Chapter 21. Viet Nam

Viet Nam’s SME policy has its roots in the country’s reforms of 1986, and subsequently in the Asian financial crisis, which drove policymakers to ramp up efforts to reduce dependency on FDI by establishing a broader base for growth. The country has traditionally focused on enhancing the legal, regulatory and operational framework for SMEs, but it is increasingly developing targeted measures to enhance productivity and innovation. However, at the same time, it is still focused on improving framework conditions in this area.
Overview

Economic structure and development priorities

Economic structure

Viet Nam is a lower middle-income country located in the Greater Mekong Subregion. It has the third largest population and fifth largest territory in ASEAN\(^1\) with a population of 92.7 million covering 331 231 km\(^2\) (ASEC, 2016\(^{[1]}\)). It possesses a significant share of the world’s bauxite reserves\(^2\) as well as deposits of coal, manganese and offshore oil and gas. The economy remains largely rural and agrarian,\(^3\) but the country is rapidly building up a strong manufacturing sector. This began with textile manufacturing, and Viet Nam is now quickly building up revealed comparative advantage in the production of electronics, benefitting from offshoring from China. Despite this impressive performance, Viet Nam is now showing signs of a dual economy, with non-FDI sectors demonstrating significantly lower productivity and state-owned enterprises (SOEs) continuing to constitute a drag on the economy. The country operates as a socialist market-oriented economy, and its economic policy is mainly set through five-year plans.

Since beginning its *Doi Moi* economic reforms in 1986, Viet Nam has successfully pursued an export-oriented, FDI-driven industrialisation strategy. Exports increased at an annualised rate of 18.6% between 2011 and 2015, and the country has a positive trade balance of USD 15.8 billion (MIT, 2016\(^{[2]}\)). Machinery is the country’s largest...
merchandise export category, with the largest product groups being broadcasting equipment (14% of total merchandise exports in 2016), integrated circuits (5.6%) and telephone components (4.6%). Textile footwear was the country’s fourth largest product group (3.3% of total merchandise exports in 2016). Viet Nam principally exports to the United States (which absorbs 21% of Vietnamese merchandise exports), followed by China, Japan, South Korea and Germany (MIT, 2016).

Meanwhile, the country’s foreign direct investment (FDI) stock reached around 53.19% of GDP in 2015 (World Bank, 2016).

Despite this impressive performance, Viet Nam shows signs of a dual economy. Productivity is low in the non-domestic, non-FDI sector, averaging around 20% of productivity in the FDI sector. The country’s exports are dominated by agricultural commodities and oil, and it runs a current account deficit amounting to around 8% of GDP (IMF, 2017a). State-owned enterprises constitute a particular drag on the economy, and the development of other forms of domestic enterprise is impeded by a variety of factors, including credit misallocation. Credit to SOEs has come down since 2012, but 13.3% of total bank credit was still allocated to SOEs in 2016.

<table>
<thead>
<tr>
<th>Table 21.1. Viet Nam: Main macroeconomic indicators, 2012-2016</th>
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<tbody>
<tr>
<td>Indicator</td>
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<tr>
<td>GDP growth</td>
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<tr>
<td>Inflation</td>
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<tr>
<td>Government balance</td>
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<tr>
<td>Current account balance</td>
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<tr>
<td>Export of goods and services</td>
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<tr>
<td>Imports of goods and services</td>
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<tr>
<td>Net FDI (inflows)</td>
</tr>
<tr>
<td>External debt</td>
</tr>
<tr>
<td>Gross reserves</td>
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<tr>
<td>Domestic credit to the private sector</td>
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<tr>
<td>Unemployment</td>
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<tr>
<td>GDP per capita</td>
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Note: a. IMF staff estimates.

Viet Nam is expected to sustain its strong growth rate over the medium term, underpinned by relatively strong macroeconomic fundamentals. It has managed to maintain a strong external position, reduce inflation to normal levels and achieve a low unemployment rate. Yet it continues to run a negative government balance, and it does not have sufficient reserves in place to cover its external debt. The country’s recent graduation to middle-income status, meaning that it is no longer eligible for preferential loans, will test the sustainability of public finances and may exert further pressure on policy makers to take corrective measures, with further SOE reform likely to play a big role. The government is keenly aware of its limited fiscal space, and it is developing a broad reform agenda with this in mind (IMF, 2017b). Downside risks may also emerge from rapid credit growth, which contributed to a period of high inflation between 2011 and 2012.

