

LEGAL SOLUTIONS FOR FINANCIAL SUPPORT TO SMALL AND MEDIUM ENTERPRISES IN VIETNAM

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Abstract

Small and medium enterprises (SMEs) have a major role in promoting employment, innovation and economic growth in Vietnam. However, financial support and lack of access to finance is a persistent hindrance that limits their competitiveness and development. While existing research studies highlighted the importance of legal and institutional frameworks in easing financial constraints, there is scarcity of empirical research in the context of Vietnam. This study provides empirical evidences on the legal solutions for financial support to SMEs in Vietnam over 2000 to 2024 period. Drawing on the Theory of Institutional Quality, the study examines how legal solutions support financial access to SMEs controlling for inflation, economic growth and trade. The empirical analysis is conducted using ARDL Bound testing approach and Canonical Cointegrating Regression. The findings endorsed that legal solutions have positive and significant impact on financial support in the short run, however its effect is insignificant in the long run. Economic growth and trade impact financial support significantly and positively both in the short run and the long run. However, the effect of inflation is negative in the short run, but positive in the long run. These findings are found robust in Canonical Cointegrating Regression and Granger Causality analysis reveals that no causal association is present between legal solutions and financial support. The outcomes of the study provide new insights into the role of legal reforms and offer worthy policy recommendations to improve financial support for SMEs in Vietnam.

Keywords: Legal solutions; financial support; small and medium enterprises; Vietnam

1. Introduction

SMEs constitute a major portion of employment and projects in the private sector of many economies. SMEs play an important role in the economic growth and development as they are considered to be the backbone and foundation for all economies (Abbasi, Wang, & Abbasi, 2017). According to a recent estimate, formal SMEs has a contribution of up to 33% to GDP and 45% of the total employment in emerging economies as cited in (Wachira, 2019). Not only this, but SMEs has a major contribution to the employment at global level also as they contribute to 85% of the global employment growth over the period 2002 to 2010. However, for their continuous growth, financial support is one of the necessary elements which are required throughout the lifecycle of the SMEs. Smooth and easy availability of funds is highlighted to be a central element for the development, accomplishment and improvement of SMEs. However, these enterprises are facing severe shortage of funds after global financial crises (2007-2008) which hit growing and emerging small businesses financially. SMEs' demand for credit has been declined as it became harder for them to access finance easily due to the reluctance of the bank to lend them finance due to the involvement of high risk (Wachira, 2019). Therefore, SMEs, as compared to the large enterprises, report facing major hindrances in financial support and access to funds (Abbasi et al., 2017).

In this case, it is essential to uncover determinants that significantly impact the ability of SMEs to access capital for growth. Existing literature has documented several important determinants such as gender, age, education level, business or firm size and location. Similarly, governance and legal policies have recently become imperative financial solutions for SMEs (Dzomonda, 2022). Government policies not only impact economic development, but they also have significant effect on the performance and success of SMEs. The policies adopted by government play a vital role in creating financial facilities for SMEs so that they perform in effective ways and ultimately lead to strengthening of the economy. The better institutional quality promote the development of credit markets by the enforcement of legal rights, providing more authentic information, facilitating transactions and gathering and distributing capital and information (Wang, Xiang, & Han, 2023). Governments, particularly in developing economies, can modify and expand their financing policies by introducing several financing schemes for entrepreneurs and SMEs to improve their conditions, growth and survival in the market. Moreover, governments also support innovative ventures so that SMEs can generate funds for profitable projects and also provide conducive environment to support the growth of SMEs (Abbasi et al., 2017). Furthermore, in recent time, governments in collaboration with international SME support associations, facilitate financial support to SMEs through supervision of public financial institutions that finance SMEs projects, subsidizing the private financing organizations at attractive terms and involvement in the entrepreneurship with investment funds. These government interventions benefit the SMEs by relaxing financing constraints and improving their access to finance which make it feasible for them to perform better in business activities in public sector (Abbasi et al., 2017).

