

REPORT

Access to Finance

Micro & Small Enterprises in Vietnam



Research background, objectives and methodology

The findings of this research focus on micro and small enterprises' (MSE) business operation and management practices, their digital technology access and use in business development as well as their shock resilience and post-shock growth aspirations. These findings will be used to:



Inform financial service providers in tailoring their products and services, and direct their operation strategy to better serve the promising MSE customer segment

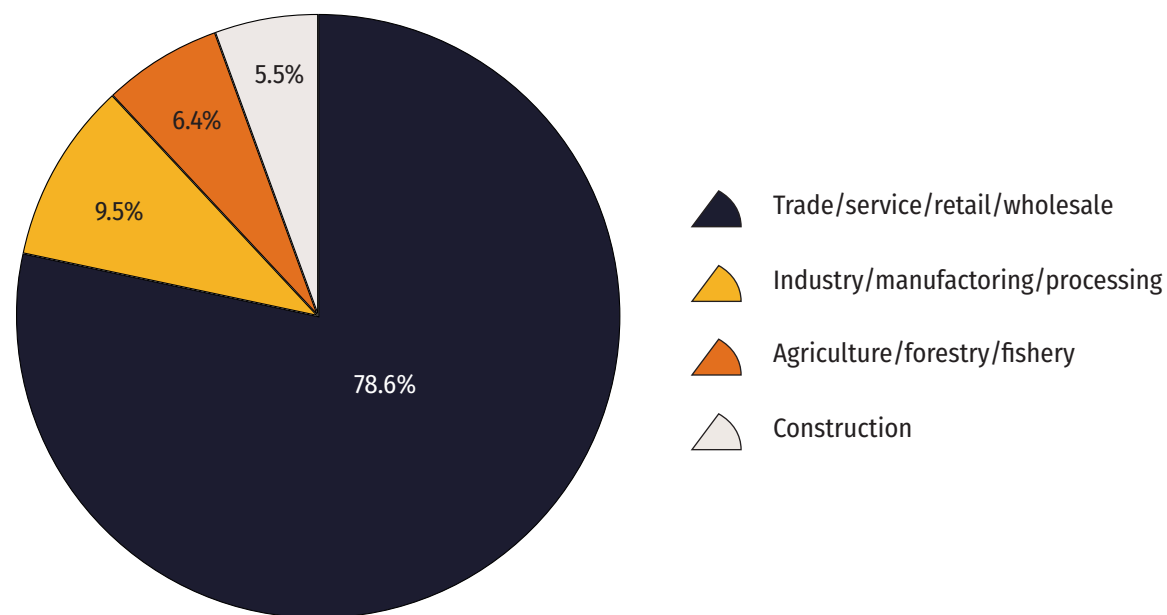


Promote formal financial access



Design project's interventions to address unmet financial needs among MSEs

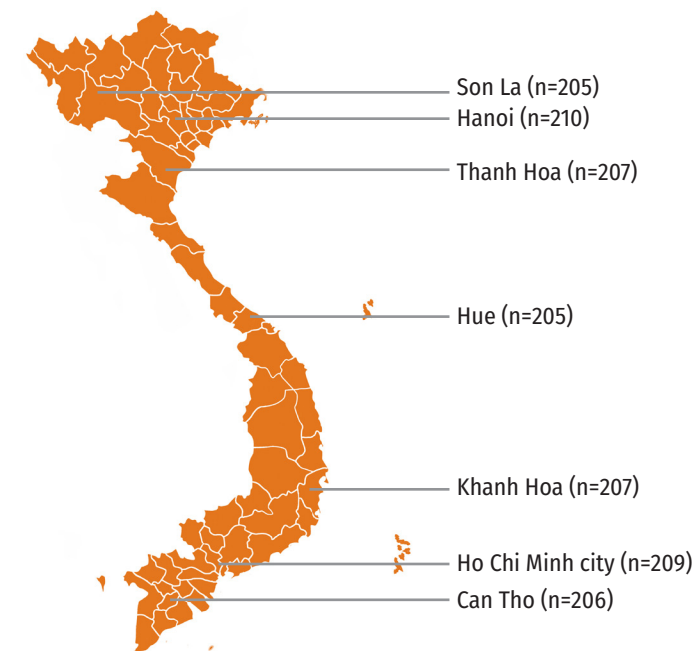
This is a cross-sectional survey conducted between January and February 2021. The face to face interviews using structured questionnaire were with 1,449 entrepreneurs who are managing micro or small growing enterprises from 7 provinces, including Hanoi, Son La, Thanh Hoa, Hue, Khanh Hoa, Ho Chi Minh city, and Can Tho. The research covered 7 provinces including Hanoi, Son La, Thanh Hoa, Hue, Khanh Hoa, Ho Chi Minh city and Can Tho. The 7 provinces represent 3 key economic areas (the North, the Central, and the South) in Vietnam, with 4 key industries, including trade/service/retail and wholesale; manufacturing and processing; agriculture/forestry and fishery; and construction.



Distribution of surveyed MSEs in 4 industries (n=1,449)

Who is the research target group?

- A person owning/managing a household, micro or small enterprises (MSEs)
- No. of employees: 2-20 employees with at least 2 full-time employees
- Year in business operation: at least 2 years
- Plan for scaling up the business in next 2 years
- Average revenue (2019 and 2020): VND 500 million - VND 10 billion



Individual profile of surveyed MSEs owners

Profile of female entrepreneurs (n=1,000)



Profile of male entrepreneurs (n=449)



Average age

39.5 years old

39.6 years old

Education level

69% at university/college or professional training

72% at university/college or professional training

and **24%** at high school

and **23%** at high school

Marital status

91.2% married, **5.1%** single

87% married, **12.5%** single

and **3.7%** divorce/separated;

and **0.5%** divorce/separated;

with **72.4%** having children at school age

with **70.8%** having children at school age

with **33%** taking main childcare in household

with **7.5%** taking main childcare in household

Time/day for business

9.7 hours

10.3 hours

Monthly income

Individual entrepreneur income

VND40 million (~USD **1,700**)

Individual entrepreneur income

VND39.5 million (~USD **1,735**)

Entrepreneur household income

VND45 million (~USD **1,913**)

Entrepreneur household income

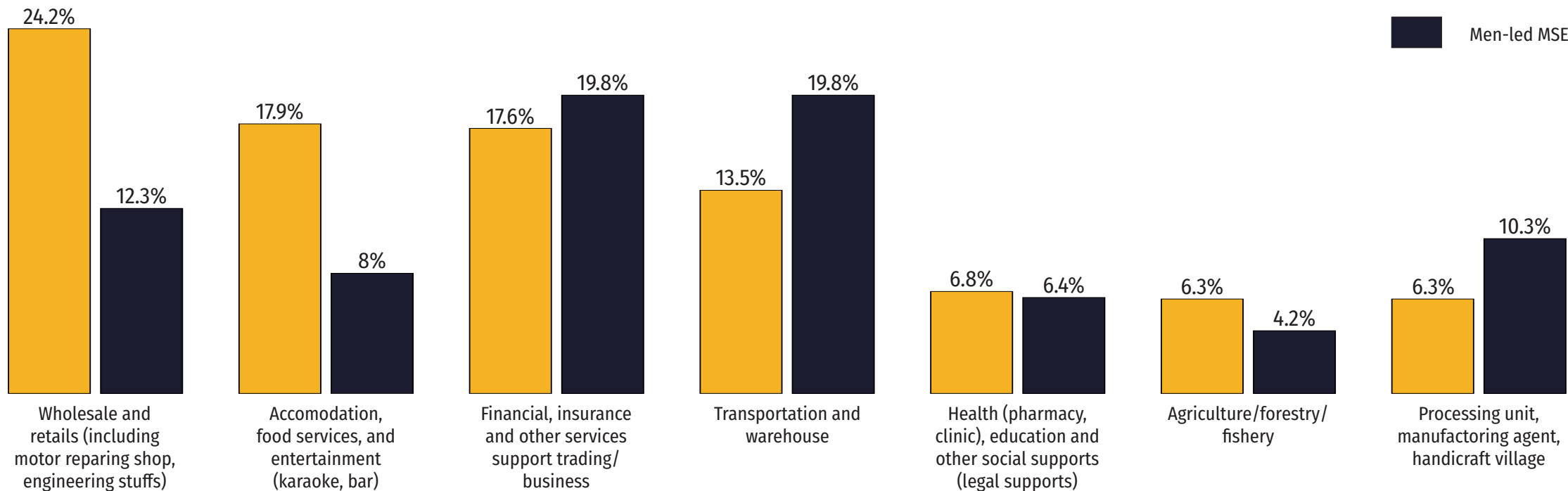
VND40 million (~USD **1,700**)

