methodology

The research team conducted questionnaire surveys among SMEs in different provinces and cities of Vietnam, and among financial institutions of which the headquarters are mostly located in Hanoi. The questionnaires were formally designed by ERIA for all the economies participating in this project, and the research team added some more content in accordance with the characteristics of Vietnam's enterprises for convenience during the survey.

A list of 200 enterprises was chosen using simple sample selection methodology. These enterprises represent three specific geographical areas of Vietnam (the north, the south and the centre) where there are massive enterprises operating in textiles and garments, automotive parts, and components (including motorbikes), and electrical and electronics. Ha Noi, Bac Ninh, Bac Giang, Dong Nai, Binh Duong, and Da Nang were the provinces and cities selected for the study. Additionally, some enterprises from other sectors were selected to compare with the above counterparts. Some enterprises were also studied in depth so as to understand the issue.

The selected enterprises exhibit different forms of ownership, namely private enterprises, limited liability enterprises, join-stock companies, and foreign-invested enterprises. Such a diversity leads to an objective and complete understanding of the reality of production networks of enterprises.

Table 3. Overview of Enterprises Surveyed

		Number of surveyed enterprises	Percentage of surveyed enterprises
I	***Sector***		
1	Textile and garment	112	66.3
2	Parts, Components, and Automotives (including motorbikes)	20	11.8
3	Electrical, Electronic, parts and machinery	20	11.8
4	Others	17	10.1
	Total	**169**	**100.0**
II	***Province/City***		
1	Hanoi	36	21.3
2	Bac Ninh	32	18.9
3	Bac Giang	20	11.8
4	Binh Duong	20	11.8
5	Dong Nai	21	12.4
6	Da Nang	40	23.7
	Total	**169**	**100.0**
III	***Form of ownership***		
1	Private company	17	10.1
2	Limited liability company	67	39.6
3	Joint stock company	16	9.5
4	100% foreign owned Co.	66	39.1
5	Joint-venture	3	1.8
	Total	**169**	**100.0**
IV	***Size***		
1	Micro-sized enterprise	121	71.6
2	Small-sized Enterprise	10	5.9
3	Medium-sized enterprise	38	22.5
	Total	**169**	**100.0**

Source: Authors' calculations from the survey.

169 enterprises were surveyed, of which almost all were small-sized and medium-sized enterprises (about 91% of total enterprises; 6 enterprises had 300 laborers but assets were less than VND 100 billion and are, thus, defined as medium-sized enterprises according to Vietnamese criteria). 5.9% was the proportion of micro-sized enterprises that had no more than 10 laborers, none of which has between 1 and 5 laborers. The largest proportion of the total enterprises surveyed came from the textiles and garments sector (66.3%), due to the massive jobs and exports created by the garment industry in the context of Vietnam having plentiful laborers and being deeply integrated into the Asian and global economy.

Table 4. Number of Surveyed SMEs by Industry and Size

Industry	Micro-sized enterprise	Small-sized enterprise	Medium-sized enterprise	Total
1. Textiles and garment	80	7	25	112
2. Parts, components, and automotives (including motorbikes)	15	0	5	20
3. Electrical, electronic, parts and machinery	15	1	4	20
4. Others	11	2	4	17
Total	**121**	**10**	**38**	**169**

Source: Authors' calculations from the survey.

Table 5. Number of Surveyed SMEs by Form of Ownership and Size

Form of Ownership	Micro-sized enterprise	Small-sized enterprise	Medium-sized enterprise	Total
Private company	13	2	2	17
Limited liability company	54	6	7	67
Joint stock company	12	0	4	16
100% foreign owned Co.	40	2	24	66
Joint-venture	2	0	1	3
Total	**121**	**10**	**38**	**169**

Source: Authors' calculations from the survey.

To analyze access to finance from the supply side, the research team conducted a questionnaire survey on 10 financial institutions, including eight commercial banks and two financial leasing companies. The research team used a number of methods to analyze the collected data. Once data were entered and cleaned, software such as STATA and SPSS was used for analysis. The qualitative data were distributed to be analyzed together with quantitative data. Description methods, single and cross tabulations and graphs are employed to analyze the survey data. In addition to the qualitative and descriptive analysis, the team utilized quantitative analysis methods, such as binary regression, to evaluate the relationship between SMEs systematically disadvantaged, rationed and their characteristics and affecting factors. Finally, the team matched the survey results with secondary data obtained from other surveys, or calculation results based on common published data. The following section presents the outcomes of this review and an assessment of SMEs' access to finance.

2. SMEs' Access to Finance

2.1. Status of SME Financing in Vietnam

Since 2000, with the significant development of the SME sector, Vietnam has opened its financial market and liberalized some capital transactions. After obtaining WTO membership in 2007, Vietnam has gradually removed barriers encountered in business registration and financial services, and thanks to that, facilitated business entities engaging in financial markets. From 2008, the financial market has witnessed strong participation by domestic as well as foreign entities. They are the capital resource providers for any form of business including SMEs. There are two major types of financial institutions: banking institutions and non-bank credit institutions. Since 2000, Vietnam has had all the short-, medium- and long-term components of a capital market, including primary and secondary markets. This ensures liquidity and an efficient market mechanism for financial products. Moreover, the quality of financial services has improved; and the increasing consumers' interest is due to the variety of financial products available.

In recent years, the annual mobilized capital of credit institutions has grown continuously. The fastest growth was observed in the joint-stock commercial banks. The most mobilized capital was in the state-owned commercial banks, accounting for a 50%

share of all credit institutions. Yet this figure has tended to narrow due to strong competition from joint-stock commercial banks and joint ventures involving foreign banks.

For 10 years there has been a dramatic growth of credit, with an annualized average of 30%, exceptionally in 2007 of over 50%. However, the "overheating growth" of credit was evident during the last 5 years (To Ngoc Hung, 2010; Nguyen Xuan Trinh *et al.,* 2010). The credit growth in 2009 was 37.87% compared to 24.2% in 2008. The sharp increase in 2009 is attributed to expanding monetary policy, as part of an economic stimulus package by the government aimed at reaching higher economic growth in 2009 (6.23%) in comparison with economic growth in 2008 (5.32%).

Outstanding loans are largest in joint-stock commercial banks, financial companies, and financial leasing companies. State-owned commercial banks account for the largest share in Vietnam's banking system, providing 51% of outstanding loans. The major proportion of outstanding loans is short term, accounting for 56.82% of the total outstanding loans in 2009. Outstanding loan structure by sectors has changed, with a declining share for State-owned enterprises (from over 50% to 30% of total outstanding loans), and an increasing share for non-State enterprises. The loan structure of commercial banks has also seen a certain shift. However, the proportion of outstanding loans to industry, trade and repair, hotels and restaurants, and transportation remains unchanged. Agriculture, forestry and fishery accounted for the largest proportion of outstanding loans, though this decreased from 29.6% in 2002 to 25.2% in 2009. Meanwhile the proportion of loans provided to the construction sector increased from nearly 14% to just over 20%. The share for the remaining sectors went down from 8.5% to 5.1% during the same period. By term of loans, in the 1990s, although short-term loans accounted for a very high portion of the banking system (95% short term loans in 1990, 5% medium and long term loans, collectively), medium- and long-term loans in recent years have increased, occupying typically 40% of the total. However, the term mismatch is a matter of concern, as 80-85% of loans are short term (under 1 year), while 40-45% outstanding from lenders is a result of medium and long term lending (2 years or more).