Keeping in view this discussion, the aim of the present study is to analyze the role of legal solutions in solving financial problems of SMEs in Vietnam over 2000 to 2024 period. The decision to focus on this country is influenced by the fact that although SMEs play an important role in fostering innovation, employment opportunities and growth in developing economies like Vietnam, but they often face difficulties in accessing financing support, particularly from formal institutions. Although, there is significant structural transformation and remarkable growth in Vietnam's economy in recent years, mainly driven by SME sector, its transition towards market oriented economy led to increase in demand for financial services in SMEs as shown in Figure 1. However, like many developing countries, the financial sector in Vietnam, prioritize financial support to more established and larger enterprises and therefore SMEs face difficulties in accessing finance for their expansion and growth initiatives (Ngan, 2024). Therefore, understanding the role of legal solutions in financial support for SMEs is necessary for SMEs, financial institutions and policymakers. By analyzing the influence of legal solutions on financial access or support, the present research significantly contributes to the literature by filling some critical voids in the literature. First, though previous research studies have tried to explore the relationship between legal solutions and financial support in different countries and regions, Vietnam, however received less empirical attention in this regard. Secondly, qualitative assessment or descriptive analysis of case studies mostly remained the focus of previous research studies and a few studies have made quantitative assessment of the relationship between legal solutions and financial support to SMEs in Vietnam. Notably, this quantitative assessment would help in understanding whether legal reforms and institutional practices would ease financial access to SMEs in Vietnam. Overall, the present research aims to answer the main research question: Is there any impact of legal solutions on financial support to SMEs in Vietnam?

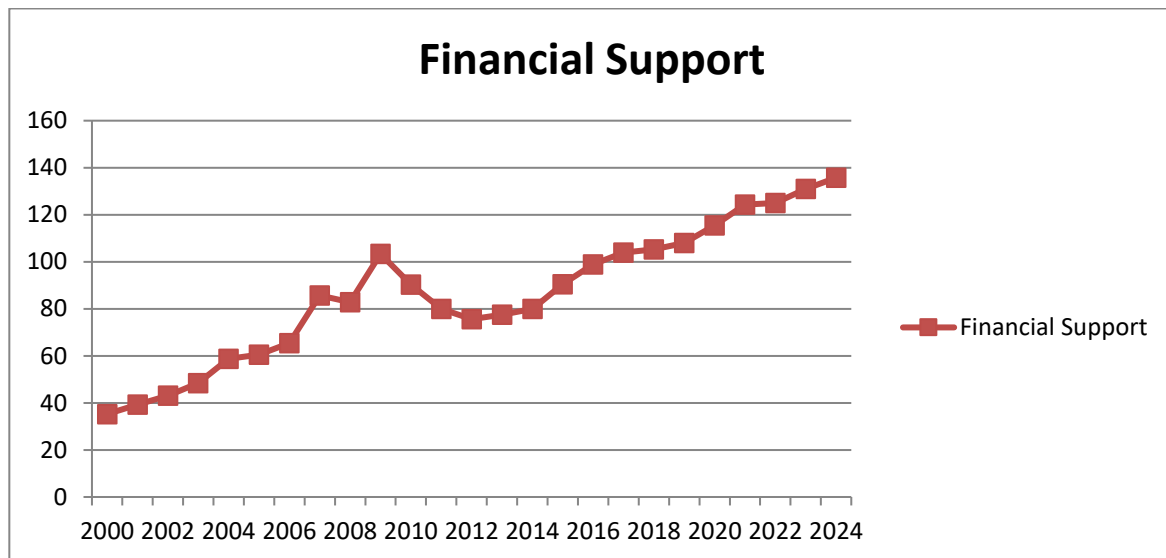


Figure 1: Need for Financial Support in Vietnam over 2000 to 2024 period

The rest of the study is organized in the following order: after this brief introduction given in section 1, review of relevant literature is provided in section 2. Data and methods of estimation are provided in section 3. Section 4 covers results and their discussion. Lastly, we provide conclusion and policy recommendations in section 5.

2. Literature Review

We divide this section into two sub sections: sub section 2.1 provides theoretical framework, empirical review of literature and hypothesis development and a concise research gap is provided in sub section 2.2.