■ Surveyed entrepreneurs in MSEs tend to be older (aged 35 and over), highly educated, mostly married and having children: 70.4% graduated from university/college or professional training, 71.5% at age 35 and above.

■ MSE's entrepreneurs usually spend 10 hours on average for their business activities, with their individual income around VND 40 million/month, 24% having an extra income source together with their business, but their business is the key income source for themselves and their household.

Business profile of surveyed MSEs owners

Women-led MSEs (n=1,000)
Men-led MSEs (n=449)



Business sectors of surveyed women-led MSEs and men-led MSEs

■ Most of surveyed tend to be new in terms of years in operation: 46.7% MSEs at age 5 years or younger. Importantly, 71.5% young entrepreneurs (under 35 years old) are founder/co-founder of nearly 50% MSEs established during the last 5 years.

■ 70% of surveyed MSEs are with average business revenue of 2019 and 2020 at under VND 3 billion/year (\$139,000), which ranged in min VND 200 million (\$10,000) to max VND 11 billion (\$480,000). Among this business scale, MSEs led by women (71%) and men (68%). Most of surveyed MSEs (78%) have been registered as household business form with simple regulation on accounting management and taxation.

■ Surveyed MSEs have an average of 7 employees working for their business including fulltime, part-time staffs and daily paid workers, of which only 30% MSEs having around 1-2 full-time paid employees.

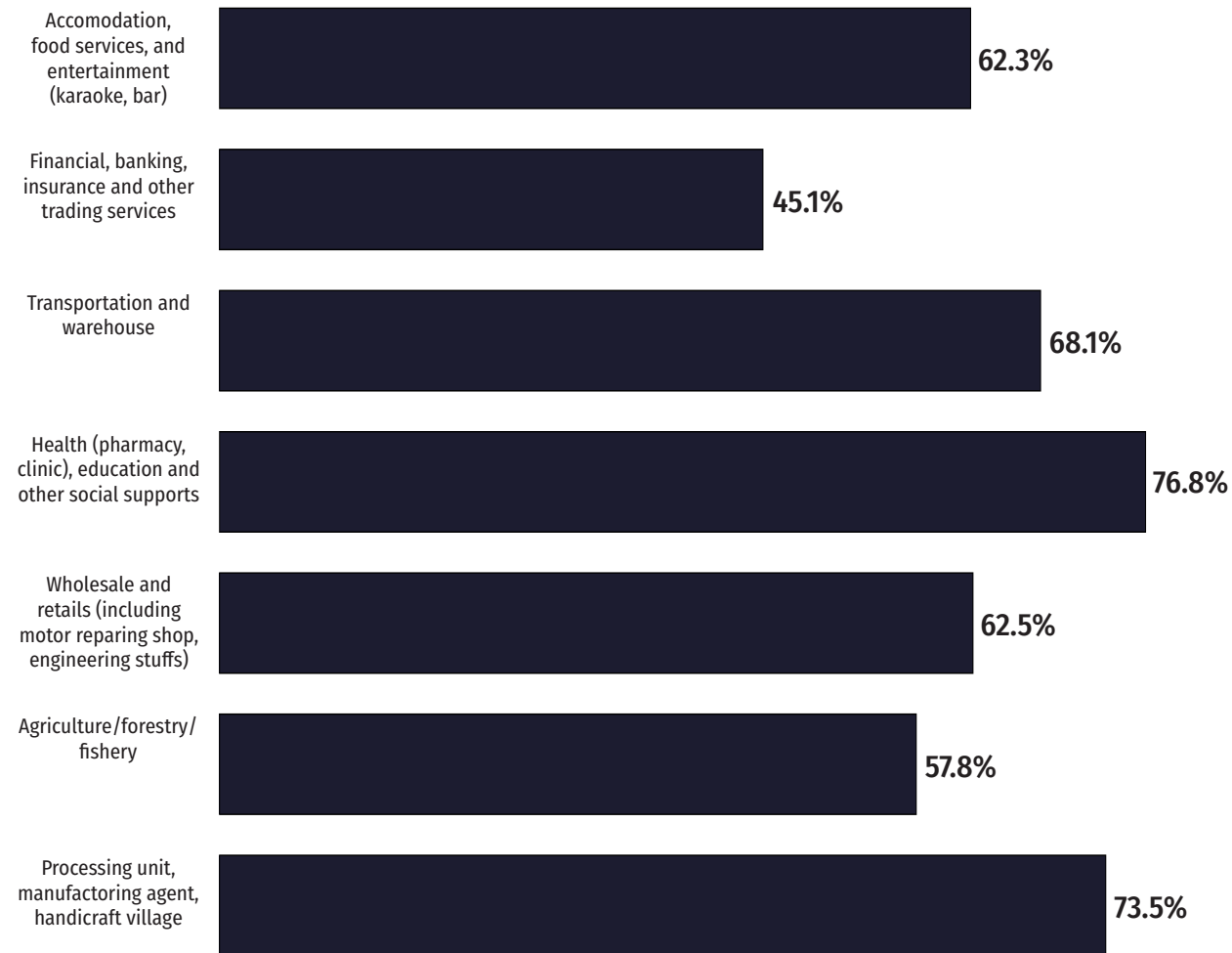
■ Among MSE's employees, female staffs take account for more than 50%. Women-led MSEs are more likely to recruit female employees compared to their counterparts (female staffs are around 61% in women-led MSEs vs. 35% in men-led MSEs).

■ The industries that MSEs are most involved in trade, service, retail and wholesale (79%), of which women-led MSEs tends to work in this industry more than men-led MSEs (85% women-owned MSEs vs. 78% men-owned MSEs).