Table 6. System of Credit Institutions in Vietnam by Mid 2010

Group of credit institutions	Type	Number
Banks	State-owned commercial bank	3
	Joint-stock commercial bank	39
	Joint venture commercial bank	5
	Commercial bank with 100% foreign capital	5
	Branch of foreign bank	48
	Vietnam Development Bank (VDB)	1
	Vietnam Bank for Social Policies	1
Non-bank credit institutions	Financial company	17
	Financial leasing company	13
	Central People's Credit Fund	1
	People's Credit Fund facility	1037
	Microfinance institution	68

Source: To Ngoc Hung (2010), Supervising system for national financial issues, *National level Research Program KX.01.19/06-10.*

Note: Unit: Number of credit institutions.

Table 7. Mobilized Capital and Credit Outstanding of Credit Institutions

Group of credit institutions		2005	2006	2007	2008	2009
State-owned commercial banks	Mobilized capital	455,749.50	567,105.90	710,687.20	842,787.32	943,433.96
	Outstanding credit	410,745.20	469,849.60	613,228.70	740,355.63	949,651.63
Joint-stock commercial banks	Mobilized capital	95,130.37	160,863.60	347,112.70	462,416.91	474,217.06
	Outstanding credit	80,386.10	131,676.10	286,725.40	337,564.98	560,564.67
Joint venture banks and foreign commercial banks	Mobilized capital	47,282.41	68,017.20	112,680.10	122,415.94	148,909.98
	Outstanding credit	52,237.30	64,478.80	95,569.40	139,386.86	161,290.00
Financial companies and Financial leasing companies	Mobilized capital	5,085.21	11,065.70	23,198.80	37,678.09	50,794.23
	Outstanding credit	9,732.50	13,778.40	25,054.20	38,813.74	61,259.42
People's Credit Fund	Mobilized capital	6,811.91	8,485.30	12,296.80	16,279.56	19,839.21
	Outstanding credit	7,760.80	9,678.90	13,263.70	16,970.05	22,459.29
Total	Mobilized capital	610,059.40	815,537.70	1,205,975.60	1,481,577.81	1,904,194.44
	Outstanding credit	560,861.90	689,461.80	1,033,841.40	1,273,091.26	1,755,255.01

Source: To Ngoc Hung (2010), Supervising system for national financial issues, *National level Research Program KX.01.19/06-10.*

Note: Unit: Billion VND.

Along with the benefits from integration, Vietnam is facing difficulties and challenges, typically from the global financial crisis in 2007-2008 triggered in the US. The inflation rate in 2008 was 19.89%, while the GDP growth rate in 2008 was 6.23% compared with 8.48% in 2007. This was the big challenge for the entire economy, which in turn directly affected commercial banks. Due to the critical nature of financial and monetary business, the activities of commercial banks and credit institutions are closely monitored by the State Bank of Vietnam (SBV) through legal documents and guidelines. Upon becoming a public company listed on the stock market, commercial banks and credit institutions must strictly comply with the securities' provisions.

Since 2008, a new environment has impacted the structure of the country's financial market. Due to the systemic effect of the global economic crisis, the instability in Vietnam's financial market exposed weaknesses in both the market itself and the policies governing it. A regulatory policy, providing 8 solutions for a stable macro economy and financial markets was issued in Government resolution No. 10/2008/NQ-CP and affected the operation of the financial system. The key solutions include (i) using monetary policy to curb inflation and ensure economic growth, with administrative intervention in monetary markets by restraining the growth of outstanding credit, controlling interest rates, managing the exchange rate, and the formation of 2 prices in the money and foreign exchange markets; (ii) closely controlling and enhancing the efficiency of public expenditure. However, because of the growth target, the budget deficit and public debt increased to nearly 70% of GDP in 2010, up from 40% in 2008; (iii) strengthening financial market supervision. The change in the macro economy due to the impact of the economic stimulus package from the Government in late 2009 and 2010 has brought big challenges for the financial market system. In addition, inability to control the real estate and gold markets has unfavorably affected the financial markets, as capital flows are frequently allocated among financial, gold, real estate markets and other investment alternatives.

2.2. Survey Analysis

The findings indicate that the majority of SMEs in Vietnam encounter three major obstacles in their development, namely rising business costs, increasing competition, and shortage of skilled labor. Access to finance ranks fifth among serious obstacles that the enterprises encountered in the whole survey sample, fourth among those having access to capital, and sixth among those that have never raised external capital.

Table 8. Serious Obstacles for Enterprises in their Development

Type of Obstacles	Enterprises accessing to financial institutions	Sample
1. Rising business cost	70.7	71.6
2. Finding qualified labour	52.0	52.1
3. Tougher competition	50.7	53.3
4. Access to finance	25.3	18.9
5. Instability of consumer demand	22.7	27.8
6. Government regulations	8.0	14.8
7. Management capacity	5.3	10.7
8. Environmental regulations/ compliance	2.7	4.1
9. Insurance premium	2.7	5.3

Source: Authors' calculations from the survey.
Note: Unit: %.

Table 9. Serious Obstacles for the Enterprises without External Financing

Type of Serious Obstacles	Percent
1. Rising business costs	68.5
2. Tougher competition	53.7
3. Finding qualified labors	50.0
4. Instability of consumer demand	24.1
5. Government regulations	22.2
6. Access to finance	14.8
7. Management capacity	11.1
8. Insurance premium	9.3
9. Environmental regulations/ compliance	3.7

Source: Authors' calculations from the survey.
Note: Unit: %

Only about half (44.4%) of the surveyed enterprises had approached external formal and informal financial institutions with loan requests over the past 12 months. The maximum number of institutions which one SME accessed was four. This figure is smaller than expected, which supports the ideas that either a number of SMEs can finance themselves from their own internal capital, or that in some cases SMEs find it hard to access external financial sources for their business funds. The later argument might be explained by the fact that SMEs had difficulty, or worried about difficulty, in accessing credit or loans from both formal and informal credit providers.

From the survey, a number of enterprises have not made any external financial requests over the past 12 months. They accounted for 55.6% of the surveyed enterprises. It seems that these business entities are usually at the start-up stage, or might not in urgent need of loans for their activities, or they might think that it is hard to achieve approval for a formal loan due to their start-up characteristics. As indicated by the survey, the major source of capital for business start-up is the owner's individual savings (43.8% of surveyed enterprises), followed by commercial loans and personal loans. If relatives and friends' investments are included, the owner's share of investment in the start-up period comprises up to nearly 66% of total capital. In summary, individual capital rather than a formal financial source is the major provider of funds for business start-up.

Table 10. Shares of Enterprises which never uses External Financing by Development Stages

Stage of development	Enterprises never using external financing	Sample
Early stage	33.3	18.3
Rapid growth stage (faster than growth rate of the economy)	14.8	21.9
Slow growth stage (slow consumption)	35.2	37.9
Maturity stage (remain stable of consumption)	11.1	17.8
Contraction stage (decrease of consumption)	5.6	4.1
Total	**100.0**	**100.0**

Source: Author's calculations from the survey.
Note: Unit: %.

The survey results in Table 11 show that the enterprises intending to use external loan requests to finance working capital or operating capital account for 69.7%. This figure is significantly higher than the proportion using loan requests to acquire machinery and equipment, to consolidate debt, and to invest in land and buildings, which are 29.3%, 14.1% and 10.1%, respectively. In summary, the SMEs mainly seek access to finance for working capital or operating capital, and to a lesser extent for investment in machinery and equipment, land and buildings, and debt consolidation. They rarely think about using approved loans to grow their business or to acquire other enterprises, or to invest in research and development (R&D).

Table 11. Purpose of using the Requested Financing

	Frequency	Percent
a. Land and buildings	10	10.1
b. Vehicles or rolling stock	7	7.1
c. Computer hardware and software	2	2.0
d. Other machinery and equipment	29	29.3
e. Working capital or operating capital	69	69.7
f. Research and development	2	2.0
g. Debt consolidations	14	14.1
h. Intangibles	0	0
i. Purchase a business	0	0
j. To grow the business	0	0
k. Another purpose	7	7.1

Source: Author's calculations from the survey.