2.1 Theoretical Framework and Hypothesis Development

SMEs have a crucial role to play in fostering innovations, generating employment opportunities and driving economic growth, however, they face disproportionate constraints in financial support and access to finance (Ngan, 2024). This makes the legal and institutional environment a main determinant of the financial solutions for SMEs. Building on the theory of institutional quality, this framework explains how legal solutions reduce financial constraints for SMEs in Vietnam. According to the Institutional Theory proposed by North (1995), government initiatives, regulatory frameworks and public policies are external factors that ease and legitimize commercial operations (Hamzah & Rahmawati, 2025). According to this theory, institutional pressures and legal requirements significantly impact organizational practices and behaviors and businesses in SMEs sector commonly comply with these institutional pressures to obtain resources, get legitimacy, and ensure their survival in developing areas particularly. These institutional pressures include government initiatives, interventions and laws that affect how SMEs carry out their business operations, including financial management techniques and capital availability. The actions taken by government, either in training initiatives, market facilitation and behaviour in capital access or legislative incentives, create institutional pressure that modifies SMEs behavior, especially in areas where financial management standards are not adequate. These institutional forces enable SMEs to overcome structural and operational hindrances that lead to financial instability, as well as encourage them to enhance their center capacities. Thus government initiatives modify institutional context which influence financial viability of SMEs. Moreover, high institutional quality provides stability and transparency to the

local business and socio-economic systems, reduces unfair competition and corruption, and increases reciprocity and trust among economic agents (Ganau & Rodríguez-Pose, 2019). Good institutions reduce transaction costs and promote informal credit lending based on friendships and family ties as well as cross-firm trade financing through repeated production transactions, with local businesses more likely to award contracts and postpone payments to business partners who are struggling financially (Ganau & Rodríguez-Pose, 2022). In a nutshell, the theory of institutional quality provides a helpful perspective for understanding how business practices interact with institutional arrangements (Hamzah & Rahmawati, 2025).

However in the existing literature, a few studies have examined the financial constraints or problems of SMEs at global or regional level. For instance, Bui, Pham, Pham, and Van Ta (2021) examined the impact of legal and financial constraints on firm growth in Vietnam before and after global financial crises. Both financial and legal constraints were found to reduce firm growth before financial crises period. However, their negative effect was reduced in after crises period. Yoshino and Taghizadeh-Hesary (2017) examined the difficulties that hinder SMEs access to finance and proposed remedial solutions including utilization of credit rating techniques, asymmetric information, and development of specialized private banks etc. to ease their access to finance. Abbasi et al. (2017) reviewed different alternatives for financing options for SMEs and proposed that government policies are one of them. Likewise by collecting data of Vietnamese SMEs through questionnaires, N. T. Nguyen and Wongsurawat (2012) analyzed the role of government policies in development of SMEs. According to the findings, government policies had a positive impact on their development. P. A. Nguyen, Uong, and Nguyen (2020) analyzed the effect of innovations in SMEs on credit accessibility over 2005 to 2015 period. The findings of regression analysis indicated that some of the innovations in SMEs had significant impact on credit access of SMEs. Hamzah and Rahmawati (2025) examined the moderating impact of government on credit accessibility, financial planning, and financial record keeping systems and financial sustainability in SMEs in Kuningan Regency. Using structural equation modeling, government was found to positively moderate the relationship between financial record keeping and financial sustainability only. Korankye-Sakyi, Abe, and Yin (2023) reviewed the impact of banking reforms on SMEs access to finance in Ghana and found that legal reforms in Ghana had no significant impact on banking reforms in Ghana as compared to Nigeria and South Africa. Taking data of SMEs in 13 EU countries, Mättö and Niskanen (2021) studied the role of rule of law on differences in working capital of SMEs and according to the findings legal instruments at country level explained differences in working capital of SMEs.

In continuation, Ngan (2024) examined the factors affecting the decision of SMEs to apply for a bank loan in Vietnam by collecting data through questionnaires and conducting hypothetical deductive testing approach. The outcomes of the study indicated that firm size, educational background of firm's owner, interest rate and collateral availability exhibited negative association with SMEs decision to apply for loan. Similarly, by collecting data of SMEs' employees and managers through questionnaires in four Asian Pacific countries, Marwan (2020) analyzed the role of networking in access to finance. The structural equation modeling was used in the study and the findings revealed that legal channels mediated the relationship between networking with officers and access to finance. Beck (2007) reviewed the existing literature to find how SMEs in developing countries are constrained by institutional and financial obstacles and the reluctance of financial markets to reach out them due to difficulties in financial costs and managing costs. The study suggested the effective role of government in providing regulatory