Savings

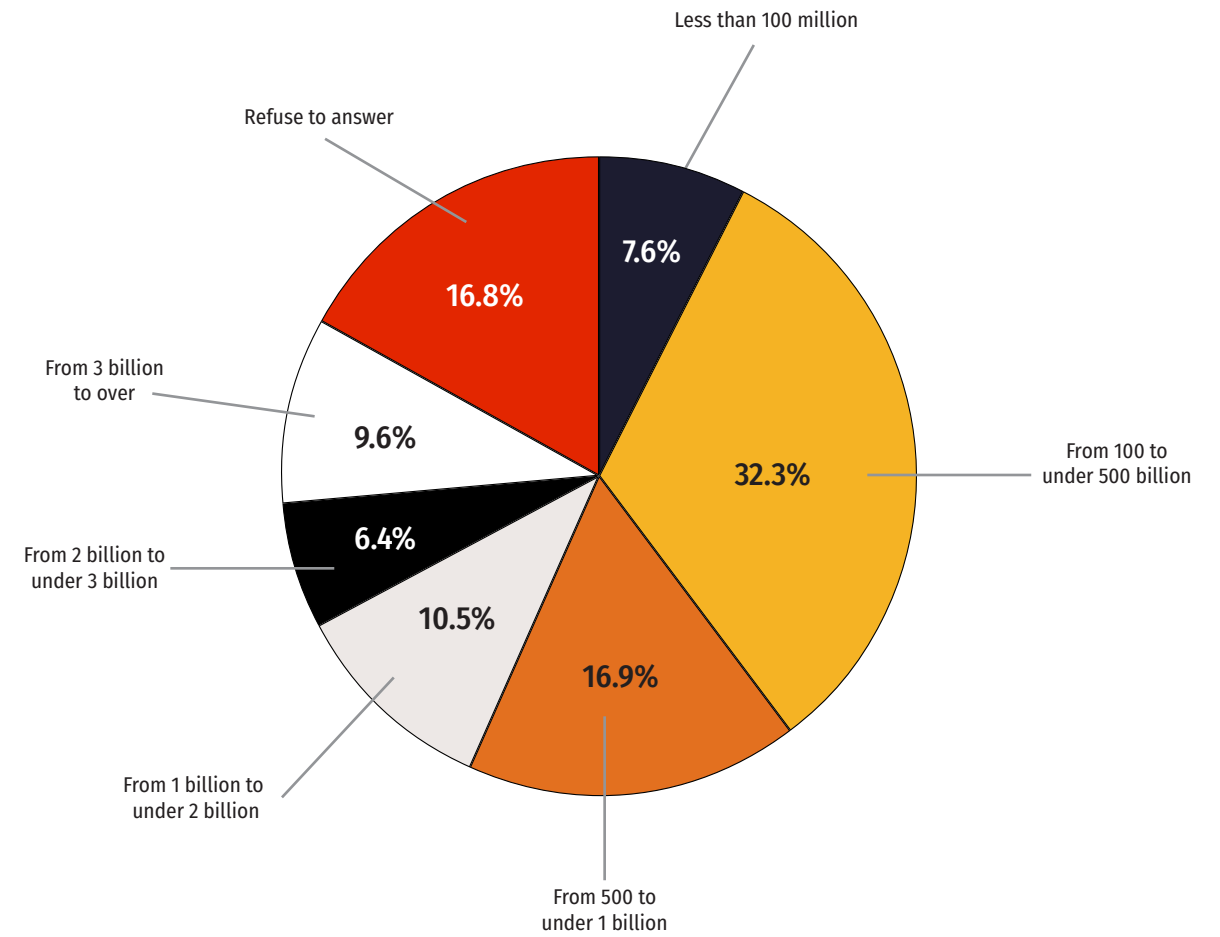
6 out of 10 entrepreneurs having savings in the range from 100 to under 500 million dong (\$4,000~\$22,000)

■ High savings are reported by entrepreneurs in health, education and social supports; processing/manufacturing unit and handicraft village; and transportation and warehouse than other sectors.



Saving by sectors (n=936)

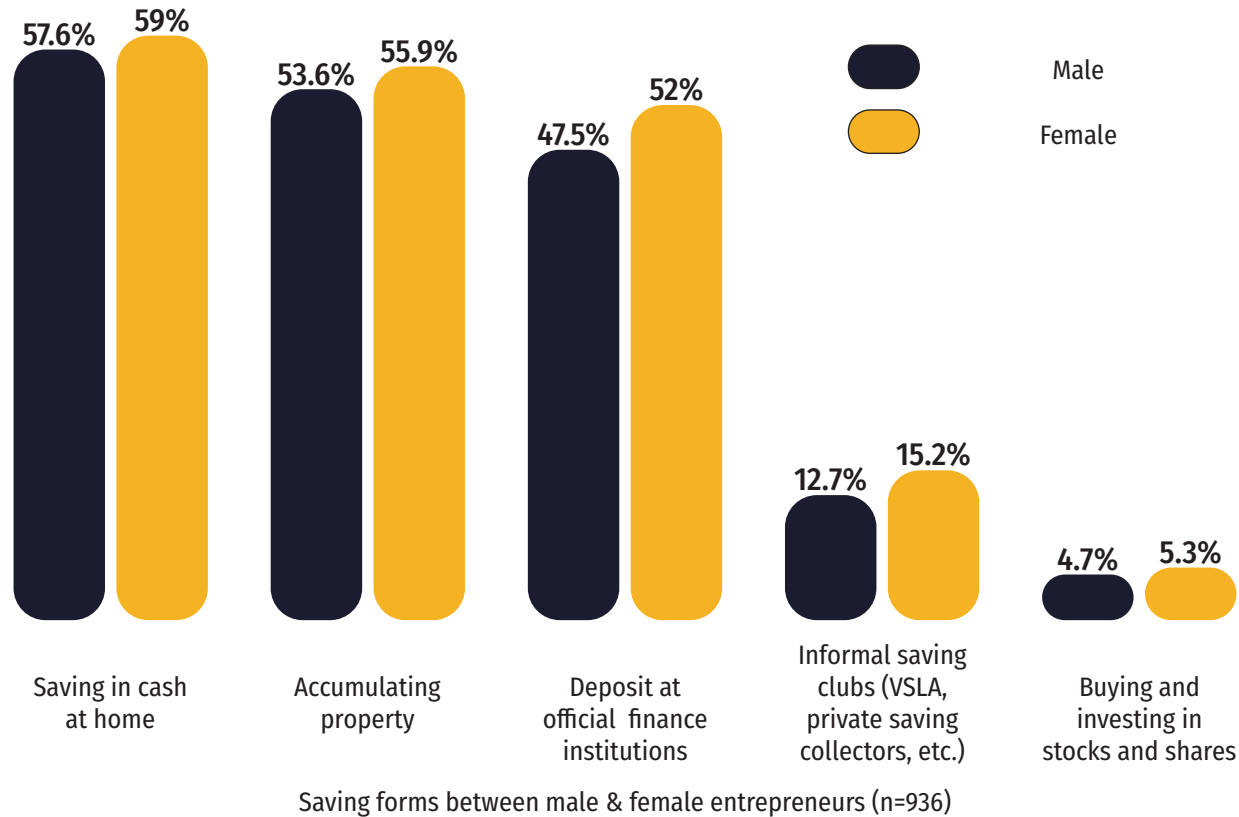
■ The survey result show that 64% of entrepreneurs practice savings. About one-third (32.3%) reported having savings from 100 to under 500 million dong (\$4,000~\$22,000).



Values of savings (n=936, %)

Savings

Entrepreneurs often save at home rather than saving in formal financial institutions due to lack of convenience



■ Among surveyed entrepreneurs, more women than men save (66% vs. 61%). Looking into ways of savings among those currently have savings, women also reported higher percentage.

■ Even though female entrepreneurs tend to have more savings than their male counterparts, results shows that only 38% them reported willing to mobilize their savings for business development.

■ The three most reported forms of savings include: cash at home (59%), accumulating property such as gold, foreign currencies, or land (55%), and deposits at formal financial institutions such as banks, MFIs, people credit funds (50%).

■ Savings in cash at home are more popular as it gives entrepreneurs easy access to liquid savings, “for convenient use if need.” Entrepreneurs saving more in cash at home signals that advantages of a formal savings account is not yet significant enough to outweigh the convenience of home-based and the high earning from informal financial services.

