



VOICES ^{OF}

Vietnamese women

ENTREPRENEURS



MONEY MATTERS ACCESS TO FINANCE

Throughout the developing world, access to finance, which refers not only to the availability of funds but also to knowing how to manage money, is probably the biggest challenge facing enterprises.⁷ In many countries, entrepreneurs find it difficult to obtain financing for any number of reasons, including poverty, a lack of acceptable collateral, a poor understanding of bank requirements, improper financial management, and banks' rigid perceptions of risk. Without adequate funds, businesses cannot operate effectively, invest in innovation and capacity improvements, nor, ultimately, expand. Even if they can obtain capital, owners of small and medium-sized enterprises (SMEs), in particular, may lack the financial management and accounting skills to make the best use of available funds.

For women entrepreneurs in Vietnam, as compared to their male counterparts, access to finance is a particular challenge. Men tend to borrow more from government banks, whereas women are more likely to tap into informal sources that offer relatively smaller

loan amounts at higher rates of interest.⁸ Because businesswomen have relatively less skills, time, resources, and credit, their enterprises tend to be undercapitalized, employ fewer people, and less profitable than those run by men.⁹

BANK LOANS

In Vietnam, women business owners access capital from both formal and informal sources. The most common formal source of capital is bank loans, but this is generally only possible for established enterprises with significant assets:

"When you are just starting business, nobody trusts you. You can't do anything without capital. If you don't have assets or a credit history, then nobody will lend to you."

Some women indicated that they have borrowed from state-owned financial institutions. However, even if entrepreneurs can demonstrate sufficient collateral, formal lenders are extremely conservative:

"It is very difficult to borrow money from banks. You need to have assets like land or real estate as collateral. And in many cases, the bank's valuation of your assets is much lower than their market value. As a result, the amount you are actually able to borrow from a bank is much lower than what you need."

Often female entrepreneurs find providing evidence of collateral problematic, and many have been refused bank loans for this reason. The most obvious form of collateral - land - is difficult to leverage without a Land Use Certificate that proves one's title to a piece of land:

"Although I have both land and houses, I don't have all of the paperwork that proves ownership. So I can't mortgage any of my assets for a bank loan."

Even those businesswomen who can tap into bank funding say that getting a loan is a complex process that involves confusing paperwork:

"It is very difficult for me to get a loan from a bank because I don't know the procedures very well. Often having collateral doesn't guarantee that you can get a loan from a bank. The banks will also want to evaluate your business plan and assess the investment project's feasibility and potential for success."

Women also perceive Vietnamese state-owned banks as inflexible and lacking in customer orientation, especially when it comes to SMEs and their needs:

"A customer once transferred a payment of hundreds of billions of Vietnamese dong to me through the bank. But because there was a minor difference between the name cited on the transaction and the name on the customer's money order, the bank held the money... what's worse, the bank didn't even inform me of the situation! I found out about it from my client. Not being able to access that large sum of money for such a long time caused major problems for my company. Banks just don't have very good customer service attitudes."



Other common complaints about banks include insufficient credit limits, overly high interest rates, and short loan terms. Some women indicated that it is easier for them to obtain better deals from non-state banks (private and foreign commercial banks), perhaps because such institutions are more customer-oriented and have a more flexible view of the potential risks and returns associated with the enterprise market.

"In the last five years, the market economy has allowed for the establishment of many more private banks. This has been great for

private enterprises. It is easier to borrow from private banks, especially if you know someone at the bank and are willing to accept slightly higher interest rates. They will even help with preparing the necessary documents. Of course, it isn't easy for early-stage companies to borrow large sums of money at one time. In the case of my company, in addition to mobilizing capital from my relatives, I have an established relationship with five other companies that allows me to raise funds from them."

Truong Lan Anh, 52, is the head of Thuan Phat, a food-processing cooperative in Ho Chi Minh City that has been operating since 1982. Thuan Phat has 12 contributing members and 130 employees. Anh's family holds an 85 percent share of the cooperative's capital, which is approximately VND10 billion (US\$650,000).



When Anh built her factory in an industrial park outside of Ho Chi Minh City five years ago, she received a loan from a city-run investment fund to cover 80 percent of her investment. However, the rate was "too high" and the loan term was "too short," with only five years for repayment.

"For small enterprises like ours, banks are more like pawn shops. We have to give them our things, and they will give us a very short-term loan. So we can't use the money to make a long-term investment. Because we lack capital, the investments we've made in equipment and technology have been sporadic."

Thuan Phat produces food products for both the domestic and export markets, and realizes revenues of about VND18 billion (US\$1.2 million) a year. Since 1997, Thuan Phat has been exporting products to Russia, Hong Kong, Australia, and the USA. However, a lack of capital is currently preventing the cooperative from expanding its domestic and international markets.

"The market has accepted my company's products, but in order to expand nationwide, we will need to support a network of distributors financially. And to be able to export to Europe, we will need to invest in technology so that we can meet their food safety standards. We are planning to do all of this, but it will require a lot of capital."

INFORMAL FINANCING

When formal sources of capital are either insufficient or simply unavailable, women entrepreneurs resort to a variety of alternative financing strategies. Almost all, but particularly owners of newer and smaller enterprises, obtain financing from informal alternatives, such as family, friends, employees and other businesses. Loans from family and friends are considered most reliable. While in some instances family members take on the additional roles of initial investors or business partners, they generally limit their involvement to loans:

"My company usually mobilizes capital by borrowing from family or friends. I pay them interest on the loans, generally at a rate slightly higher than the bank's rate."

When the capital borrowed from family and friends has been exhausted, women sometimes approach "loan sharks" or pawnbrokers, including jewelry stores. Because these moneylenders are willing to provide money in cases of emergency, the interest rates that they charge are quite high.