framework, institution building and undertaking of market friendly activist policies to enhance involvement of government in financing of SMEs. H. T. Nguyen, Nguyen, Dao, and Nguyen (2024) analyzed the 9 groups of factors affecting capital access to SMEs in Vietnam including financial reporting, operational properties of the business, enterprises' financial behavior, social relations, capability of the SMEs, and business and production plan of the enterprise, ability to adapt to the risks, institutional environment and characteristics of the business owner. Data was collected by surveying 450 SMEs and analyzed using structural equation modeling. The findings indicated that all these groups influenced SMEs' access to capital. Fouejieu, Ndoeye, and Sydorenko (2020) analyzed the impact of institutional stability and government effectiveness on SMEs access to finance in countries of CCA and MENAP regions and findings indicated that better governance help reduce the gaps in financial inclusion of SMEs among countries of both regions. Wang et al. (2023) studied the moderating effect of legal reforms on the impact of financial development on SMEs' finance using cross country data. The outcomes endorsed that strong and better legal systems led to pronounced effect of financial development on access to finance of SMEs. Building on this literature, the following hypothesis is formulated in the present study:

H1: There is a significant impact of legal solutions for financial support to SMEs in Vietnam.

2.2 Research Gap

The review of existing literature indicates that despite growing concern of SMEs in fostering innovations and growth, their financial problems remain one of the barriers in developing countries. However, a few studies have focused on the role of legal solutions and government programs on financial constraints at regional and global level. Particularly, the impact of legal solutions on financial access in Vietnam received less empirical investigation. Secondly, previous studies have mostly analyzed SMEs financial challenges using qualitative data or descriptive case studies, and there is lack of empirical estimations that analyze the role of legal solutions for financial problems using secondary data in Vietnam. Therefore, this study aims to fill this gap in literature by quantitatively analyzing how legal reforms influence financial problems of SMEs in Vietnam using secondary data.

3. Methodology

Referring to the theoretical foundations of the Theory of Institutional Quality, the study primarily aims to analyze the impact of legal reforms on financial solutions in SMEs and baseline model of the study is specified as follows:

$$FS_t = \beta_0 + \beta_1 LS_t + \varepsilon_t \quad (1)$$

Where, FS and LS denote financial support and legal solutions and ε_t is error term. Furthermore, following the studies of Carbo-Valverde, Rodriguez-Fernandez, and Udell (2016) and Ademosu and Morakinyo (2021), we add inflation, trade and economic growth as viable determinants of FS and resultantly we get the final form of the model as follows:

$$FS_t = \beta_0 + \beta_1 LS_t + \beta_2 INF_t + \beta_3 TRD_t + \beta_4 EG_t + \varepsilon_t \quad (2)$$

Where, INF, TRD and EG indicate inflation, trade and economic growth, respectively. Data of these variables has been collected from secondary sources over 2000 to 2024 period and description and measurement of the variables are provided in Table 1.

Table 1: Description and Measurement of Variables

Variables	Measurement	Source of Data
Financial support	Domestic credit to private sector(% of GDP)	World Development Indicator
Legal solution	Rule of law (estimate)	World Development Indicator
Economic growth	GDP constant US\$	World Development Indicator
Inflation	Inflation, GDP deflator	World Development Indicator
Trade	Trade (% of GDP)	World Development Indicator

3.1 ARDL Bound Testing Approach

First of all, the data set undergoes unit root testing to determine the stationarity properties to check the order of integration of the variables of the study. For this purpose, we use Augmented Dickey Fuller (ADF) developed by Dickey and Fuller (1979) and Philips Perron (PP) unit root tests proposed by (Phillips & Perron, 1988). After assessing the exact order of integration, we predict the short run and the long run parameters using the autoregressive distributed lag model (ARDL) estimation proposed by (Pesaran, Shin, & Smith, 2001). This estimation technique is capable of handling variables having mixed or different order of integration and provides unbiased and efficient results as compared to other estimation methods that require all variables to be integrated of the same order of integration. This is a two-step estimation procedure in which we estimate the unrestricted error correction mechanism (ECM) in the first step of the estimation. The long run form of the specified model is given as follows:

$$\Delta FS_t = \alpha_0 + \sum_{i=1}^s \alpha_{1k} \Delta FS_{t-j} + \sum_{i=0}^s \alpha_{2k} \Delta LS_{t-j} + \sum_{i=0}^s \alpha_{3k} \Delta INF_{t-j} + \sum_{i=0}^s \alpha_{4k} \Delta TRD_{t-j} + \sum_{i=0}^s \alpha_{5k} \Delta EG_{t-j} + \beta_1 FS_{t-1} + \beta_2 LS_{t-1} + \beta_3 INF_{t-1} + \beta_4 TRD_{t-1} + \beta_5 EG_{t-1} + \varepsilon_t \quad (3)$$