Going forward, Viet Nam should continue to leverage its young and educated workforce by further investing in education and skills. Only 0.6% of Vietnamese youth were
classified as NEET (not in education, employment or training) in 2016 (ILO, 2016[6]), and the country was ranked 12th globally for science and mathematics skills in the most recent PISA study (OECD, 2016[7]). This is partially attributable to investment in education (around 18.5% of government expenditure in 2013, last available data) (UNESCO, 2016[8]). Yet employers, particularly those in the most productive industries, often complain of skills shortages, and more could be done to invest in vocational training and skills. As noted above, successful SOE reform will also be critical to sustaining growth over the long term.

Reform priorities

Viet Nam’s long-term economic development priorities are elaborated in its Socio-Economic Development Strategy, which covers the period 2011-20. The three main goals of this strategy are: i) to complete the transition to a socialist-oriented market economy by eliminating remaining barriers to fair competition; ii) to quickly develop a highly skilled workforce; and iii) to rapidly upgrade infrastructure, with an emphasis on the traffic system and big urban infrastructure. Viet Nam also aims to modernise the agricultural sector, for instance via the development of agricultural high-tech zones. By 2020, it would like to have reached an average GDP growth rate of 7-8% per annum, with productivity enhancement contributing at least 35% to this growth.

To realise the objectives of the ten-year strategy, Viet Nam has developed two mid-term plans. The current five-year Socio-Economic Development Plan 2016-2020 echoes many of the themes of the ten-year plan, highlighting the need for structural reforms, environmental sustainability, social equity and measures to address emerging threats to macroeconomic stability. Its main objective is to complete the country’s transition to a socialist-oriented market economy while also developing the areas required to transform Viet Nam into a knowledge-based economy, notably in the area of skills and infrastructure. To achieve this, it aims to increase public-sector efficiency and integrity, to increase and enhance training in STEM subjects, to increase FDI in technology- and knowledge-intensive activities, to upgrade infrastructure (with special consideration of climate change and rising sea levels), to develop business clusters based on regional master plans and to provide more state support for innovative activities, for instance via the creation of start-up training centres, the provision of venture capital (VC) funding, and increased support for research and development (R&D) activities and the use of public-private partnerships (PPPs). It aims to reach a GDP of more than VND 30 600 trillion (Vietnamese dong) in purchasing power parity by 2020, with 85% of output being generated by the industry and service sectors, 60% of the workforce employed in non-agricultural sectors and 65-70% of the workforce employed in skill-intensive activities.

Private sector development and enterprise structure

Business environment trends

Viet Nam performs relatively well among its regional peers on business environment indicators, and it is advancing quickly. It has maintained robust export growth over several decades and has managed to kick-start new industries through the successful attraction of FDI. It demonstrates strong health and primary education outcomes, and foreign investors are drawn to its political stability, relatively low wages and market size (CIEM, 2010[9]). The country is increasingly targeting higher-technology investments, and it has focused on enhancing the legal framework and infrastructure for such investments for about a decade.
Viet Nam is also undergoing a comprehensive process of business environment enhancement. Since the last assessment, it has improved its tax system by abolishing a mandatory carry-forward period for value-added tax (VAT) and by introducing an e-filing platform; it has eased cross-border trade by upgrading its automated cargo clearance system; it has adopted a new code of civil procedure and introduced a law on voluntary mediation to increase the ease of enforcing contracts; it has further facilitated access to credit by adopting a new civil code; and it has decreased electricity liabilities through the creation of an automatic energy management system (World Bank, 2017[10]). It has also increasingly digitised business registration procedures and decentralised licensing procedures, which has reduced processing times in some regions while increasing processing times in others (USDOS, 2017[11]).

Despite these enhancements to the business environment and growing market opportunities, enterprises continue to face constraints. These include burdensome bureaucratic procedures, technical skills gaps, a volatile financial sector, infrastructure gaps, inconsistencies or gaps in the legal framework, issues surrounding land administration and a rather high incidence of graft. They also include barriers arising from limited competition in some activities, as well as a general practice of relationship-based business transactions⁶ (World Bank, 2017[10]). A relatively large share of employers report technical skills gaps, particularly among employees in technical, professional and managerial positions (Bodewig et al., 2013[12]). Credit growth in Viet Nam has been volatile since 2006, with credit spikes followed by sharp slowdowns (World Bank, 2016[3]). Land remains collectively owned. As it cannot be privately owned, it must instead be leased for a stipulated period. This, as well as the application of state ownership rights, has created legal uncertainty in some cases, and land disputes now make up 70-90% of all complaints and petitions (USDOS, 2016[13]). Corruption risks are perceived as particularly high in the areas of land administration, construction and public administration (GAN, 2017[14]).