The financial sources that the enterprises use to finance their start-up and to maintain their business operations are illustrated in Tables 12 and 13 in descending order in terms of proportion of businesses having access to those sources. In business start-up, internally generated capital from the personal savings of business owners contributes the most. When businesses enter subsequent stages, the sources of finance show some change. The proportion of enterprises using internal capital falls from 43.8% at the start-up phase of business to 30.8% at the stage of maintaining business operations. In maintaining business operations, commercial and personal loans and credit lines from financial institutions, including credit cards, ranks first with access for 53.3% of the enterprises. 92% of SMEs usually deal with banks as the main financial institution for new loans. Only one enterprise in the sample in Danang City borrowed from the Government support funds, the rest used People Credit Funds[2], parent company's subsidies or partner's funds. In summary, SMEs

[2] People Credit Fund is a credit fund voluntarily formed by legal entities, individuals and households under cooperative form with the aim of mutually assisting one another in doing business.

raise more capital from external sources once their business operations enter the maintenance and expansion phase of their life-cycle.

In maintaining business operations, external finance such as loans from friends or relatives of business owners(s), or loans from individuals unrelated to the firms or to the firms' owners, decreased substantially from 31.4% to 10.7%. This is due to firms switching to other sources of capital, in this case to commercial or personal loans and credit lines. For example, the proportion of enterprises using external finance increases from 37.9% to 53.3%, and the proportion of enterprises using trade credit also goes up from 5.9% to 16%. Credit obtained from government lending agencies or government grants slightly increases from 0.6% to 5.9%. Thus, the financial support to SMEs from the Government still remains modest. In addition, micro-credit and leasing account for a small percentage, which implies that these financial instruments are yet to develop.

Table 12. Sources of Finance for Financing SME Start-up

Source of Finance	Frequency	Percent
1. Personal savings of business owner(s)	74	43.8
2. Commercial or personal loans and credit lines from financial institutions including credit cards.	64	37.9
3. Loans from individuals unrelated to the firm or its owner ("angels")	37	21.9
4. Loans from friends or relatives of business owner(s)	16	9.5
5. Others	16	9.5
6. Retained earnings	15	8.9
7. Trade credit owing to suppliers	10	5.9
8. Micro-credit	6	3.6
9. Leasing	4	2.4
10. Credit from government lending agencies or government grants	1	0.6

Source: Author's calculations from the survey.

Table 13. Sources of Finance for keeping Business Operation

Source of finance	Frequency	Percent
1. Commercial or personal loans and credit lines from financial institution including credit cards.	90	53.3
2. Retained earnings	89	52.7
3. Personal savings of business owner(s)	52	30.8
4. Trade credit owing to suppliers	27	16
5. Loans from individuals unrelated to the firm or its owner ("angels")	18	10.7
6. Others	16	9.5
7. Credit from government lending agencies or government grants	10	5.9
8. Leasing	10	5.9
9. Micro-credit	11	6.5
10. Loans from employees	5	3

Source: Author's calculations from the survey.

Characteristics of enterprises having access to external formal and informal credit providers over the last 12 months seem to differ insignificantly from those of the survey sample, except in the intention to expand their businesses. The proportion of the enterprises which accessed external formal and informal credit providers over the last 12 months and intended to expand their business within the next two years is higher than that of the sample. The number of enterprises using commercial loans for financing their business expansion accounted for 86% while that of the sample is only 74%.

Investigation of those firms with rejected loan requests yields the following insights: First, firms lacking collateral assets from the major proportion of rejected loan requesters. Second, all the rejected loans were requested by enterprises that had operated for less than 10 years. Businesses with more than 10 years of operation had no loan requests rejected. Third, business owners' experiences have an inverse relationship with the probability of their loan requests being rejected. From the data, only firms with owners possessing less than 20 years experience had loan requests rejected. The less experience, the higher the probability of the loan requests being rejected. In contrast, no loan requests from business owners with more than 20-years experience were rejected.

Table 14. Proportion of Enterprises Having Loan Requests Rejected

	Percent		Percent
1-Collateral		***4-Size***	
Collateral provision required	25.0	Micro-sized enterprise	5.7
No collateral required	75.0	Small-sized enterprise	0
2-Firm age		Medium-sized enterprise	0
Less than 3 years	25.0	***5-Growth of sales***	
From 3 to 5 years	50.0	Making loss in 2008 and 2009	50.0
More than 5 to 10 years	25.0	Change from loss to profits and vice versa	0
More than 10 years	0	Profitable in 2008 and 2009	50.0
3- Years of experience of the owner in owning or managing		***6-Stage of business development***	
Less than 5 years	50.0	Start-up	25.0
From 5 to less than 10 years	25.0	Fast growth	25.0
From 10 to less than 20 years	25.0	Maturity	50.0
From 20 years and above	0	Contraction	0

Source: Author's calculations from the survey.
Note: Unit: %

Fourth, credit lenders partially or fully approved loan requests from all types of firms (micro-, small-, medium-sized). However, rejected loan requests happened only in micro enterprises. More loans were fully approved than partially. The proportions of enterprises with fully approved loan requests, partially approved loan requests, and rejected loan requests were 86%, 10% and 4%, respectively. Those whose loan requests were fully approved can be seen as gaining advantage in term of access to finance, while the enterprises with partially approved requests were seen as at a disadvantage.

Table 15. Proportion of Enterprises being Approved or Rejected when Making Loan Requests by Size

Size	Full amount requested	Part of amount Requested	Request Rejected	Total
Micro-sized enterprise	83.3	16.7	5.7	100.0
Small-sized enterprise	82.9	11.4	0	100.0
Medium-sized enterprise	95.7	4.3	0	100.0
Total	**85.9**	**10.1**	**4.0**	**100.0**

Source: Author's calculations from the survey.
Note: Unit: %.

Fifth, in terms of industry, enterprises in textiles and garments also make up a large proportion of enterprises with fully or partially approved or rejected loan requests. The figure is higher than that of enterprises in textiles and garments in the whole survey sample (66.3%). Comparing the extent of approved loan requests in three industries, the proportion of enterprises with fully approved loan requests is the highest, followed by that of enterprises with partially approved loan requests, and finally by that of enterprises with rejected loan requests.

Table 16. Proportion of Enterprises being Approved or Rejected when Making Loan Requests by Industry

	Full amount requested	Part of amount requested	Request Rejected	Sample
Textile and garment	67.1	90.0	75.0	66.3
Parts, Components, and Automotives (including motorbikes)	11.8	10.0	0	11.8
Electrical, Electronic, parts and machinery	9.4	0	25.0	11.8
Others	11.8	0	0	10.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Author's calculations from the survey.
Note: Unit: %.

Table 17. Proportion of Enterprises being Approved or Rejected when Making Loan Requests within Sector

	Full amount requested	Partial amount requested	Request Rejected	Total
Textile and garment	82.6	13.0	4.3	100.0
Parts, Components, and Automotives (including motorbikes)	90.9	9.1	0	100.0
Electrical, Electronic, parts and machinery	88.9	0	11.1	100.0
Others	100.0	0	0	100.0

Source: Author's calculations from the survey.
Note: Unit: %

Sixth, none of the surveyed enterprises which have participated in production network[3] have their loan requests rejected. Meanwhile, enterprises that do not participate in production networks (i.e. enterprises using inputs produced by themselves, or purchased from other enterprises, wholesale or retail) also have had their loan requests rejected. Direct export enterprises as a members of production networks, seemed to have more difficulty in access to finance, as half of them are refused when making loan requests.