In equation (3) α_0 is intercept, Δ is operator showing difference, s shows lag order and ε represents error term. The short run parameters for the model can be computed as follows:

$$\Delta FS_t = \alpha_0 + \sum_{i=1}^p \alpha_{1k} \Delta FS_{t-j} + \sum_{i=0}^p \alpha_{2k} \Delta LS_{t-j} + \sum_{i=0}^p \alpha_{3k} \Delta INF_{t-j} + \sum_{i=0}^p \alpha_{4k} \Delta TRD_{t-j} + \sum_{i=0}^p \alpha_{5k} \Delta EG_{t-j} + \alpha ECM_{t-1} + \varepsilon_t \quad (4)$$

Where, ECM shows the lag value of ECT which is computed from the error term of the long-run equation 6. The value of ECT shows the speed of adjustment of the model to revert to the long-run equilibrium if it is deviated in the previous period. Furthermore, we check the stability of the ARDL model using the autocorrelation test, heteroscedasticity, and the recursive estimates namely the cumulative sum (CUSUM) and cumulative sum of squares (CUSUMSQ) tests.

3.2 Canonical Cointegrating Regression (CCR) and Granger Causality Analysis

To confirm the validity of the ARDL method, CCR method proposed by Park (1992) is applied as robustness check. This approach corrects errors in the least squares estimation by transforming data through long-range covariance matrix. This transformation eliminates the asymptotic internality arising mainly from long term correlation and this transformation makes cointegrating model to remain unchanged (Zimon et al., 2023). The CCR adjustment is used to separate error terms from zero-regularity explanatory variables in cointegrating models. This results in chi-square testing and an approximate effective estimation (Pattak et al., 2023). Lastly, to check the direction of causality among variables of the study, Granger Causality test proposed by Granger (1988) is applied in the present study. The basic equations of this test are given as follows:

$$Z_t = \sum_{j=1}^m a_j Z_{t-j} + \sum_{j=1}^m b_j Y_{t-j} + \varepsilon_t \quad (5)$$

$$Y_t = \sum_{j=1}^m c_j Z_{t-j} + \sum_{j=1}^m d_j Y_{t-j} + \varepsilon_t \quad (6)$$

The scheme of empirical analysis is graphically presented in Figure 2.

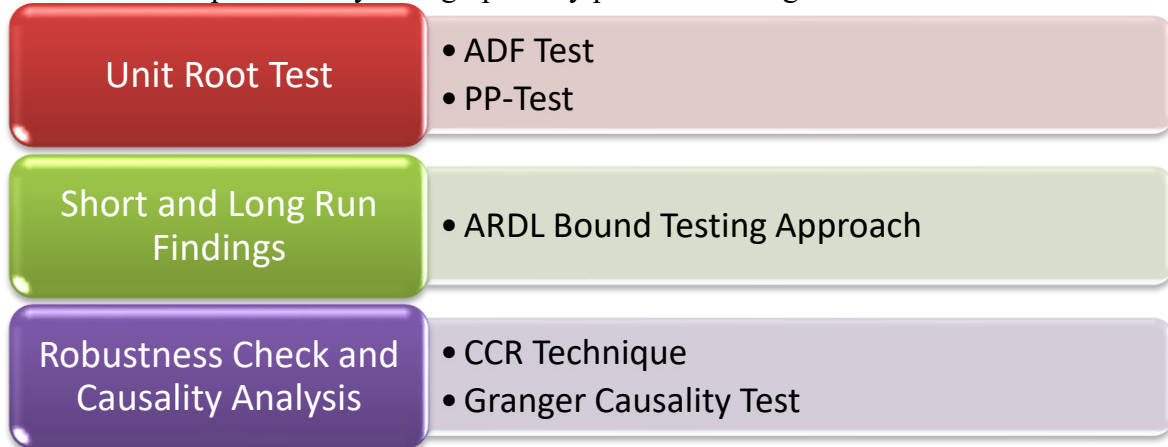


Figure 2: Methods of Empirical Analysis

4. Results and Discussions

The empirical analysis begins by summary statistics which provide some basic data characteristics including mean, standard deviation, data range (minimum and maximum values) and normality of data series. The corresponding outcomes are reported in Table 2. It is evident that except, LS all of the data series have positive value for mean. The highest value of mean is possessed by EG, whereas LS has the lowest mean value. Similarly, the highest value of standard deviation which indicate the variability about mean is possessed by EG and LS has the lowest value of standard deviation. Moreover, the range of all data series is also given in Table 2.

