

# **Determinants of accessing, obtaining formal credit and formal credit constraint: Evidence from Vietnamese Small and Medium Enterprises**

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Vietnamese Small and Medium Enterprises (SMEs) have been playing a very important role in the economy of Vietnam. In 2012, Vietnamese SMEs accounted for 38.9% of total investment, contributed 40% to GDP, held 86.3% of social labor, and accounted for 60% of export enterprises. Despite these contributions, SMEs have been coping with many constraints, in which the lack of credit has become a major problem hampering the growth of Vietnamese SMEs.

This study attempts to seek new evidence to determine SMEs' credit access and credit constraint. In addition to the advantage of having the most updated survey of SMEs and Provincial Competitive Index data, we use the subjective perception in the lack of credit for firms, the region business environment and investment as the explanatory variables to describe the ability to apply for credit and find credit constraints. Moreover, in looking for the factors determining firms' credit constraint, the process of applying for formal credit is described clearly in order to find out how firms' credit constraint's different. The empirical results show that firms perceived subjectively to lack credit despite good profit performance and had collateral tended to apply for formal credit more than the others. In addition, regional business environment was another key factor in applying for formal credit. Firms with high level of investment obtained more loans from banks. In terms of credit constraint, the study finds that firm's credit worthiness reduced the probability of formal credit constrained and firm with high debt ratio and high investment level was more likely to get credit constrained.

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