Table 18. Proportion of Enterprises being Approved or Rejected when Making Loan Request by Sale Pattern

Sale patterns	Full amount requested	Part of amount requested	Request rejected
Supply to final assemblers	35.3	40.0	0
Supply to first tier	20.0	10.0	0
Supply to second tier	11.8	20.0	0
Supply to third tier	3.5	0	0
Supply to wholesalers/retailers	51.8	60.0	100.0
Direct exports	52.9	40.0	50.0

Source: Author's calculations from the survey.
Note: Unit: %.

Seventh, there is no significant relationship between rejected loan requests and firms possessing the following characteristics:

(i) There is no evidence that show that the business owners' gender has any direct relationship with an SME's capital access.

(ii) Likewise, rejected loans occurred at every stage of business development. Therefore, there is no significant link between loan acceptance and business development stages.

(iii) Not only firms who had negative business performance had their loans applications rejected, but also those who showed positive figures. Credit providers, specifically, rejected loan requests from the companies experiencing losses, and those who made

[3] The enterprises participating in production network are those using inputs produced by themselves, or purchased from other enterprises, and supplying them to the first tier, second tier and third tier buyers in the production chain.

profits in 2008 and 2009, or those with decreasing productivity and those with increasing productivity, or those with small owner's net worth and those with large owner's net worth.

Table 19. Proportion of SMEs Having Loan Requests Approved or Rejected by Characteristics

	Profitable in 2009	Ratio of profit growth to costs	Education level of owner		Ratio of labor graduated college and university levels from 10% and above
			College and university	University	
Full amount requested	74.1	58.8	69.4	64.7	65.2
Part of amount requested	80.0	60.0	60	50	50.0
Request rejected	50.0	50.0	25	25	100.0

Source: Authors' calculations from the survey.
Note: Unit: %.

With respect to performance, firms whose loans were either fully or partially approved showed superior business performance to those whose loans were rejected. In addition, companies having their loans requests fully approved tended to outperform those with partially approved loans. The proportions of enterprises with fully approved loan requests, partially approved loan requests, and rejected requests, which rated lending services as very satisfactory or satisfactory were 61.2%, 22.2% and 0%, respectively.

As indicated by the analysis of advantaged and disadvantaged enterprises in access to finance, based on characteristics of industry and size, those in the garment industry seemed to have more advantage than those in other industries. The proportions of enterprises in this sector having loan requests fully and partially approved were 67.1% and 90%, respectively. The proportion of small enterprises with access to finance is also higher in this sector.

Table 20. Proportion of SMEs being Approved or Rejected when Making Loan Requests by Industry and Size

	Industry				Size	
	Textiles and garment	**Parts, components and automotives (including motorbikes)**	**Electrical, electronic, parts and machinery**	**Others**	**Micro-sized enterprise**	**Small-sized enterprise**
Full amount requested	67.1	11.8	9.4	11.8	5.9	68.2
Part of amount requested	90.0	10.0	9.4	11.8	10.0	80.0
Request rejected	75.0	0	25.0	0	0	100.0

Source: Authors' calculations from the survey.
Note: Unit: %

From the analysis of characteristics of enterprises with rejected loan requests, only a small proportion of them were satisfied with their lending service, compared to those with approved loan requests. Most of the former group had to pay extra fees, put in collateral or obtain co-signatures from individuals other than the business owners, for loan approval. Only a few enterprises made requests for financing leases or equity. Nonetheless, most of the enterprises calling for equity financing transferred into follow-up investment, and these were mainly enterprises owned by members of the family. Most of the surveyed enterprises never requested credit from State-owned credit institutions or government grants.

There are some findings for high performing SMEs, characterized by an increase in profit margin between 2009 and 2008 or consecutive profits in 2008 and 2009 as follows:

A high proportion of enterprises operating in the three sectors (textiles and garments; parts, components, and automotive, including motorbikes; and electrical, electronics, parts and machinery) gained an increase in profit margin between from 2008 to 2009 and earned profits in both years. However, the proportion of the enterprises posting profits in both years is higher in textiles and garments than in the other two industries. The enterprises with male owners were more successful, albeit insignificantly, than female owners in terms of achieving an increase in profit margin between 2008 and 2009 or earning profits in both years. Owners who were between 30 and 50 years of age achieved better business performance in terms of profitability in both years. If the owners could use other languages (mostly English), their enterprises had advantages, albeit not unambiguous. The enterprises owned by family members achieved better results than enterprises owned by retired people. Investment in R&D did not affect the performance of enterprises, and SMEs are not really interested in R&D. The idea of expanding business frequently exists in an enterprise, but this depends on business performance. Almost all enterprises are established on their own.

The majority of enterprises enjoying larger profit margins use two sources of finance to maintain business operations, namely commercial or personal loans and credit lines from financial institutions, including credit cards, and credit from State-owned credit institutions or Government grants.

Similarly, most of the enterprises earning profits in two consecutive years rely on two sources of finance to maintain business operations, i.e. commercial or personal loans and credit lines from financial institutions including credit cards, and credit from State-owned credit institutions or Government grants.

Surprisingly, almost all the SMEs with better performance, including those enjoying profits in two consecutive years, as well as those achieving an increase in profit margin, were enterprises whose owners established their business on their own.

2.3. Empirical Analysis

2.3.1. Methodology and Data

2.3.1.a. The Econometric Model

The data collected from the survey are mainly in the categorical form, especially the information relating to SME financial access, thus logistic regression is relevant to the quantitative analysis using an econometric model. Moreover, as the values for dependent variables are binary, the authors employ binary logistic regression for more in-depth analysis.

The model is expressed as:

$$p_i = P(y_i = 1) = F(z_i) = \frac{1}{1+e^{z}}$$

$$\text{where}: \; z_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \ldots + \beta_k x_{ki}$$

In which:

p_i: probability that a considered event occurs

x_{ji}: x_{ik} is the observation of the k^{th} independent variable

$\beta_0, \beta_1, \ldots, \beta_k$ are the regression coefficients that will be estimated

The model validation is accessed through the Hosmer-Lemeshow statistic and R-squared, while the model adequacy is checked via predicted percentage correct and the deviation obtained when estimating the selected model. The results show that all the requirements for a suitable model with the given data set are met (except there is a little violation of the assumption that the deviation should be normally distributed). Overall, the selected model adequately fits the data (for more details, see Appendix I).

2.3.1.b. Data

A 169-observation database collected from the SME survey conducted by the research team is used for econometric model estimation, by applying a logistic binary regression model. As previously mentioned, this survey was conducted in six Vietnamese provinces, from the North to the South. Three main manufacturing industries were targeted in the survey, including textiles and garments; parts, components, and automotive; and electrical, electronic, parts and machinery. Some additional enterprises in other manufacturing sub-sectors are also included in this survey.

The survey information is related to general information (locality, legal status, sector, number of years of establishment, business performance (cost structure, profitability or losses), employment, sales patterns and business capability. On the financial side, numerous questions relating to finance requests, requests for leases, for equity financing, and for supplier and government financing were incorporated in the questionnaire. In addition, some other information about business expansion was also included in the survey. Some of the information collected will be used as dependent and explanatory variables to estimate the above model (for more details, see Appendix I).

2.3.2. Result

Results from the binary logistic regression with the credit request and rejected credit request as dependent variables are reported in the tables below.

