

# Factors Affecting Enterprises' Access to Formal Credit in Can Tho City, Vietnam

Nguyen Quoc Nghi, La Nguyen Thuy Dung

College of Economics, Can Tho University, Can Tho, Vietnam

## ABSTRACT

The objective of the study is to identify factors affecting the formal credit accessibility of enterprises in Can Tho City. Research data were collected using a quota sampling with a sample size of 300 active enterprises. The binary logistic regression was adopted. The study showed that factors influencing the access to formal credit of enterprises are the manager's level of education, management experience, operation time, business size, fixed asset, and social capital. In which, the business size is the most powerful factor affecting the formal credit accessibility of enterprises.

**KEYWORDS:** Accessibility, formal credit, enterprise

**How to cite this paper:** Nguyen Quoc Nghi | La Nguyen Thuy Dung "Factors Affecting Enterprises' Access to Formal Credit in Can Tho City, Vietnam"

Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-4 | Issue-5, August 2020, pp.617-620,

URL: [www.ijtsrd.com/papers/ijtsrd32911.pdf](http://www.ijtsrd.com/papers/ijtsrd32911.pdf)



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## 1. INTRODUCTION

Enterprises play an essential role in the economic growth of many countries (Omar et al., 2009; Ayyagari et al., 2007), address unemployment, increase incomes for people, and stabilize the social-economy. In the process of international economic integration, besides favorable conditions for enterprises to expand the business and access to advanced technologies, it also creates an increasingly competitive environment. As a result, enterprises have to continuously improve resources to survive and develop, in which, financial resources are essential. Financial resources help enterprises expand production scale, enhance the quality of human resources, and smoothly apply new technologies to grow in depth. Therefore, ensuring financial sources is a vital issue of every enterprise. In the world, depending on the development level of financial products and the capital market of each country, enterprise can access different capital resources from banks, credit funds, and financial institutions. Credit accessibility contributes to improving financial resources and positively affecting the performance of enterprises (Okpara and Wynn, 2007; Chittithaworn, 2011; Kinyua, 2013; Sitharam and Hoque, 2016). This study was conducted to identify factors affecting enterprises' access to formal credit: a case study in Can Tho City, Vietnam.

## 2. RESEARCH HYPOTHESES

*The relationship between the manager's education level and formal credit accessibility.* The education levels of business owners influence enterprises' access to formal credit

(Akoten et al., 2006). According to Nghi (2011), the education level of business owners is positively correlated with enterprises' ability to access formal credit. From the above discussion, hypothesis H1 is proposed as follows: The education level of business owners positively affects enterprises' access to formal credit.

*The relationship between management experiences and the formal credit accessibility of enterprises.* Nghi (2010) has suggested that the management experiences of business owners positively impact enterprises' ability to access formal credit. The management experiences are positively correlated with the success of entrepreneurs and increase their access to formal credit (Akoten et al., 2006; Quartey et al., 2017). Hence, the study hypothesizes H2: Management experiences of business owners positively affects enterprises' access to formal credit.

*The relationship between the operation time and the access to formal credit of enterprises.* According to Bebczuk (2004), Thien (2012), Hien (2012), businesses' operation time has a positive influence on their access to formal credit. Therefore, the hypothesis H3 is as follows: The operation time positively affects the ability to access formal credit of enterprises.

*The relationship between business size and access to formal credit.* Studies by Ongena and Smith (2001), Zhao et al., (2006), Nghi (2011) have demonstrated that business size

has a beneficial impact on the enterprise's ability to access credit. Therefore, the study suggests H4 as: The business size positively influences the formal credit accessibility of enterprises.

*The relationship between fixed assets and the formal credit accessibility of enterprises.* Research by Bbenkele (2007), Hien (2012) has shown that fixed assets have a positive impact on enterprises' ability to access formal credit. In addition to this, Waked (2016) proved a positive relationship between the value of fixed assets and access to formal credit. Thus, the hypothesis H5 is as follows: Fixed assets have a positive impact on the ability to access formal credit of enterprises.

*The relationship between social capital and the formal credit accessibility of enterprises.* Researches by Zhao et al. (2006),

Nghi (2011), Waked (2016) showed that the business's social relationships positively impact their access to formal credit. Thus, the study sets out H6: The social capital positively affects the formal credit accessibility of enterprises.