"I mainly mobilize capital from family and friends. It's hard to borrow money from other sources. Even if you borrow from the black market, the interest rate is ten percent, and it's not easy to get. But sometimes when I need money urgently, I end up having to borrow from the black market."

FUNDING STRATEGIES

Some women have established their own revolving capital funds with friends or other business colleagues – an interesting arrangement because it also allows for networking opportunities:

"We have a network of women entrepreneurs that allows us to help each other out with capital. We get together one Saturday a month, and everyone contributes money into a pot. Then we draw a name, and the person whose name is drawn gets to borrow the money. There is no interest on that loan, and a small amount is used to buy food for the get-together. Actually, the main purpose of these gatherings is for us to share experiences in doing business and to advise each other."

Others have raised share capital for their business by inviting staff to invest, a tactic that also reduces the risk of employee attrition in an increasingly competitive market for skilled labor:





"I mobilize capital from my employees by allowing them to buy shares in the company. When they have shares, they have a sense of ownership and are more conscientious and dedicated. And when they receive dividends on those shares, they are even more willing to contribute more money to buying shares...by earning more money, the employees are more committed to the company and are less likely to consider leaving."

MANAGING MONEY

In addition to the challenges of finding sufficient capital, another common problem businesswomen cite is that of maintaining cash flow. Several women entrepreneurs complain about the practice known as "*chiem dung*", which translates into "money used by others." This is particularly common in industries like construction, where the nature of the business cycle usually results in business owners receiving payments for goods or services well after the time of sale

or delivery. This payment lag greatly reduces the amount of available cash and can even threaten an enterprise's operations:

"It is difficult for construction companies, especially in the case of dealing with large, state-funded projects. In the case of one project, I didn't receive payment until six months after it was completed. And in the meantime, I had to pay cash up-front for the materials."

Financial management is difficult because female entrepreneurs often lack adequate knowledge and skills and/or competent and trustworthy staff to carry out essential functions:

"In small businesses, the owner usually has to do it all, including accounting and many other jobs. I tried to recruit accountants to give me more time to focus on other things, but the quality of the candidates applying to private companies was too low."

Ultimately, the lack of financial and accounting skills can also make it difficult for businesswomen to generate profits that they can subsequently reinvest into their businesses.



RECOMMENDATIONS

According to women business owners, the government can improve enterprises' access to capital by introducing targeted policies that complement its broader economic reforms and efforts to liberalize the banking sector. Simplifying the loan application process would be a good place to start. According to Do Thi Tuyet Mai,

"The requirements and procedures that private enterprises must go through to get credit from financial institutions, including international financial institutions, are currently very complex and need to be simplified. In particular, enterprises that have been operating for ten or more years and have established good reputations should be able to access capital."

Also, women entrepreneurs suggest that the government encourage financial institutions, particularly private ones, to lend more to SMEs and women-owned enterprises. As Cao Thi Minh Hanh suggests,

"The state should help enterprises access different sources of capital, including international sources of credit. Now my company is so much bigger than I imagined it could be when I started it, but without better access to capital, I won't have the courage to continue expanding it."

Finally, improving businesswomen's access to training in the areas of financial, accounting and management would greatly improve their capacity to manage cash flow.

SAVING PENNIES TO MAKE PROFITS BE CREATIVE IN FUNDING YOUR BUSINESS



CAO THI MINH HANH, 47, is the general director of International Trading and Shipping Co. Ltd. (ITS). Before founding ITS in 2000 with two other partners, Hanh worked for a state-owned ship chartering company for fifteen years and then for a shipping joint venture for several years. Her company now has four branches across the country and provides a range of services, including freight forwarding, import/export services, and investments for shipbuilding. Despite its remarkable success so far, ITS will need increased access to capital and improved financial management to continue its growth.

My business is the first private shipping company in Vietnam to provide investments for shipbuilding. Its success has been possible because my business partners and I were able to mobilize a huge amount of capital from families, friends, and other informal sources.

Formal capital such as bank loans, on the other hand, accounts for only 20 percent of our total capital. Collateral is the biggest issue we have encountered when applying for bank loans. My partner and I have to use our houses and land as collateral, but even then we can only borrow up to 70 or 80 percent of the real value of our properties; my house and land allow me to borrow only VND1 billion (approximately US\$ 65,000) from the bank. We've been able to find customer contracts worth US\$ 200,000, but with only such small loans from the bank, we would never be able to fulfill those big contracts. We can only take on a couple of small projects, up to the value of US\$ 3 0,000, at one time.

Getting loans from the bank can also be very troublesome. Any time we want to get a bank loan, we have to go through a lot of paperwork and complicated procedures. We have to get signatures from several people, such as the precinct officials and the district authorities, and there are many unreasonable requirements.

Three years ago, when we needed capital to invest in shipbuilding, we managed to borrow 80 percent of the necessary VND35 billion (US\$2 million) from a state-owned financing company. The loan has to be repaid in quarterly installments for about 10 years. Even with this loan, it was still very difficult for us to come up with the 20 percent deposit - the so-called "corresponding amount" - that financing companies always require from borrowers.

Our reputation and credibility have enabled us to borrow from informal sources, but those sources are finite. We will need to have better access to formal sources of capital if we want to continue to grow. Within the next couple of years, as Vietnam joins the World Trade Organization, the government will have to open our currently protected shipping market to foreign companies, and competition will definitely increase.

My solution to the problem of insufficient capital is to use the funds I have effectively. This means that I continuously have to turn over the capital by investing and reinvesting profits back into the business. If a company has unused capital, that means its management doesn't know how to do business. I also try to tap into different sources of capital. For example, I have set up a joint-stock group under which my company and two other private firms help each other financially.