Table 2: Descriptive/ Summary Statistics of Variables

Variables	Mean	Standard Deviation	Minimum value	Maximum value
FS	86.556	28.959	35.259	135.744
LS	-0.358	0.2296	-0.679	0.0653
INF	7.930	9.3970	-1.7165	42.303
EG	2181100	9491000	9351000	4061100
TRD	142.3899	21.898	111.417	186.67

The findings of correlation matrix given in Table 3 show that issue of multicollinearity is not present among the variables. The values of coefficients lie within the acceptable range i.e., less than 0.8. Moreover, the findings show that LS, and INF are positively, but EG and TRD are negatively correlated with FS of SMEs. However, the values of the correlation coefficients are not statistically significant for any of the regressors.

Table 3: Matrix of Correlation

Variables	FS	LS	INF	EG	TRD
FS	1.000				
LS	0.257	1.000			
INF	0.4203	0.2053	1.000		
EG	-0.4655	-0.3378	-0.3282	1.000	
TRD	-0.2088	-0.5738	-0.3100	0.5781	1.000

Next, as shown in Table 4, the findings of the unit root tests show that the variables of the study follow different order of integration as some variables are stationary at level and other become stationary after taking the first difference, suggesting that a mixed order of integration exists in the dataset.

Table 4: Results of Unit Root Test

Variables	ADF		PP Test	
	Level	First difference	Level	First Difference
FS	-0.759	-4.924***	-0.772	-4.925***
LS	-1.178	-5.026***	-1.181	-5.026***
INF	-3.189**	-----	-3.198**	-----
EG	4.991	-4.549**	11.287	-4.616**
TRD	-1.411	-3.631**	-1.450	-3.398**

Where, ***=P=0.000, **=P<0.05 & * P=>0.05

The next step in the analysis is the cointegration test. For this purpose, ARDL Bound testing approach is applied to ascertain the presence of the long run relationship between FS and its selected determinants. The null hypothesis of this test assumes that no long run relationship is present among the variables of the study. According to the results provided in Table 5, the F statistics value is 14.606, which is greater than both lower and upper bound tests implying that there exists a long run relationship between FS, LS, EG, INF and TRD in Vietnam. After the confirmation of the long run relationship, the findings of the ARDL estimation are given next.

Table 5: Outcomes of ARDL Bound Test

Statistics	Value	K
F-statistics	14.606	4
Significance level	I(0)	I(1)
10%	2.2	3.09
5%	2.56	3.49
2.5%	2.88	3.87
1%	3.29	4.37

The short run results of the ARDL model are shown in Table 6. ECM is statistically significant and coefficient has magnitude less than 1 indicating that the model diverges to the long run equilibrium eventually. According to the short run estimation, LS impacts FS significantly and positively which is confirmed by statistically significant related coefficient. A plausible justification for this finding is that in the presence of better legal systems, there is more protection for the investors which enhances the financial support and credit access for SMEs (Mättö & Niskanen, 2021). Overall, the quality of institutions is associated with the SMEs access to finance by improving loan recovery and collateralization and facilitating formal lending products which are important for SMEs which lack credit access (Fouejieu et al., 2020). This finding is consistent with the results provided by Do, Van Thuong, Phong, and Van Dung (2019) who argued that financial management regulations promoted financial access of SMEs in Vietnam. Similarly, the conclusion put forward by Mättö and Niskanen (2021) that legal

instruments are responsible for the cross country differences in gaining working capital also matches with the findings of the present research.

Secondly, the coefficient of INF is statistically significant and negative in the short run which affirms that INF impeded FS for SMEs in Vietnam. A plausible explanation for this finding is provided by the fact that INF is related with macroeconomic instability which erodes the return of lenders which hinders financial support for SMEs. The outcomes provided by Fouejieu et al. (2020) are in line with the present study by arguing that INF has negative impact on financial inclusion of SMEs. The outcomes of Ademosu and Morakinyo (2021) strongly favour the outcomes of the present study by arguing that INF reduces the value of credit facilities which makes loan repayment difficult for the firm which hinders their credit access from the market.