**SME sector**

Around 442 486 enterprises were known to be operating in Viet Nam when the last official study was conducted in 2015, but the real figure is likely to be much larger. Of those enterprises studied, around 98% were MSMEs (GSO, 2015[15]), and 72.8%, or 322 236, were micro firms.⁷ In common with many other emerging economies, there appeared to be a missing middle in the production structure, with only 1.7% (7 685) of enterprises being medium-sized, a smaller share than the number of large enterprises operating in Viet Nam (2.0%, or 8 812).

MSMEs demonstrate a similar structural contribution to the economy as in OECD countries, accounting for 64% of employment and 45% of GDP. According to customs data, around 14.1% of MSMEs export (VCY, 2016[16]).

**SME policy**

SME policies in Viet Nam have their roots in reforms to transform the country into a market-oriented economy that began in 1986.⁸ Over the 20th century, private enterprise went through a long period of disruption due to ongoing wars with France and the United States (1945 to 1975), and was finally banned from 1976 to 1985 (Tran, Le and Nguyen, 2008[17]). Over this latter period, the economy was restructured around SOEs, which became the drivers of industrial activity and development, while the central government set prices and output targets, and made decisions on the distribution of inputs and outputs.
Following the 6th National Congress of the Communist Party of Viet Nam in 1986, it was decided to abandon the command economy in favour of a socialist-oriented market economy. A series of radical reforms followed, as agriculture was decollectivised, land rights established and most prices liberalised. Private enterprise was permitted from 1990 via the Law on Companies and Law on Private Enterprises, yet it was not fully embraced. Would-be entrepreneurs required a license to operate formally, and this license could be acquired only following months of deliberation, a huge amount of paperwork and a positive discretionary decision.

Instead, FDI was embraced as a motor to drive industrialisation. Between 1990 and 2000, FDI stocks increased from 25.5% to 66.1% of GDP (CIEM, 2010\[9\]). As a result, Viet Nam was badly affected by the Asian Financial Crisis of 1997, with annual net FDI inflows continuing to fall each year until 2000.\[9\] Between 2000 and 2002, a series of laws and institutions were established to provide a framework for targeted SME development policies, with the aim of establishing a broader and endogenous base for growth. The country’s constitution was amended in 2001, which significantly liberalised regulatory constraints to setting up a business in Viet Nam. This was followed by a decree on support for SME development (No. 90/2001/ND-CP), which provided an SME definition and a legal basis for the establishment of a dedicated SME agency (the Agency for SME Development, or ASMED) and an SME Development Promotion Council.\[10\] These entities were founded in 2002 to elaborate, co-ordinate and implement SME policies. In 2005, Viet Nam’s historic Enterprise Law was enacted, and in 2006, the country’s first five-year plan for SME development was implemented. These were followed by a new government decree\[11\] on SME support in 2009. In 2017, the Law on Support for SMEs (SME Law) was passed, replacing all previous decrees on SME support.\[12\]

2018 ASPI results

*Strengthening the institutional, regulatory and operational environment* *(Dimensions 5 and 6)*

Viet Nam began a big push in 2015 to enhance the institutional framework for SME policy making. The culmination of this process was the 2017 SME Law, which took effect on 1 January 2018. The law and an associated decree set out an updated SME definition as well as a set of targeted support measures for SMEs. The country has also been accelerating measures to enhance the regulatory and operational environment for SMEs over the past two years, building on the 2005 Law on Enterprises, but operational obstacles remain, particularly in the area of filing tax. The country’s scores of 4.05 for institutional framework and 3.32 for legislation, regulation and tax reflect these findings.

*Framework for strategic planning, design and co-ordination of SME policy*

The body responsible for formulating and co-ordinating SME policies and programmes is the SME Development Promotion Council. As chair of this council, the prime minister is directly responsible for leading and co-ordinating the country’s SME strategy, with the support of related ministries.

The main body responsible for implementing SME policies and programmes is the SME Division under the Enterprise Development Agency (EDA), which falls under the institutional umbrella of the Ministry of Planning and Investment. The EDA was established in 2010 and is responsible for SME development as well as the reform and development of SOEs. It has operational autonomy and its operating expenses are funded
annually from the state budget. All members of its governance board are officials from the public sector.

Two five-year plans were elaborated for SME development between 2006 and 2015. They were followed by a resolution on supporting and developing enterprises by 2020 (No. 35/2016/NQ-CP) that was enacted in April 2016. The resolution focuses on private-sector development in general and outlines a more ambitious set of objectives than the previous two strategies. It aims to achieve considerable economic restructuring in order to increase the size of the private sector and its role in driving growth, to boost productivity and innovation, and to enable Vietnamese enterprises to compete on the world stage. The EDA implements yearly action plans that aim to meet the objectives of this resolution.

