

Access to Finance and Innovation in Small and Medium Enterprises

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Abstract

This paper examines the relation between a firm's capacity to access external capital and its innovation among SMEs in Vietnam. We find that SMEs with high debt ratio tend to be more innovative. After controlling for several firm characteristics, long term debt remains significantly positively correlated with innovation. We further show that both bank loans and loans from family and friends help these firms innovate, especially in developing new products and/or technology. Overall, our paper suggests that external financing plays an important role in enhancing innovation in small and medium enterprises.

JEL classification: G31, G32, O32

Key words: access to finance, external capital, financing, innovation, SMEs