Table 21. Credit Request and Possible Explanatory Factors*

Model for Credit Request		B	S.E.	Wald	df	Sig.	Exp(B)
Step 10[a]	*Legal status*			*12.596*	*4*	*.013*	
	Ltd, Co.	-.472	.668	.499	1	.480	.624
	Joint-stock	.039	1.063	.001	1	.971	1.040
	FDIs	-2.394***	.722	10.987	1	.001	.091
	Joint-venture	-2.345	1.701	1.901	1	.168	.096
	Years	.140*	.075	3.491	1	.062	1.150
	Q8.a1(yes)	1.407**	.580	5.893	1	.015	4.084
	Q8.a2(yes)	2.831**	1.422	3.966	1	.046	16.960
	Q8.a3(yes)	-1.135*	.597	3.612	1	.057	.321
	Q8.b1(yes)	.798*	.473	2.843	1	.092	2.220
	Qe_5			8.214	4	.084	
	Less than $25,000	.034	1.046	.001	1	.974	1.035
	$25,000 - 100,000	-1.079	.719	2.251	1	.134	.340
	$100,000 - 500,000	-1.019	.652	2.447	1	.118	.361
	$500,000 - <$1mill.	1.402	.859	2.663	1	.103	4.062
	Qf_5			8.080	4	.089	
	Qf_5(1)	1.857**	.778	5.698	1	.017	6.406
	Qf_5(2)	.957	.645	2.202	1	.138	2.604
	Qf_5(3)	2.231**	.911	5.989	1	.014	9.306
	Qf_5(4)	.758	1.207	.394	1	.530	2.133
Observations		143					
-2 Log likelihood		76.9					
R-squared		0.362 (Cox & Snell)[b]			0.482 (Nagelkerke)[b]		

Source: Author's calculations from the survey.
Note:

a. Variable(s) entered on step 1: Prov_code, Q1.1, Years, pro_grs, Q8.a1, Q8.a2, Q8.a3, Q8.b1, Q8.c, Qe.1, Qe.2, Qe.3, Qe_5, Qf.1, Qf.2, Qf_5, Qg_2, Export.
b. Values estimated at the last step reported (step 10).

Domestic private enterprises; none categories; over $1 million; start-up are bases. *, **, *** correspond to significance levels of 10%, 5% and 1%.

In the model for credit request, the dependent variable is binary, taking the value of 1 if the enterprise has made financial requests (including any request for borrowing, capital leases, government grants and equity financing; regardless of whether the request was approved, withdrawn or rejected) and 0 otherwise.

From the estimation results in the above Table, legal status, year of establishment, business capacity and stage of development of enterprises have significant impacts on the situation of raising credit request of surveyed enterprises.

More specifically, it is less likely for foreign direct investment (FDI) enterprises to make a credit request in comparison with domestic private companies, with the probability of the former equal to 0.1 of the latter (other things being equal). In other words, the probability of a domestic private company making a credit request is 10 times higher than that of an FDI enterprise (if other factors are equal). This is supported by the panel data analysis that private enterprises, limited liability and joint-stock companies all have significantly higher proportions of loan requesting firms - of 76.5%, 73.1%, and 81.3% respectively - than that of FDI enterprises, of only 59.1%.

In the case of business capacity, estimated results indicate that efforts to improve business processes (including to meet international standards, introduce information and communication technology (ICT) and establish new divisions or plants) and buying new machines or facilities all lead to a demand for additional capital (except in the case of establishing new divisions with the minus sign of the estimated coefficient indicating the reduced likelihood of a new credit request). Enterprises buying new machines or facilities, trying to meet international standards, and introducing ICT are more likely to request new credit than the rest, with the probabilities larger by two, four and nearly 17 times, respectively. The cross-sectional analysis also shows that, the proportion of enterprises striving to meet international standards, to introduce ICT or acquire new machines is relatively high, of 74.5%, 82.4% and 74.5% respectively. These figures are higher than those of the enterprises which fail to meet international standards, or fail to introduce ITC or fail to buy new machines, which are 64.9%, 66.4% and 59.2%, respectively.

The estimation results also show that the older enterprise is more likely to make a credit request, though the difference is insignificant, only 1.15 times per additional year of experience. From the cross-sectional analysis, the proportion of enterprises in older categories submitting loan requests is higher than that of younger enterprises. The proportions of the four divided categories, less than 3 years, from 3 to 5 years, from more than 5 to 10 years and more than 10 years of establishment are 47.2%, 69.6%, 78.4% and 80% respectively.

Finally, the estimated coefficients for stage of business development indicate that enterprises in all stages of development other than the start-up are more likely to make a loan request (all estimated coefficients are positive). Of the stages, the fast growth and maturity periods show a significantly different need from the start-up period. In the two earlier mentioned stages, the respective probabilities of one enterprise making a loan request are 6.4 and 9.3 times higher than that of similar enterprise at the later stage. This might reflect the fact that in the start-up period, business owners tend to use their own capital to run their business. In addition, it is very hard at this stage for an enterprise to get a loan approved by the formal creditors. This result is also supported by the cross-tabulation analysis that the proportion of start-up enterprises making loan requests is only 41.9%, as compared to the respective figures of those belonging to fast growth, slow growth, maturity and decline stage, of 78.4%, 70.3%, 80%, and 57%.

The result shows that locality; introducing new products or services; age, gender and experience of majority owner; business size and export status are insignificant determinants of the need for capital.

2.3.3. Model for Rejected Credit Request

The table below reports the result of estimating the binary logistic regression with the dependent variable being rejected credit request. The variable takes the value of unity for those enterprises having had a loan request rejected (including fully and partially rejected ones) and zero otherwise. As can be seen, years of establishment (categorically divided), number of credit institutions to which the surveyed enterprise made their loan request (*Num_cred*) and net worth of the dominant business owner (*Qe_5*) are statistically significant (reported in the table below).

Table 22. Rejected Credit Request*

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 14[a]	Year_cat			4.882	3	.181	
	Year_cat(1)	-2.855**	1.321	4.671	1	.031	.058
	Year_cat(2)	-.604	.995	.369	1	.544	.547
	Year_cat(3)	-499.764	2.8E108	.000	1	1.000	.000
	Newprome_cat(1)	2.340	1.431	2.673	1	.102	10.386
	Num_cred	-1.057*	.620	2.906	1	.088	.347
	Qe_5			4.880	4	.300	
	Qe_5(1)	-2.908**	1.413	4.237	1	.040	.055
	Qe_5(2)	-1.502	1.234	1.482	1	.223	.223
	Qe_5(3)	-501.119	1.7E108	.000	1	1.000	.000
	Qe_5(4)	-2.666*	1.596	2.791	1	.095	.070
Observations		88					
Predict Percentage Correct		92					
R-squared		0.611 (Cox & Snell)[b]			0.815 (Nagelkerke)[b]		

Source: Author's calculations from the survey.
Note:

a. Variable(s) entered on step 1: Year_cat, size_labor, FDI, Profit08, Profit09, Prodline_cat, Export, NewPrometh_cat, Q8.c, Num_cred, Qa.17, Qa.18, Qa.19, Qa.20, Qe.3, Qe_5, Qg.1a.
b. Values estimated at the last step reported (step 8).

Less than 3 years; no new production method introduce; and less than $25,000 are bases. *, ** correspond to significance levels of 10% and 5%, respectively.

The result shows that at the 5% level of significance, the enterprises in the group established for 3 to 5 years are less likely to be rejected upon making a loan request compared to those newly established (less than 3 years). More specifically, if an enterprise belongs to the youngest group (established less than 3 years), the probability of being rejected by formal financial institutions is more than seventeen times higher than that of enterprises in the 3 to 5 years old group.

The result also indicates that at the 90% confidence interval, the more credit providers (including both formal and informal suppliers) the enterprises has approached with a loan request within 12 months, the less likely they are to be rejected. Furthermore, if an enterprise approached more than 1 credit provider, the probability of their loan request being rejected is only one-third (other things being equal). The cross-tabulation result also indicates that only those enterprises accessing one or two credit agencies have had a loan request rejected.