“I do not think of an emergency fund for business when I decide to save, the savings mostly will be used for other purposes like supporting family rather than business”

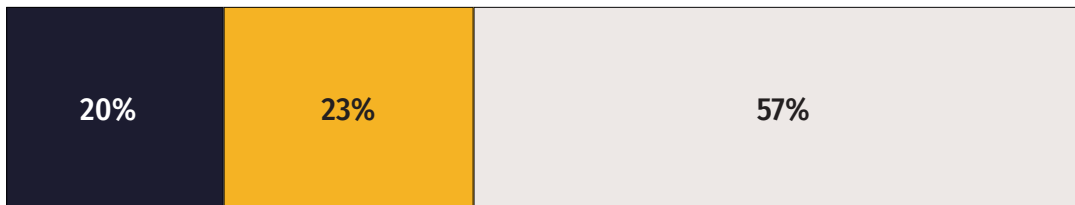
- a female entrepreneur in Hue.

Loans

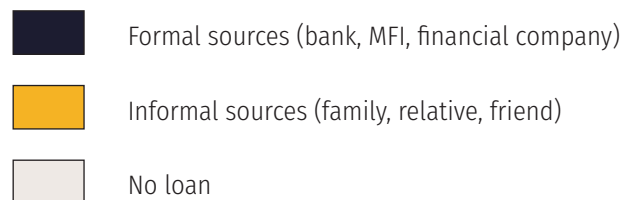
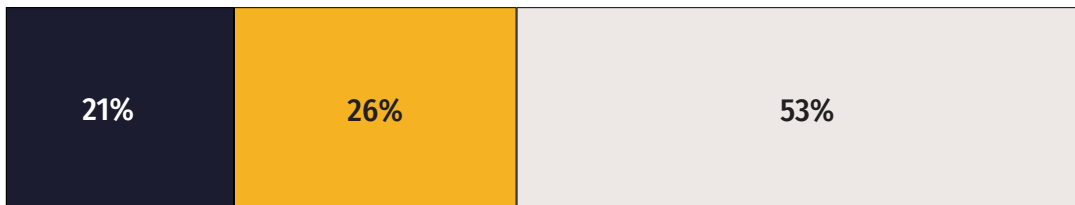
4 out of 10 (44%) being active loan users in the last 2 years, of which loans from formal financial service providers are less common (only 20%) than informal ones (24.3%)



Women (n=1,000)



Men (n=449)



Loan by gender

■ The collected data on loan accessing indicated that 7 out of 10 (67%) entrepreneurs had ever taken a loan (either formal or informal) in the past, of which 4 out of 10 (44%) had been active loan users in the last 2 years (2019 and 2020).

■ Comparing between accessing formal and informal loan sources in the past 2 years, more entrepreneurs reported having loan(s) from informal sources than formal ones (24.3% vs. 20.2%). Informal loans might be from friends, families, and even illegal groups or “black market credit”. Formal financial service providers such as commercial banks, social policy bank, consumer finance companies, credit institutions (micro credit funds, people’s credit funds, micro financial institutions).

■ Men report more active loans in the last two years vs. women (47% vs. 43%). However, they also tend to take loan from informal sources more than female entrepreneurs (26% vs. 23%).

■ Regarding sector, entrepreneurs from sector of accommodation/restaurant usually take loan from informal sources (27%) while the formal source is very popular among entrepreneurs in processing/manufacturing and handicraft sector (30%).

Formal sources and informal sources

■ Entrepreneurs are able to access almost 3 times larger loan size on average from formal vs. informal sources (VND 747 million vs. VND 259 million).

■ However, interest rates of loans from formal financial services on average are also much higher than informal ones. This could be because many entrepreneurs borrow from their personal relationships such as families/friends who request no or very little interest rate. Exorbitantly high interest rates typically comes from black credit providers from whom many of the entrepreneurs in this study were not borrowing (1.3%).

■ Despite the low value and low interest of loan from informal source, the non-performing loan rate of informal services is higher than compared with formal sources.

■ There is a higher percentage of reported repeat loans with formal sources than with informal sources (59% vs. 53%). Entrepreneurs potentially repeat their current formal loans because it is easier for them to repeat once already being approved; also the loans are normally short-term ones, so entrepreneurs need re-apply to feed their capital needs.

	Informal sources (n=352)	Formal sources (n=292)	A bank data reference
Average loan values (million VND)	259,474	747,606	Online: 500,000 Offline: 1,500,000
Average loan interest (%)	1.2 - 3.4%	8.1 – 9.5%	14-16%
NPL (%)	3.7%	0.7%	
Repeat loan (%)	53.3%	59.2%	

Factors associated with formal loan access

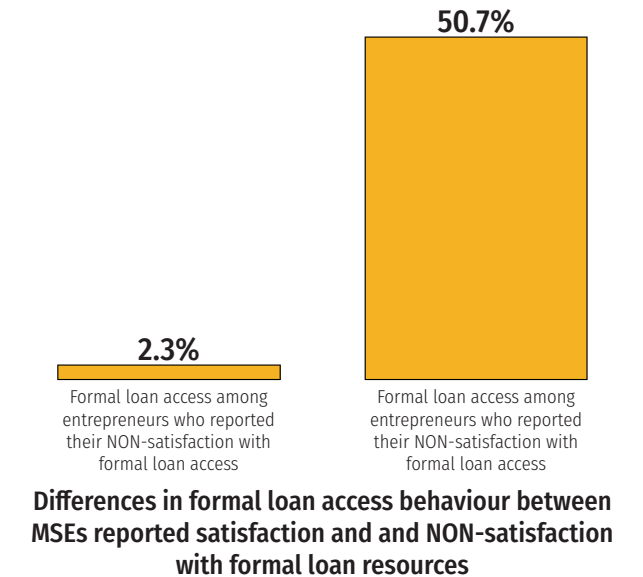
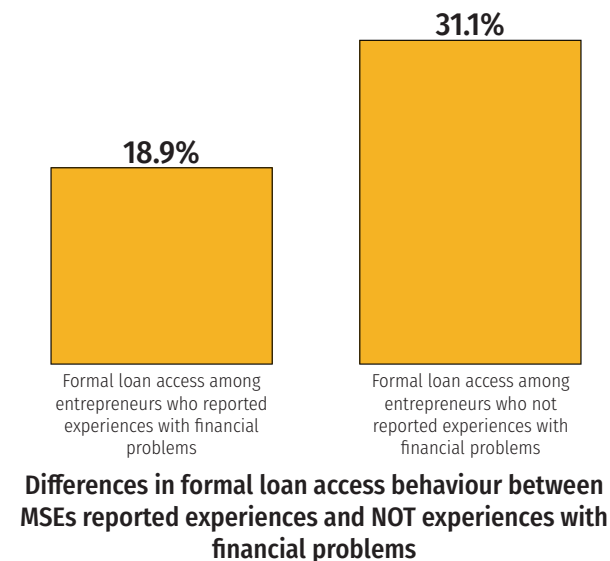
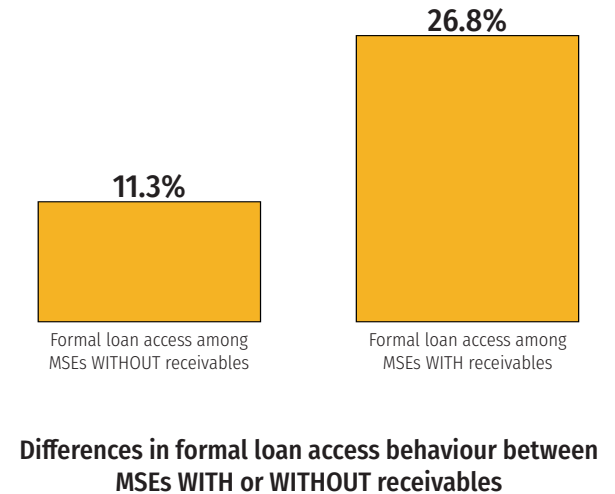
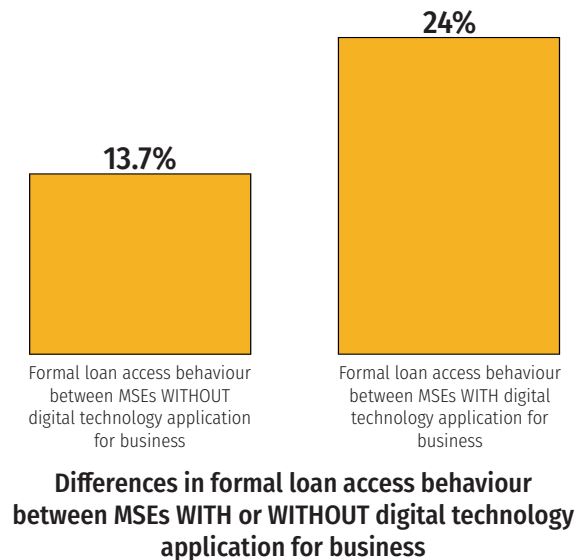
Digital technology capacity, MSE's receivables, satisfaction of financial products, and age