Table 6: Short Run Results of ARDL

Variables	Coefficient	P- value
Error correction mechanism (ECM)	0.527***	0.000
D(FS)	-1.392**	0.0088
D(LS)	35.513**	0.003
D(INF)	-0.757**	0.0072
D(EG)	0.0002*	0.052
D(TRD)	0.367***	0.0022

Where, ***=P=0.000, **=P<0.05 & * P=>0.05

Third, the short run results show that relationship between EG and FS is positive and significant as indicated by statistical significance of the concerned coefficient. This finding implies that EG facilitates access to finance for SMEs which further facilitates economic development through feedback loop. This outcome is in line with Trujillo-Ponce, di Pietro, Corredera-Catalán, and Mandras (2025) and Suriani, Nur, Fatmawati, and Baharuddin (2024) who argued that higher EG enhances SMEs productivity. Lastly, TRD also impacts FS significantly and positively as the concerned coefficient is positive and statistically significant. This implies that TRD facilitates FS for SMEs. This finding is plausible as trade credit is a major source of finance for SMEs in the absence of bank credit (Carbo-Valverde et al., 2016). This finding is in line with Carbo-Valverde et al. (2016) and Hoang, Xiao, and Akbar (2019) as these two studies report that trade credit impact firm's productivity and access to finance positively.

The long run estimates of the ARDL model are provided in Table 7. First of all, we find that LS has positive but insignificant impact on FS in the long run. The statistically insignificant and positive coefficient attached with LS affirms this claim. This asserts that although LS impacts FS significantly in the short run, it does not influence it in the long run. This can be attributed to the significant gap between formulation of the policies and their implementations in Vietnam's policy regime which lead to ineffective financial support for SMEs in Vietnam (T. H. Nguyen, Alam, & Prajogo, 2008). Likewise, INF, which impacts FS negatively in the short run, affects FS positively in the long run. This can be due to decline in default risk and real liabilities of the firms and therefore impact FS positively in the long run (Corhay & Tong, 2025). However, similar to the short run, there is statistically significant and positive impact of EG and TRD on FS in the long run.

Table 7: Long Run Results of ARDL Estimation

Dependent variable	Coefficient	t-stat	P-value
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(FS)			
LS	10.505	1.750	0.178
EG	0.0086**	3.402	0.042
INF	4.571*	3.111	0.052
TRD	-2.331	-2.186	0.116

Where, **= $p > 0.05$ and *= $p < 0.05$

Lastly, Table 8 shows the results of all diagnostic tests performed to check the efficiency and stability of the ARDL estimates. These tests include autocorrelation, heteroscedasticity, and Ramsey Reset tests. The results imply that ARDL estimates are free from the issues of autocorrelation, heteroscedasticity, model misspecification and omitted variable bias as indicated from the statistically insignificant test statistics. Furthermore, the stability of the ARDL estimates is also confirmed by the plots of CUSUM and CUSUMSQ illustrated in Figure 3. According to the 95% confidence interval, the fitted values of the both plots fall mostly within the lower and upper critical bounds at 5% level of significance confirming the stability of the ARDL elasticity estimates across the study period.

Table 8: Findings of Post ARDL Diagnostic Tests

Tests	Statistics	P-value
Serial Correlation	3.489	0.354
Heteroscedasticity	0.129	0.998
Ramsey RESET	0.679	0.566