The estimated result also illustrates that the net worth of the dominant business owner significantly affects the probability of a loan request being approved. The enterprises whose owner's net worth is between $25,000-100,000 or over $1 million categories are less likely to be rejected than those with owner's net worth of less than $25,000. The probability of a loan request being rejected when owner's net worth is less than $25,000 is more than 18 and 14 times as high as when owner's net is worth between $25,000 and $100,000 (at the 5% level of significance), and over $1 million (at the 10% level of significance) respectively. The two categories of net worth, from $100,000 to less than $500,000 and from $500,000 to less than $1 million do not show significant differences from the base category (less than $25,000). The reason may be due to numeric problems when estimating the model.

3. SME Policy and Supporting Programs

Since 2000, the environment for promotion and development of business in Vietnam, including development of SMEs and their financing sources, has seen positive changes thanks to inaction of the Enterprise Law, improvement of the legal framework for enterprises, and the Government's policies to support SME development.

The Enterprise Law changes the approach to business start-up and registration, from one of "asking permission to do business" to one of "notifying the requisite authority of the existence of the business entity", as long as the planned business activity is not prohibited by law. Statutory maximum time limits for completing business registration formalities were established, procedures were simplified, and several notarization requirements were abolished. The principle of a "one-stop-shop", as the mechanism for granting the certificate of business registration and tax registration as well as seal-engraving, has been applied to the business registration process in many localities. A new national registration system within the Agency for Enterprise Development of the Ministry of Planning and Investment (MPI) is currently being developed which will allow access to public registration data on a nationwide basis. In 2007, the Prime Minister approved a project for simplifying administrative procedures in areas of state management, including administering businesses, reforming and making the business environment more transparent, rational, and unanimous, ensuring simplification of administrative procedures and reducing the time and costs of doing business for people and enterprises. As a result, the time taken to establish a new business, as well as the costs of establishing new businesses was dramatically reduced. Business registration costs do remain relatively high, however, amounting to more than 10% of GNI per capita.

Since the promulgation of the Enterprise Law in 1999, entrepreneurship education and training has attracted more interest in Vietnam. There are different types of entrepreneurship education and training aimed at boosting entrepreneurship in Vietnam, namely, information exchange and discussion among the government, private and non-government sectors to promote entrepreneurship, simplify business registration procedures, etc. Meetings among the government agencies or local governments, business associations and enterprises are frequently organized to facilitate dialogue, exchange information, and get feedback on draft policies on promoting entrepreneurship. Furthermore, a government task force for implementing the Enterprise Law has been established. Its main tasks are to disseminate information, to organize training courses on business establishment and business registration, and to review regulations and licenses issued by government agencies, ministries or local authorities, in order to eliminate procedures and licenses which obstruct business operations.

In 2007, the Prime Minister approved the SME development plan 2006-2010, which included activities related to training and consulting for SMEs, assistance to increase technical competence, labor productivity, quality of production and services, and SME competitiveness. Many other policies to support SME development were also issued, such as a national trade promotion program, a program on building and developing national trademarks to 2010, an industry stimulation program up to 2012, etc. The plan was also aimed at enhancing the capacity of consultants, training and business development organizations, publicizing and disseminating business information, training on business establishment and management, assisting to increase both the quantity and the quality of consultants, education and training organizations who work in areas and ethnic regions with difficult conditions. However, today, there remains an inefficient education and training system in secondary schools and high schools. Probably the key medium- to long-term challenge for the Government is to bring about improvements in national education systems, so as to meet the lifelong learning needs of a modern economy. The Government aims to improve the quality, relevance, efficiency, and equity of vocational education systems by working with businesses and others stakeholders to develop appropriate accreditation, assessment, and vocational qualification systems.

Under the under the Prime Minister’s program on human resource training and support for SMEs in the period 2004-2008, activities have been implemented in various provinces and with business associations. This has been the first training program financed by the State budget which is aimed at enhancing knowledge on business management for business owners and entrepreneurs. In addition, provinces and cities have actively allocated local budget resources to implement the program, together with a large amount of financial resource mobilized from international development partners, through technical assistance projects. Over four years, the Government has successfully implemented 3,704 training courses for SMEs, including 1,372 courses on starting businesses, 2,304 courses on business management and 28 courses of training for trainers, with 182,870 participants.

Recently, the Government has carried out a support program on intellectual property (IP) development, focusing on organizing, training and guidling enterprises to join in the program. More than 40 projects relating to all areas of IP, including IP propagation and dissemination, using IP information and IP transfer, have been approved. Eight provinces were supported to establish IP libraries which seek to enhance the capacity of gathering and disseminating industrial and IP information. The National Fund for Science and Technology Development was established and began operations in February 2008, with the first financial support for basic research in December 2008. In 2009, the fund signed contracts with 25 enterprises on support for technology renovation. In order to enhance the comptitiveness of SMEs, the Ministry of Industry and Trade (MOIT) has issued policies promoting the application and development of high technology, improving the technological levels in production of export products, and setting up a pilot model to apply and transfer technology for socio-economic development in rural and mountainous areas in 2010. In addition, some localities organized free training courses for business owners on knowledge, technology and technology transfer.

Currently, electronic commerce is replacing the traditional systems and is a new trend with remarkable advantages, such as no geographical limit, faster pace, greater usefulness, higher efficiency and lower costs. As evidence, in 2009 only 5% of firm capital was invested for e-commerce and IT in the total expenditure of an average enterprise, but with significant results: for instance, 33% of enterprise revenue was generated via online orders, and 28% of expenditure on average is spent online. At present, e-commerce exists not only in Ho Chi Minh City and Hanoi, the two biggest cities of Vietnam, but also in other localities across the country. Recently, the Ministry of Agriculture and Rural Development has introduced an e-commerce market for agriculture, forestry and fishery products at Agromart.com.vn. Notably, the participation rate of SMEs in the e-commerce market is only equivalent to one-third of that of large enterprises. Therefore, the MOIT recommends that e-commerce markets should attract and focus more on SMEs, and that SMEs should pro-actively participate in e-business. A business portal providing information on enterprises in general, and SMEs in particular, was opened by the Agency for Enterprise Development under the MPI in August 2007. The MPI has also been setting up a national database of business registrations, within the framework of the Business Registration Reform Program in Vietnam.

National trade promotion programs have significantly contributed to the support of enterprises, specially SMEs, in enhancing their capacity, promoting trademarks, accessing new business opportunities, and generally enhancing their positions in the world market. Since 2003, the total State budget allocated for national trade promotion programs has amounted to nearly VND 500 billion (equivalent to about US$ 34 million). In 2008, this figure reached VND 80 billion (or about US$ 4.5 million). The 2008 program supported nearly 4,600 participants, with 2,530 signed contracts and memoranda, of an accumulated value of US$ 1,328.75 million. In 2009, VND 172 billion (or about US$ 9.5 million) was spent on trade promotion activities, i.e. more than twice of that of 2008. In recent years, the MOIT organized numerous delegations with the participation of enterprises from all economic sectors, to promote trade activities in ASEAN, European, African and American markets. The MOIT also guided the People's committees of provinces and cities to design local trade promotion programs. The financial resources for such promotional activities have emanated from local budgets. Trade promotion funds established in provinces and cities have operated effectively to assist enterprises in marketing, conducting market research and establishing business linkages.

The Action Plan of the General Department of Customs for 2008-2015 has been developed with emphasis on reforming customs procedures, and facilitating exports, investment and tourism. Ongoing and proposed reforms will help reduce costs of trade facilitation, thereby providing new opportunities for SMEs to directly engage in foreign trade.