■ MSEs using digital technology for their business management and development are more likely to take loan than others, which is consistent to MSE's thought about investment for digital technology requiring high capital.

■ The survey showed strong association between loan access behavior and MSE's account receivables. The accounts receivables can make impact on their liquidity, their business capital and re-investment, thus, entrepreneurs with account receivables might be more demanding on accessing loan.

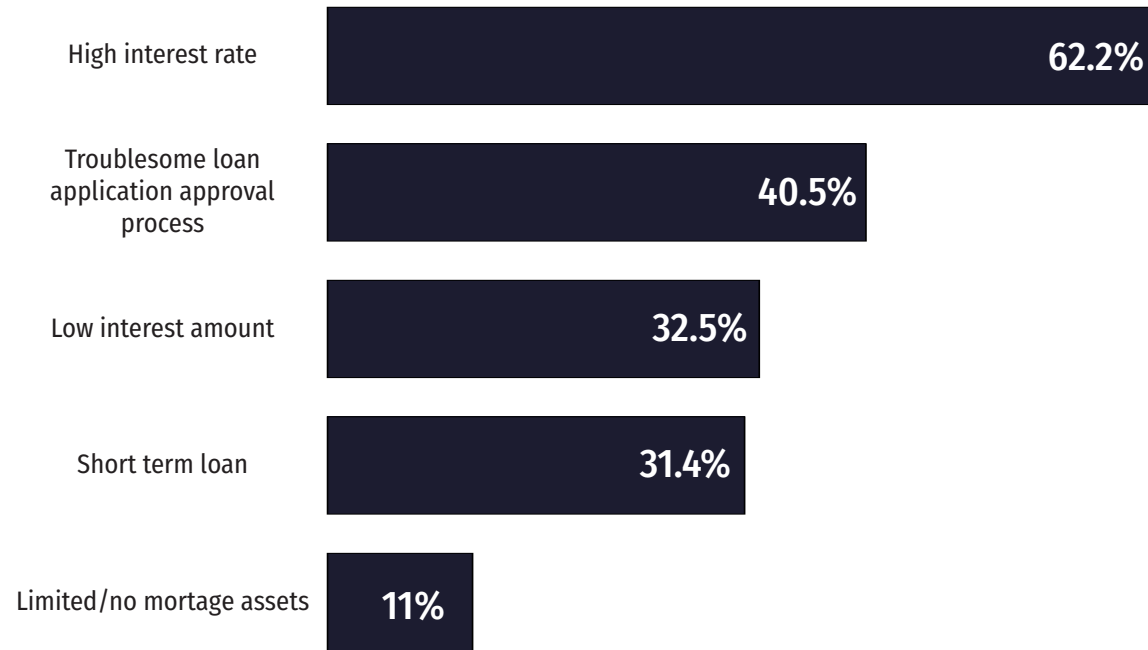
■ Only 37% entrepreneurs that have accessed a formal loan reported satisfaction with the loan provider. There is no difference in terms of satisfaction with formal loan sources between male and female entrepreneurs. The result strongly indicates that entrepreneurs who reported satisfaction with formal FSPs are more likely to access formal loans than those who not satisfied.

■ Entrepreneurs at age under 35 years old usually access formal loan sources more than entrepreneurs at other age groups: they are mostly start-up, owning MSEs with revenue around VND 1-3 billion (80%) with high growth aspiration that push them to take loan for their business development. Importantly, they are aware of available financial supports to start-ups and SMEs.