To identify factors affecting enterprises' formal credit accessibility in Can Tho City, the research model was proposed below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6$$

*In which: The dependent variable (Y) is the enterprise's ability to access formal credit (get value 1 if the enterprise has access to credit from official credit institutions, otherwise get value 0). Variables  $X_i$  are independent variables (explanatory variables) that are explained in detail in Table 1.*

**Table 1: Interpretation of independent variables in the research model**

No.	Variable's name	Interpretation	Expectation
1	The manager's education level	Get value corresponding to the manager's education level: 1 = Intermediate or lower, 2 = College, 3 = University, 4 = Postgraduate.	+
2	Management experience	Measured by the number of years directly involved in the administration of the manager (year).	+
3	Operation time	Measured by the number of operation years of the enterprise up to the time of the study (year)	+
4	Business size	Get the value corresponding to the size of the enterprise: 1 = micro, 2 = small, 3 = medium, 4 = large.	+
5	Fixed assets	Get the value corresponding to the total value of fixed assets (billion VND).	+
6	Social capital	The relationship between the enterprise and regulatory agencies or associations. Measured by a 5-level Likert scale.	+

Source: Authors' proposal, 2019

### 3. RESEARCH METHODOLOGY

For the research hypotheses test, the study used binary logistic regression to identify factors affecting enterprises' access to formal credit. According to Green (1991), Tabachnick and Fidell (1996), the minimum sample size in the regression analysis is calculated by the formula  $50 + 8m$  (m is the number of independent variables). The research model was set up with six independent variables, which means the sample size has to be at least 98 observations. The quota sampling was used to collect primary data, with a sample size of 300 active enterprises in Can Tho City. Thus, the sample size meets the modeltest's requirement.

### 4. RESEARCH RESULTS AND DISCUSSIONS

#### 4.1. The formal credit accessibility of enterprises

Based on the statistical result in Table 2, there are two formal credit institutions that enterprises can access. A few enterprises can access many credit institutions. Enterprises can access official credit institutions with an amount of 24 billion VND. The highest amount of approached capital is 1,200 billion VND.

**Table 2: Formal credit accessibility of enterprises**

Criteria	Min	Max	Mean	Standard deviation
The number of credit institutions can be accessed	0	10,00	2,25	1,58
The number of money enterprises can borrow (billion VND)	0	1198,0	23,80	102,40

Source: Survey data of 300 enterprises, 2019

#### 4.2. Factors affecting the access to formal credit of enterprises

The correlation values among independent variables are all less than 0.8, so the multicollinearity in the model can be ignored. The binary logistic regression shows that: (1) The hypothesis test of the composite conformity has a significance level of Sig. = 0.00, so hypothesis  $H_0$  is rejected. That means there exist linear relationships between the variables in the model and the formal credit accessibility; (2) The percentage correct of the model is 81%, this number is appropriate for a binary regression model.

Based on Table 3, all six factors included in the model are statistically significant, which means these factors affect enterprises' access to formal credit. They are managers' qualifications, management experience, operation time, business size, fixed assets, and social capital. In particular, the business size most strongly affects the ability to access formal credit. The impact level of each factor is presented below.

**Table 3: Binary logistic regression result**

Factor	B	Sig.	Exp(B)
Constant	-12.404	0.000	0.001
Education level	0.612	0.011	1.845
Management experience	0.152	0.009	1.164
Operation time	0.123	0.006	1.131
Business size	1.140	0.001	3.126
Fixed asset	0.057	0.014	1.058
Social capital	0.869	0.000	2.385
Sig.	0.000		
Percentage correct	81%		

**Source: Survey data of 300 enterprises, 2019**

The study accepts the hypothesis H1 at a 5% significance level. The level of education of enterprises' owners positively impacts their access to formal credit. This result proves that the higher the educational level of business owners, the easier it is for them to access formal credit from financial institutions. The finding is consistent with studies of Akoten et al. (2006), Nghi (2011).

The hypothesis H2 is accepted at a 1% significance level, which points out that management experience positively affects enterprises' formal credit accessibility. In other words, if the business owner has experience in administration, the ability to access formal credit will be higher. The result is similar to studies of Akoten et al. (2006), Nghi (2010), Quartey et al. (2017).

Accepting hypothesis H3 at a significance level of 1%. It means the operation time of enterprises beneficially affects their access to formal credit. The enterprise that has long operation time can approach formal credit easily. This result agrees with the researches of Bebczuk (2004), Thien (2012), Hien (2012).

Hypothesis H4 is accepted at a 1% significance level which says the business size positively influences enterprises' ability to access formal credit. As a result, the larger the size of the enterprise, the more favorable the access to formal credit. The discovery is consistent with those of Ongena and Smith (2001), Zhao et al. (2006), Nghi (2011).

Accepting hypothesis H5 at a significance level of 5%, this shows that the fixed asset affect enterprises' access to formal credit positively. The enterprise with more fixed assets will have a higher ability to approach formal credit. The finding is similar to the studies of Bbenkele (2007), Hien (2012), and Waked (2016).

The authors accept hypothesis H6 at a 1% significance level. The social relationships of enterprises put a positive impact on their access to formal credit. In other words, if enterprises' owners have good relationships with state administrative agencies and associations, access to formal credit will be more favorable. The research result agrees with those of Zhao et al. (2006), Nghi (2011), and Waked (2016).

## 5. CONCLUSION

Overall, the formal credit accessibility of enterprises in Can Tho City is favorable. The number of formal credit institutions accessed by enterprises is large and diverse. The study has

indicated factors affecting enterprises' ability to access formal credit are the education level of business owners, management experience, operation time, business size, fixed assets, and social capital. Among them, the business size is the most powerful factor impacting formal credit accessibility.

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