A number tax administration reform measures have also been undertaken in recent years. The Law on tax management effective from July 2007 stimulates more transparent and simplified tax procedures, enhances the inspection and supervision role of the State administration in taxes, helps tax payers, and allows enterprises to save costs and resources in tax management. To minimize the adverse impacts on SMEs from the global economic crisis, and to ease the tax burden on SMEs, the Government issued a number of policies entitling SMEs to exemption of up to 30% of payable income tax in the fourth quarter of 2008 and all of 2009, and extending the deadline for income tax payment in 2009 by nine months for SMEs involved in production, outsourcing, agricultural processing, forestry and fishery products, garments and textiles, leather shoes, and electronic components. The Government also rescheduled import tax payments, reduced import duty rates for some raw materials, and adjusted tax on eight drug treatment groups to reduce business costs and stabilize the market. In 2009, moreover, the Prime Minister issued additional tax measures that allowed refunds of value-added tax payments for export goods.

To facilitate SMEs' access to finance, the Government adopted various policies to support SMEs, including establishing credit guarantee funds for SMEs; supporting financial institutions to increase credit for SMEs; promoting financial consulting, investment management and other assistance services for SMEs; assisting SMEs in enhancing their capacity to prepare projects and business plans to meet the requirements of credit institutions; training for SMEs; establishing SME developmental fund financing by the state and other organizations within the country.

The Government assigned the VDB to provide credit guarantees for SMEs across the whole country. The VDB has signed guarantee contracts with 20 commercial banks and implemented credit guarantee operations since March 2009, and by November 2009 the VDB has guaranteed a total amount of VND 6,686 billion (or about US$ 370 million), across 68 projects and 871 short-term business plans. The VDB has also promoted procedural reform, and thereby reduced the appraisal time for the loan requests of enterprises. So far, 11 provinces have established a credit guarantee fund. The local authorities have also mobilized development investment funds, industrial and agricultural promotion funds, fishery promotion funds, etc, intended to support SME development. The establishment of these funds has increased enterprises' ability in accessing to finance for expanding businesses, upgrading business equipment and machinery, training and recruiting laborers. For example, a development investment fund was established in Tien Giang province to supply capital for enterprises purchasing new equipment. Annually, this fund offers loans for equipment renovation, investment in upgrading and expanding production premises, and contributing to the solution of financial difficulties. In addition, local commercial banks have been active in mobilizing credit products in order to meet the needs for capital from SMEs.

After joining the WTO in 2007, Vietnam has adjusted credit policy in line with WTO commitments, enabling all economic sectors to easily access loans. The 2009 economic stimulus package of the Government, with timely implementation and effective coordination among stakeholders, achieved remarkable results, promoting confidence and motivation for SMEs to maintain and develop production, increase consumption, reduce joblessness and ensure social security. The Ministry of Finance has been drafting a mechanism for technical and consulting assistance to SMEs, allowing SMEs to hire experts in the field to carry out work that they cannot undertake themselves, as well as a special mechanism for SMEs to access low-interest-rate loans. Recently, monetary, interest rate and exchange rate policies have been regulated in a flexible manner. The SBV continues to supplement and improve policies on credit, capital mobilization, financial leasing, and developing derivative instruments.

To promote SMEs' access to finance in the context of economic recession, the Government implemented a flexible monetary policy, adjusting the exchange rate by market signals so as to encourage exports and maintain economic stability, reducing the required reserve ratio of credit institutions and the basic interest rate, and lowering interest rates to increase access to finance for enterprises, including SMEs. The SBV decreased the refinancing interest rate and rediscount interest rate by 1% per year, and required the state-owned commercial banks to lower their interest rates on loans to no more than 15.5% per year. The Prime Minister's Decision No 131 issued in January 2009 permitted a 4% interest rate subsidy on loans for enterprises and individuals to finance working capital for production and trading activities, with loans up to eight months in tenor. In total, all non-state enterprises including SMEs borrowed about 69.9% of the total loan under the 4%-interest-rate-subsidy scheme. Currently, enterprises of all economic sectors, including SMEs are able to access investment and export credit loans.

In terms of land-use planning, 63 provinces and cities have land use master plans approved by the Government. Depending on their specific development objectives and budget availability, local governments have sought to facilitate SMEs in accessing land and production premises through policies on setting up industrial zones (IZs), industrial clusters and industrial villages. For example, the authorities of Tien Giang province allocated funds to develop IZs, industrial clusters and industrial villages with full infrastructure, including electricity, water supply, drainage systems and transportation, so as to reduce the business costs for investors. For IZs and industrial clusters which are built by investors, the local authority will support those investors with site clearance and resettlement. Hanoi has also invested in and developed many IZs and clusters to meet the demands of private enterprise. So far there have been 49 industrial clusters and 177 industrial locations set up in Hanoi, and the city is now designing a plan for IZs, clusters and villages in the recently expanded Hanoi. In 2009, the Prime Minister issued a decision on industrial cluster regulations, and, based on this decision, the MOIT is guiding localities in managing industrial clusters in accordance with the decision, as well as building up policies on local industry cluster development.

However, many enterprises have encountered difficulties in accessing production premises. For example, enterprises locating outside industrial parks must often carry out site clearance by themselves, with little support from local authorities, while cumbersome administrative procedures on land ownership remain in place. The local SMEs, which can be only allowed to get production site with annual rent payment rather than lump sum payment for the whole leasing period as foreign companies, have to pay a bigger amount of money compared to foreign ones.

Most recently, the Government issued resolution No. 22/NQ-CP dated May 5, 2010 which includes 6 main measures to assist SMEs in solving problems in the post-recession period. These are: (i) to guide planning and programs for supporting SME development; (ii) to enhance access to finance and to mobilize resources for financial assistance; (iii) to address difficulties on production premises; (iv) to strengthen competition capacity; (v) to promote the implementation of administrative reform; and (vi) to build and to strengthen the system of supporting SME development. Notable solutions in the above are those to enhance access to finance and to mobilize resources for financial assistance, and to address difficulties on production premises. The Government requested the ministries and People's Committees of provinces and cities to implement the following solutions:

(i) To amend credit policy toward prioritizing capital allocation for production, exports, agriculture, rural areas, SMEs.

(ii) To promote the development of financial products and services for SMEs such as factoring, financial leasing.

(iii) To expand the coverage of loan provision, focusing on SMEs, in a national program of job creation; to increase credit limits for projects of enterprises which can create large numbers of jobs.

(iv) To prepare and implement a program on supporting SME development in agriculture and rural development in 2011-2015, seeking to enhance the competitiveness of agricultural enterprises, rural areas and traditional handicraft villages; to provide preferential corporate income tax, exemption or reduction of fees for land use right and land lease for SMEs operating in agriculture associated with rural areas, mountainous areas, coastal areas and remote areas.

(v) To prepare a project for establishing an SME development fund.

(vi) To assist SMEs in applying technological progress, facilitating technology transfer and investment, and improving productivity and product quality.

(vii) To review and adjust plans of land use, reclamation, compensation for site clearance, to create new land areas for lease to SMEs, or to set aside land for building IZs for SMEs and enterprise incubators. Annually, the local governments must publicly notify land areas used for SMEs and IZs for SMEs and enterprise incubators; consult and solve problems for SMEs in finding business premises. The Ministry of Natural Resources and Environment is authorized by the Government to prepare a bulletin on plans for land use, seeking to provide information, and publicize plans for land use to the locality.

4. Conclusion and Recommendation

Capital shortage presents a serious barrier for SME development in Vietnam. This is evidenced by the ERIA study on SMEs in 2009, and further reaffirmed in this study. Nevertheless, some enterprises never use external finance and only nearly half of the surveyed enterprises had access to finance. As explanations, the SMEs may have sufficient internal funds or they may meet disadvantages from credit providers or there may be some drawbacks inherent to SMEs themselves.