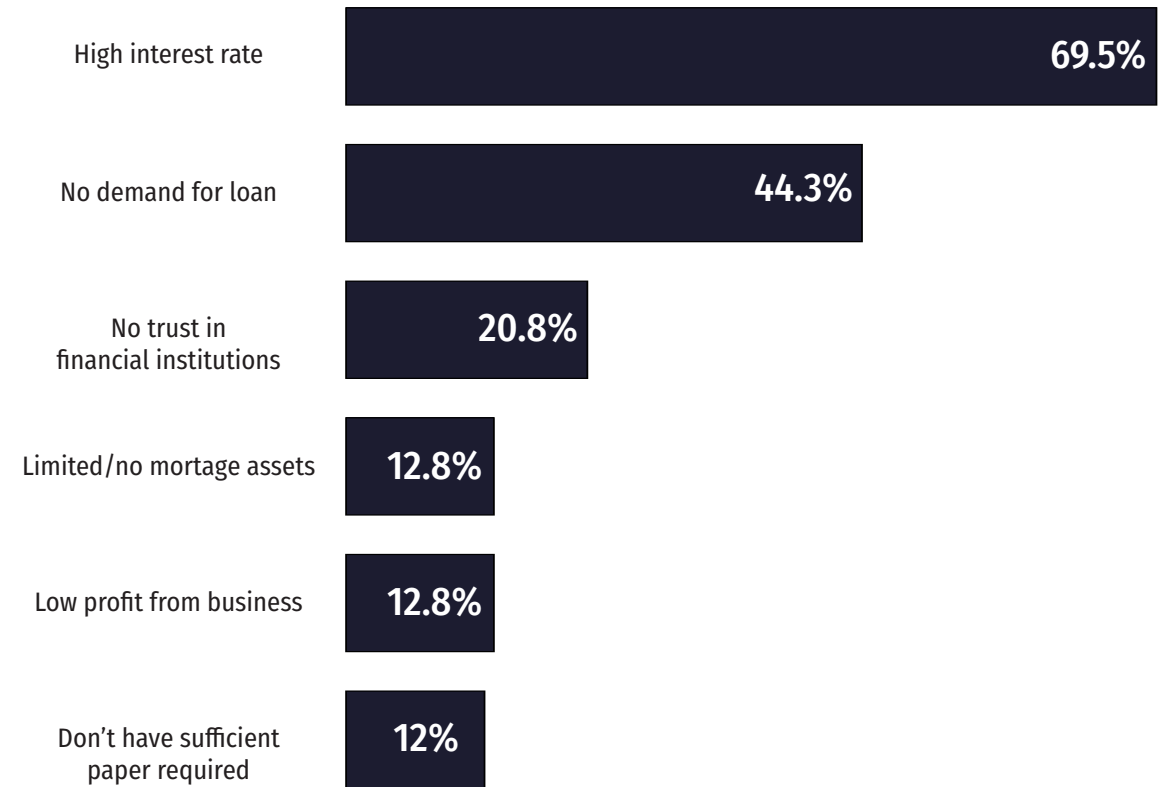


Factors associated with formal loan access

High interest rate is perceived as the most challenging factor



Difficulties in accessing formal financial among active users



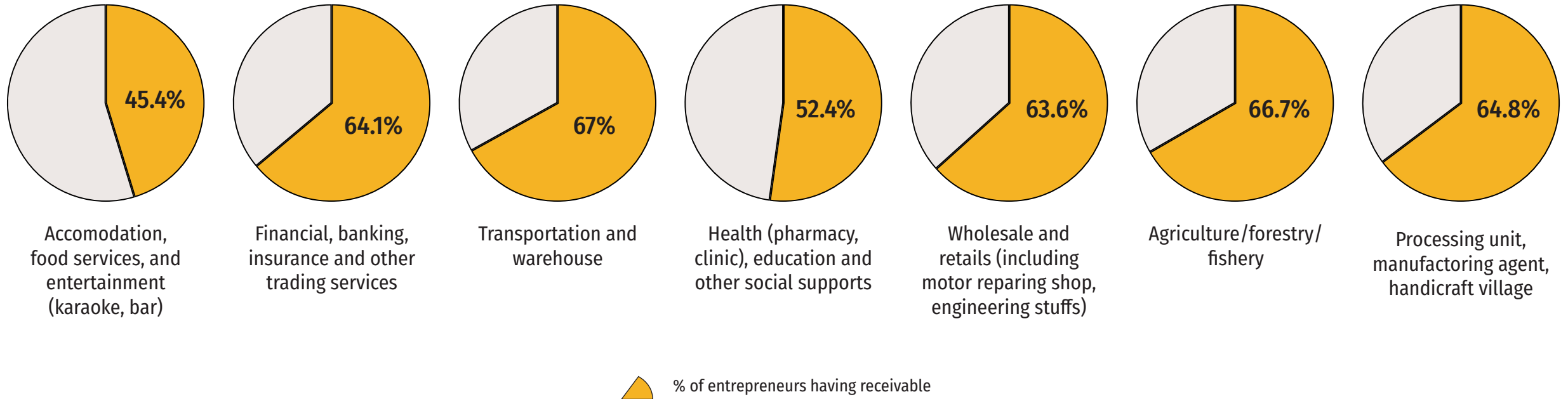
Difficulties in accessing formal financial among inactive users

■ Among 20% entrepreneurs who ever accessed formal loans, almost 41% complaint about the challenge of high interest rate and 9.5% reported zero satisfaction with their recent loan. Two key additional difficulties for active loan users include complicated loan application and approval process (40%), as well as short term lengths (31%).

■ Among inactive loan users, aside from high interest rates, no demand for a loan and a lack of trust in financial institutions are the top two reasons for being inactive.

Factors associated with formal loan access

MSME's receivable

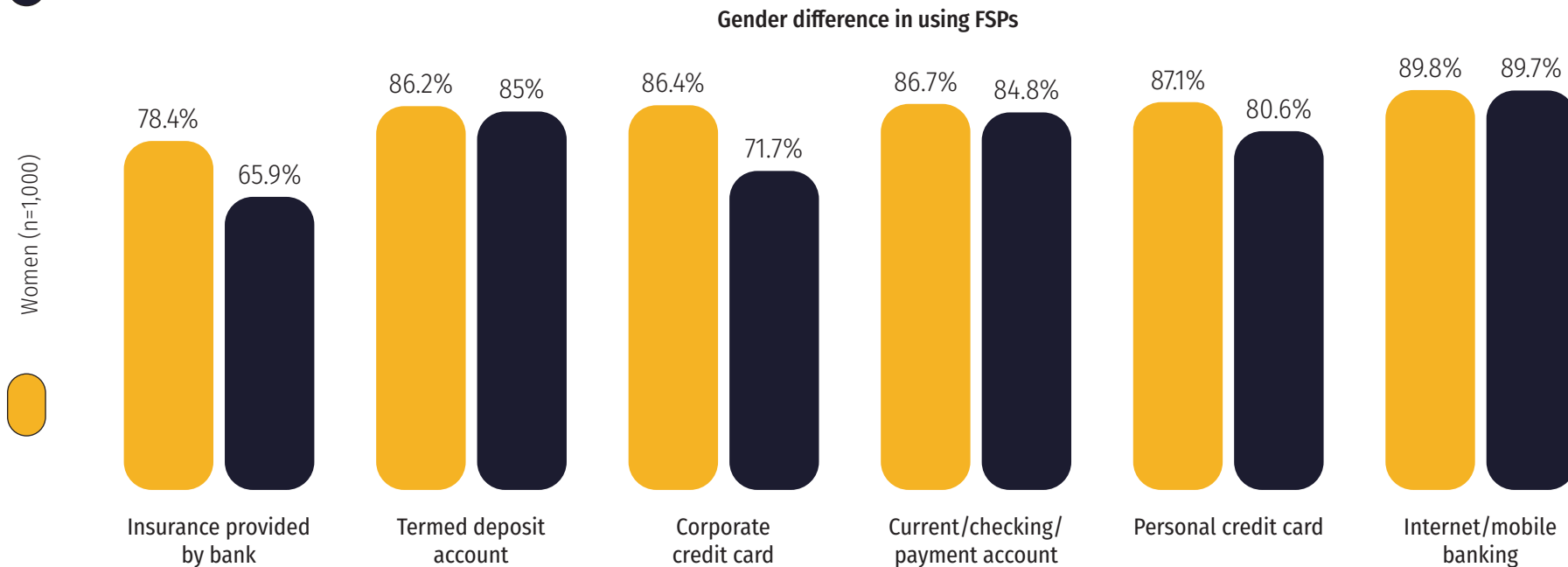
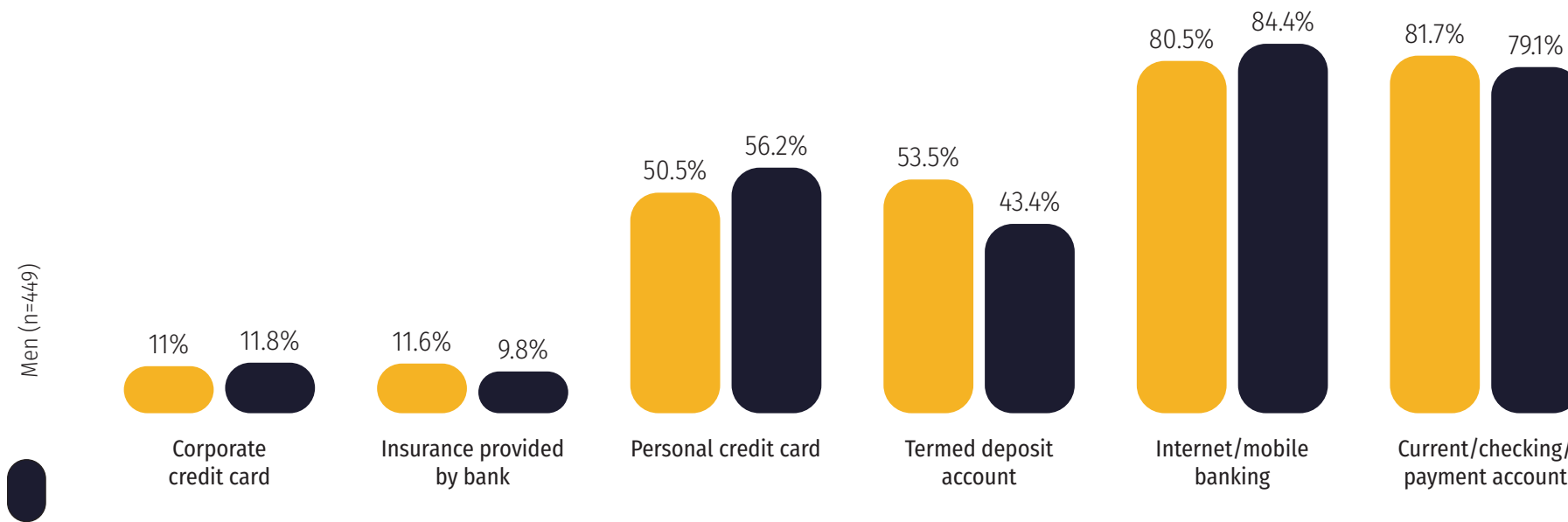


■ Account receivable in this survey is defined as the payment that entrepreneurs are about to collect from their customers. Survey result showed that 57% MSEs reported having account receivable, of which 62% are able to get back over 80% of total amount that customers owe them. Significant percentage of MSEs (38%) shared that they could only get back under 80% of their receivables (30% could get back around 50-80%, and 8% could get back under 50%).