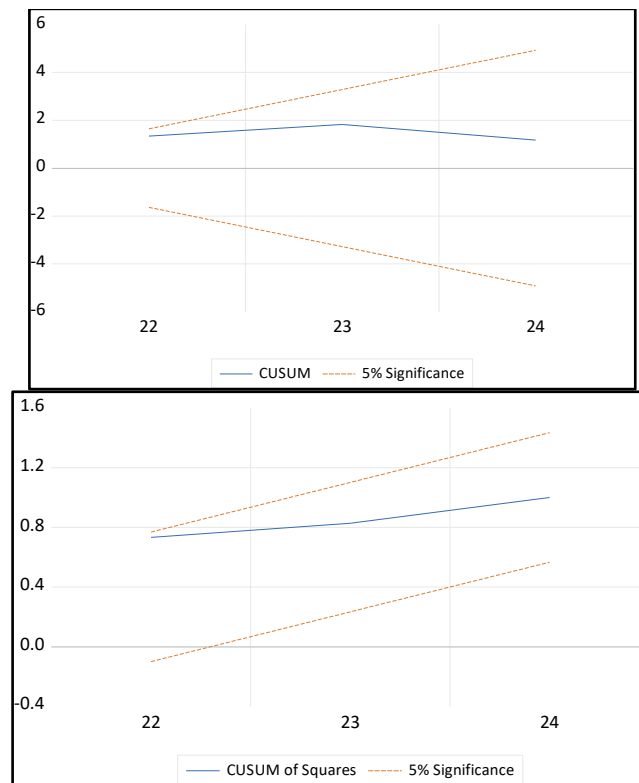


Figure 3: CUSUM and CUSUMSQ Plots for Parameter Stability

The outcomes of ARDL Bound testing approach are re-assessed by using CCR approach. The findings of this approach are given in Table 9 which show similar insights regarding the impacts

of LS, INF, EG and TRD on FS. According to this estimation, LS has insignificant impact, but INF, EG and TRD have positive and significant impact on FS.

Table 9: Robustness Check Using CCR Estimation

Variables	Coefficients	t-stat	P-value
LS	5.285	0.385	0.704
INF	0.767**	2.970	0.008
EG	0.0021***	4.824	0.000
TRD	0.467**	3.037	0.007

Where, ***=P=0.000, **=P<0.05 & * P=>0.05

Lastly, we check the direction of causal association among variables using Granger Causality test and its findings are shown in Table 10. We find that LS, EG and TRD do not granger cause FS and a bidirectional causal association is present only between INF and FS.

Table 10: Results of Granger Causality Test

Null Hypothesis	F-Stat	P-value
LS has no causality with FS	1.4622	0.259
FS has no causality with LS	1.122	0.348
EG has no causality with FS	2.145	0.146
FS has no causality with EG	0.082	0.921
INF has no causality with FS	2.756*	0.090
FS has no causality with INF	29.227**	0.006
TRD has no causality with FS	2.355	0.125
FS has no causality with TRD	0.713	0.504

Where, **=p>0.05 and *=p<0.05

5. Conclusion and Policy Recommendations

Under the umbrella of the theory of institutional quality, the present study analyzed the effect of legal solutions on financial support for SMEs in Vietnam over 2000 to 2024 period. Unlike previous studies, which mainly focused on qualitative assessment of the relationship, the present study analyzed the relationship at macro based quantitative data. Using ARDL Bound Testing approach, the findings provide fascinating evidence that legal solutions impact financial support positively and significantly in the short run facilitating the access of finance for SMEs. However, its effect is found to be insignificant in the long run, showing that although legal reforms ease financing problems initially, however, their impact fades out in the absence of stable institutional support and corresponding policy measures. Regarding control variables, economic growth and trade have positive and significant impact on financial support both in the short and long run. However, inflation impacts financial support positively in the short run but negatively in the long run. CCR findings confirm the robustness of the ARDL elasticity estimates and the findings of Granger Causality analysis reveal that bidirectional causal association is present only between inflation and financial support and no other regressor has causal association with financial support.

We propose following policies on the basis of these findings. First of all, government in Vietnam should enforce the implementation of laws and regulations as the long term impact of legal solutions requires contract enforcement and improved judicial efficiency. Second, government should maintain confidence of the lenders and reduce information asymmetry over time by building bureaus and inclusive credit registries that cover

SMEs. Thirdly, policy makers should implement policies that allow SMEs to use intangible and moveable assets such as intellectual property and receivables as collateral which will create improvements in credit access. Moreover, in addition to temporary exemptions, the government of Vietnam must design long term policies that lead to formalization and sustainable growth of SMEs. Lastly, government should enhance and strengthen legal frameworks that support crowd funding, fintech innovations and digital lending which provide alternate financing platforms and reduce the over reliance of SMEs on bank credit. Establishment of the feedback mechanisms to check the efficiency of legal solutions will help SMEs to update and adopt frameworks that ensure long run sustainability.

5.2 Limitations of the Study and Future Research Directions

It should be noted that this study has some limitations. A primary limitation of the present study is that it is restricted to Vietnam only and it does not account for differences in firm sizes, countries and regions. Since there is heterogeneity among SMEs across sectors, therefore there can be heterogeneity in the effect of legal reforms across sectors or even between enterprises. Future research studies should use firm level panel data to analyze these differential impacts. Secondly, the time span of the present study covers the period 2000 to 2024. Future research studies can broaden the data span if data is available for previous years. Lastly, future research studies should re-study the hypothesis using non-linear and quantile based approaches to compare and contrast the findings.

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