Serious impediments for SMEs, irrespective of whether they have access to formal finance or not, are increases in business costs, tougher competition, lack of skilled laborers, and disadvantages in access to finance. Access to finance ranks only fourth among the serious impediments for those having access to capital, and sixth among those which have never raised external capital. The survey results show that only a small proportion of SMEs encounter impediments or have disadvantages in access to finance, and most of them have had loan requests fully approved. The enterprises encountering impediments in access to finance had their loan requests either rejected or only partially approved. There are two major reasons for this; either the SME could be financed by its own internal capital, or the SME had difficulty in access to external financial sources. The analysis demonstrates that the financially constrained SMEs are those lacking collateral, or belonging to the younger category, or with major owners having insufficient experience in running or owning businesses, or being in the micro group, or not participating in a production network. It seems that net worth of the dominant business owner is seen as an additional factor, but not as decisive as collateral for the approval of loan requests by the financial institutions. The survey results show that credit providers rejected loan requests from both the enterprises with small owner's net worth and those with large owner's net worth. The role of net worth of the dominant business owner really occurs when the enterprises' sound business plan can convince lenders, and a good credit profile is available, or enterprises have collateral. It seems that the financial institutions give preference to enterprises having collateral, or those having good credit profiles and sound business plans. Other factors also matter. For instance, if SMEs are older, larger, or with major owner having more experience in running or owning businesses, or those participating in production networks, their chances of getting loan requests approved would be improved.

In fact, Vietnam has supported SME development for many years via improving legal frameworks, entrepreneurship education and training, simplifying starting a business, providing services for skills development, improving online access to government agencies and information, expanding market, addressing tax and financial problems, enhancing technological capacity, assisting in the operation of e-business. Thanks to these endeavors, some enterprises have achieved amazing performance, which is also confirmed in this study. Using loans from financial institutions associated with the SME policy and supporting programs of the Government has positively benefited SMEs in their business activities.

Further narrowing the supply-demand gap in the capital market for SMEs or increasing SMEs' access to finance requires more efforts from all related parties, including the supply side, the demand side, and the Government.

From the supply side, banks and other financial institutions should change their traditional mindsets and adopt an appropriate approach to SMEs as a group of borrowers, considering their weaknesses compared to larger enterprises. To promote the establishment of financial institutions supporting loans to SMEs, especially credit guarantee funds, is an equally important measure which the Government needs to focus their efforts on. At this stage, credit guarantee funds are still operating with low efficiency and little experience in Vietnam. Therefore, sharing of experience between the country and other East Asian counterparts should be encouraged.

From the demand side, it is necessary to overcome the drawbacks of SMEs in access to finance, such as: overcoming the lack of collateral or property for mortgage by promoting credit guarantee funds; strengthening SMEs' capacity to prepare loan-financed project documentation in order to meet credit providers' requirements; improving accounting, ensuring transparency in business operations, particularly financial management; ensuring that financial institutions have appropriate confidence in SMEs when approving their loan requests; and improving the quality of human resources, etc.

As for the Government, the participation of SMEs in production networks helps by linking them with large companies including transnational corporations, thereby enhancing the value-added and efficiency of SMEs, and strengthening the confidence of financial institutions in financing SMEs. Therefore, a policy of promoting SMEs' participation in production networks should be promptly considered and enacted in the near future.

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APPENDIX

Table 23. Variables Explanation

No.	Variables	Description
I.	***Dependent***	
	Credit request	1- Enterprise requested for financing; 0- never requested
	Rejected credit request	1- Any credit request rejected, including partially rejected; 0- Credit requests were all approved
II.	***Explanatory***	
	Export	Export status: 1- enterprise having export activity and 0- enterprise wholly sell in domestic market.
	FDI	(1): enterprises with foreign investment; and (0): enterprises wholly invested by domestic investors
	NewPrometh_cat	Adopted a new production method in the past three years (1- yes and 0- no)
	pro_grs	difference of profit to revenue ratio between 2009 and 2008 (1- if pro_growth>0 and 0- if pro_growth <=0)
	Prodline_cat	Network production participation (1- yes and 0- no)
	Profit08	Profitable situation in 2008 (1- yes and 0- no)
	Profit09	Profitable situation in 2009 (1- yes and 0- no)
	Prov_code	Locality of surveyed enterprises ranging from 1 to 6 corresponding to selected provinces (1- Hanoi; 2- Bacninh; 3- Bacgiang; 4- Danang; 5- Dongnai; and 6- Binhduong)
	Q8.a1	met an international standard (1- yes and 0- no)
	Q8.a2	Introduced ICT (1- yes and 0- no)
	Q8.a3	established new divisions (1- yes and 0- no)
	Q18.b1	adopted a new production method (1- yes and 0- no)
	Q8.c	introduced new products or services (1- yes and 0- no)
	Q1.1 (legal status)	1- private company; 2- Ltd, Co.; 3- shareholding company; 4- FDI; and 5- joint-venture
	Qa.17	% of fees associated with obtaining the loan
	Qa.18	Loan guaranteed by a government program (1- yes; and 0- no)
	Qa.19	Credit supplier require collateral (1- yes; and 0- no)
	Qa.20	Credit supplier require co-signatures from individuals other than the business owners (1- yes; and 0- no)
	Qe.1	age of the majority owner in the business (years)
	Qe.2	Gender of the majority owner (1- male; and 0- female)
	Qe.3	Business running experience of the majority owner (years)
	Qe_5	Net worth of the majority business owner (1- less than $25,000; 2- $25,000 - 100,000; 3- 100,000 - 500,000; 4- 500,000 and $1,000,000; and 5- Over $1 million)
	Qf.1	Future intendancy for business expansion (1- yes; and 0- no)
	Qf.2	Financing status for the expansion plans through internal funds only (1- yes; and 0- no)
	Qf_5	Stage of development of surveyed enterprises (1- Start-up; 2- Fast growth; 3- Slow growth; 4- Maturity; and 5- Decline)
	Qg.1a	Commercial or personal loans and lines of credit from financial institutions for keeping business operation (1- yes; and 0- no)
	Qg_2	Way of becoming the majority owners of the business (1- Bought/ acquired from a family member; 2- Bought/ acquired from a non-family member; 3- Started from scratch; 4- Other)
	Size_labor	Business size: 1- micro (1-10 employees); 2- small (11-200 employees); 3- medium (201-300 employees); and large (4- more than 300 employees)
	Num_cred	Number of credit institutions that surveyed enterprises raised their loan request
	Year_cat	Years of establishment divided into groups: (1) less than 3 years; (2) From 3- 5 years; (3) more than 5 to 10 years; and (4) More than 10 years
	Years	The number of years of establishment of the surveyed enterprises

Table 24. Cross Tabulation between Colleteral Requirement and Net-worth of The Majority Business Owner

Colleteral requirement	Net worth of the majority business owner	Less than $25,000	$25,000 - <100,000	100,000 - <500,000	500,000 - $1,000,000	Over $1,000,000	Total
No	Count	1	11	6	3	7	28
	% within colleteral requirement	3.6%	39.3%	21.4%	10.7%	25.0%	100.0%
	% within net worth of the majority business owner	14.3%	35.5%	24.0%	23.1%	38.9%	29.8%
Yes	Count	6	20	19	10	11	66
	% within colleteral requirement	9.1%	30.3%	28.8%	15.2%	16.7%	100.0%
	% within net worth of the majority business owner	85.7%	64.5%	76.0%	76.9%	61.1%	70.2%
Total	Count	7	31	25	13	18	94
	% within Colleteral requirement	7.4%	33.0%	26.6%	13.8%	19.1%	100.0%
	% within net worth of the majority business owner	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%