

Why do Vietnamese small and medium enterprises need to access informal credit? Evidence from 2011 SMEs survey

PhD Student, Kobe University Cao Thi Khanh Nguyet¹

Abstract

For Vietnamese SMEs, the informal credit channel is still the most familiar financing source despite government's efforts to widen access to formal credit. With the assumption that borrowing from family, relatives, friends is the first choice of financing, we focus on accessing other informal credit source such as private money lender and trade credit. The present paper attempts to seek out new evidence to determine why SMEs' access the informal credit market after excluding firms that consider family as the most important informal source out of sample. The empirical results strongly support three following hypotheses: (1) Firms that cannot be satisfied through formal credit market choose to access informal credit; (2) Firms access informal credit, in part, to reduce application cost and to provide immediate access to credit to seize investment chances; (3) Good business environment enables SMEs to decrease their reliance on informal credit. Moreover, we found that small firms, and firms located in rural areas were more likely to use informal credit than others. Furthermore, a higher age of owner and a better business performance both help firms decrease their reliance on informal credit. In addition, we also investigate the determinants of addressing formal credit or informal credit as the most important source. The empirical results reveal that formal credit and informal credit are both considered to be the most important source for firms that get formal credit constraint, or conduct investment activities.

Keywords: SMEs, informal credit, Vietnam

JEL codes: C25, G29, G39

¹ Kobe University, 2-1 Rokko-dai, Nada, Kobe 657-8501 (E-mail: kinokina@hotmail.co.jp)