■ There are not much different in the receivable across sectors, excepted lower percentages of entrepreneurs coming from the sectors of accommodation, food services and entertainment and health, education, and social supports reporting receivable (45.4% and 52.4%, respectively).

■ Regarding gender, 56.8% of female entrepreneurs reported receivable while this percentage among male entrepreneurs is 57.7%.

Gender difference in using FSPs and satisfaction



Gender difference in satisfaction with FSPs

- There is significant and slightly different between male and female entrepreneurs in using some identified financial products and services.

- Data shows that among users, more male entrepreneurs use personal credit cards than women (56.2% vs. 50.5%).

- Higher percentage of female entrepreneurs (53.5% vs. 43.4%) use termed deposit savings account, it is quite consistent with the saving behavior discussed when women saved more than men.

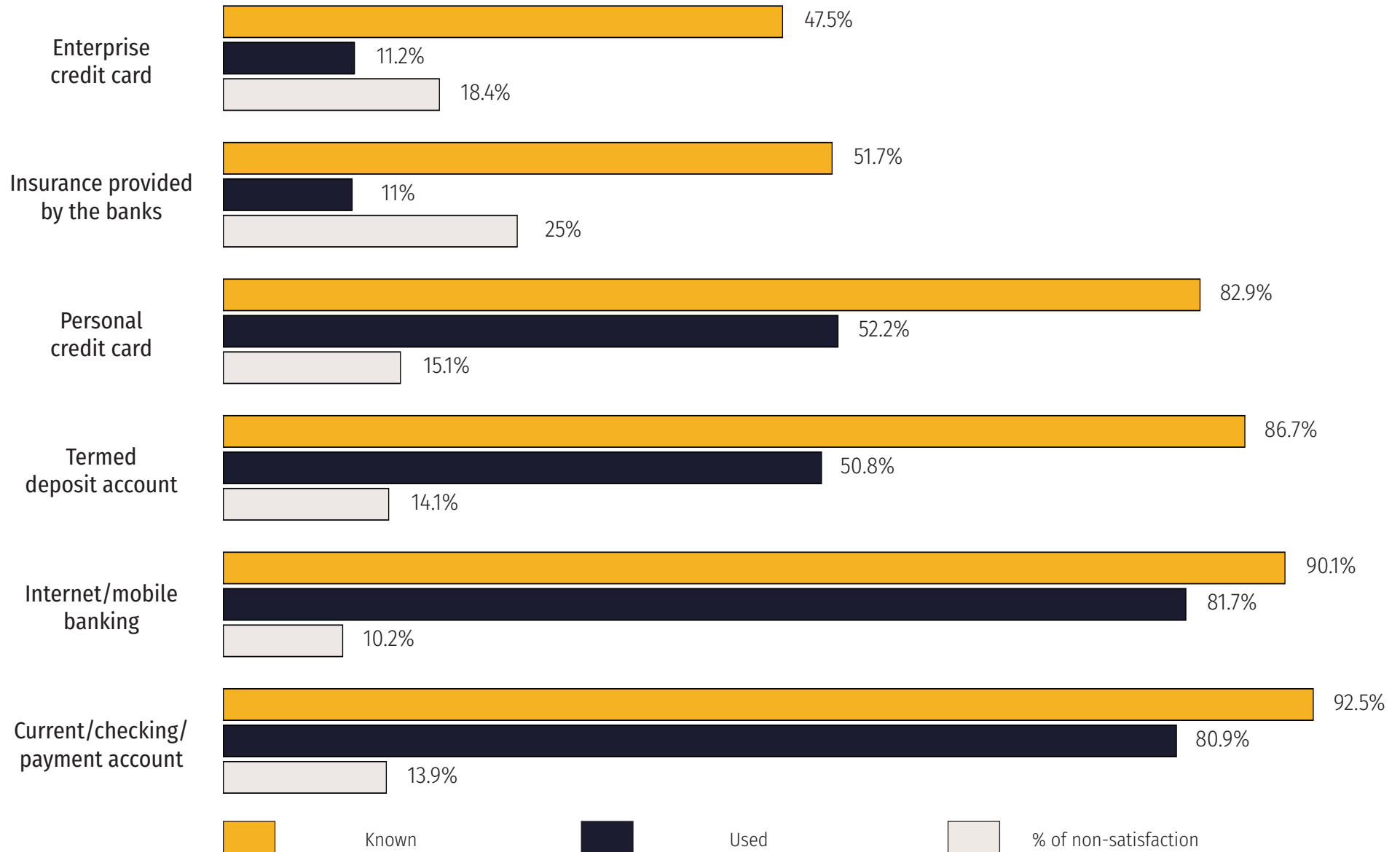
- The satisfaction of men and women is slightly different in their experiences using insurance, corporate credit card and personal credit card. Overall, percentage of satisfaction reported among female entrepreneurs slightly higher than male entrepreneurs (65% vs. 62%).

Awareness about financial services & products hasn't yet translated to usage

■ Access to financial products and services is explored in three aspects: Awareness, use and satisfaction. Overall, 92.5% entrepreneurs are aware of one product/service, 90.7% entrepreneurs have used. Of those who are using financial products and services, digital banking apps and checking payment account, are the most known and used (81.7%, 80.9%, respectively).

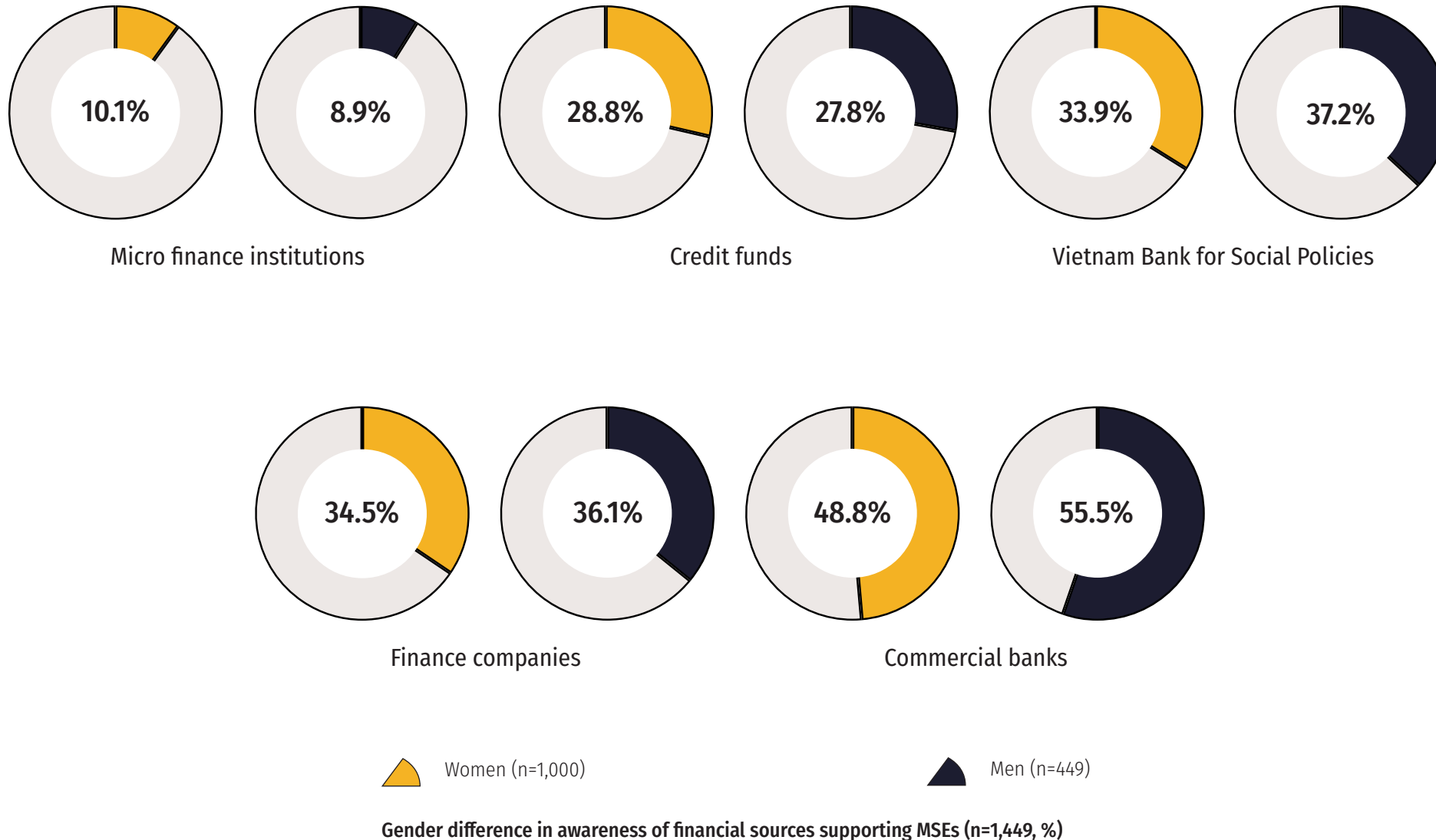
■ The satisfaction of used FSPs is ranged from 60% - 80% among users with average satisfaction score is 4.1 (using scale range from 1 to 5). High usage of digital FSPs is positively corresponded with high satisfaction score. Overall 63.3% surveyed entrepreneurs satisfy with any of formal financial products and services they have accessed.

■ However, high awareness numbers on deposit account, credit cards and insurance have not translated into trial or active usage implying low perceived relevance of these offerings.



Known, used and satisfaction level with financial products and services (n=1.449, %)

Low overall awareness among entrepreneurs on tailored financial support for MSEs

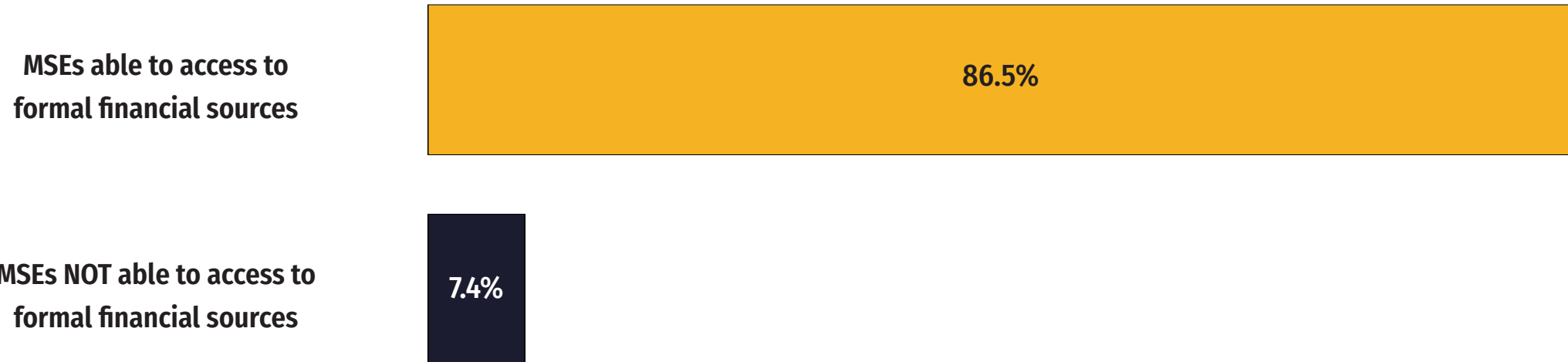


■ The percentage of entrepreneurs knowing about financial support from available formal financial sources are low. When asked about financial service/product supporting women-led MSEs, only 2.6% entrepreneurs reported to know products for women-led enterprises (e.g. loans from Women Union or Vietnam Social Policy bank).

■ Against the knowledge of financial sources supporting for MSEs, 34% entrepreneurs have not known about any of those financial sources, which significantly influences on their usage. Male entrepreneurs know about those sources more than female entrepreneurs (70% vs 64%). The figure describes awareness of men and women against each financial source.

■ The result highlights that entrepreneurs who aware of financial supports to MSEs are 2.4 times more likely to use financial products and/or services (loan, credit cards, payment account, etc.) than those un-aware. There continues to be a huge gap on providing financial products and accessing.

Access to Formal Finance and COVID resilience



Difference in sustainable resilience to shocks between MSEs with accessibility to formal financial sources and those NOT

- COVID19 is an unprecedented shock to MSEs. Significant impacts of COVID19 on MSEs have been observed across all 7 provinces. Almost MSEs reported facing severe impacts (stop operation and no revenue during the COVID19) (25%), and moderate impact (keep maintaining business operation with significant revenue reduction) (67%).
- The research looked at MSE's sustainable resilience to COVID19 and potential shocks which would be defined based on MSE's time surviving for at least 1 month, and MSEs having at least 3 measures for addressing finance and business development during the crisis. The results highlighted 34.2% MSEs being sustainably resilient to COVID19 and other potential shocks.
- Importantly, accessibility to formal financial sources such as banks, micro-finance institutions, people credit funds or legal financial companies have contributed significantly to shock resilience of MSEs: MSEs who can access formal financial sources are 5 times more likely to be resilient sustainably to COVID-19 and other shocks than those not able to access (OR=5, $p < 0.001$).
- 86.5% of MSEs with access to formal sources would be able to resilient to crisis, meanwhile only 7.4% of MSEs without access to formal sources would be resilient to crisis.

Key takeaways



Low trust in formal financial service providers. There is a perceived lack of convenience and trust toward FSPs, which prevents more engagement with formal financial institutions. This is seen with low usage of formal financial services, particularly credit products among entrepreneurs. Entrepreneurs also say they seek a more “customer-centric” relationship with FSPs.



Unfavorable product terms and conditions limit trial and uptake of credit products. High interest rates, inadequate loan sizes as well as collateral/guarantor requirements are the top factors driving low product uptake for entrepreneurs.



Low financial literacy is a top barrier to accessing credit. Limited understanding of how credit products work and how to access them is one of key factors that negatively impacts readiness for finance among entrepreneurs.



Savings, an indicator of business resilience, are mostly informal and for personal use. Entrepreneurs, particularly females, have a low propensity to save and tend to rely on informal savings for mostly personal use, and tend to reinvest back in their household, rather than in their business.



Digital opportunities are high. Entrepreneurs are highly aware of digital financial services and alternate delivery channels, providing an opportunity to translate their awareness into trial and active usage.