Policy monitoring and evaluation mechanisms are in place, but they mainly consider use of the budget rather than an assessment of impact, and they are exclusively conducted by the implementing agency. However, the private sector is invited to comment on implementation of the strategy twice a year at both the local and national levels. This often takes place via the Viet Nam Chamber of Commerce and Industry (VCCI). An economic census on the number of enterprises in Viet Nam, as well as their contribution to employment and GDP, is conducted annually by the General Statistics Office.

**Scope of SME policy**

The SME Law that took effect on 1 January 2018 set out the broad parameters for an enterprise to be defined as an MSME. It was followed up in March 2018 with a decree providing a new legal SME definition for Viet Nam, as well as further details on the implementation of the SME Law. The definition specifies the criteria and thresholds for determining firm size. It uses both an employment criterion and an indicator of value to determine firm size, either total revenue or total capital, and it applies different thresholds by sector. When an enterprise is engaged in a number of sectors, the sector where it generates the highest revenue will be used, or if revenue cannot be determined, the sector where it employs the most staff will be used. It is too early to know whether the new definition will be used consistently throughout different government bodies.

**Table 21.2. Viet Nam’s SME definition**

<table>
<thead>
<tr>
<th>Size classification</th>
<th>Indicator</th>
<th>Sector</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agriculture, forestry and fishing</td>
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<tr>
<td></td>
<td></td>
<td>Industry and construction</td>
</tr>
<tr>
<td>Micro</td>
<td>either</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total revenue</td>
<td>&lt; VND 3 billion</td>
</tr>
<tr>
<td></td>
<td>or</td>
<td>&lt; VND 3 billion</td>
</tr>
<tr>
<td></td>
<td>Total capital</td>
<td>&lt; VND 3 billion</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>≤ 10</td>
</tr>
<tr>
<td>Small</td>
<td>either</td>
<td></td>
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<tr>
<td></td>
<td>Total revenue</td>
<td>&lt; VND 50 billion</td>
</tr>
<tr>
<td></td>
<td>or</td>
<td>&lt; VND 20 billion</td>
</tr>
<tr>
<td></td>
<td>Total capital</td>
<td>&lt; VND 20 billion</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>11-100</td>
</tr>
<tr>
<td>Medium</td>
<td>either</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total revenue</td>
<td>≤ VND 300 billion (USD 13.2 million)</td>
</tr>
<tr>
<td></td>
<td>or</td>
<td>≤ VND 100 billion (USD 4.4 million)</td>
</tr>
<tr>
<td></td>
<td>Total capital</td>
<td>≤ VND 100 billion (USD 4.4 million)</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>101-200</td>
</tr>
</tbody>
</table>
High informality rates may exclude a large number of SMEs from policy interventions. The informal sector in Viet Nam is estimated to contribute 20% of GDP, and around 82% of jobs are defined as informal. Policy makers have only recently started to address this. The central government has set a target to have 1 million enterprises operating in the country by 2020, and formalisation of informal enterprises is at first glance a quick win to achieve this. Current measures to tackle the informal economy primarily focus on outreach activities, a light touch given the fact that the informal sector is largely disconnected from the broader economy and may never attain sufficient productivity to compete formally. Informal enterprises can access the People’s Credit Funds.

**Development of legislation and regulatory policies affecting SMEs**

The development of regulations and legislation in Viet Nam is governed by the Law on the Promulgation of Legislative Documents. This law includes instruction on when particular good regulatory practices should be conducted. Regulatory impact analysis (RIA) is to be conducted in the development of a range of legislative items such as draft laws, resolutions, decrees and circulars, while public-private consultations (PPCs) should be conducted in the development of all regulations. PPCs are relatively transparent but vary in their representability. All ongoing PPCs are listed on an online web portal. PPCs organised by the central government tend to involve a wide range of stakeholders, while those organised by local government tend to include a narrower range of guests. The VCCI often calls for exceptional consultations. Regulators have started to apply RIA only since 2009, and the practice is thus less developed than PPCs. There is no requirement to assess the impact on SMEs of new or revised regulations, and assessment is not uniformly applied. No handbook has been developed to guide policy makers on the use of RIA.

The government has stepped up efforts to streamline business regulation since promulgation of the resolution on supporting and developing enterprises by 2020. A core focus at the moment is the streamlining of licensing and permit procedures.

**Company registration and ease of filing tax**

Procedures to launch a company in Viet Nam could be simplified. It currently takes around 22 days and costs 6.5% of income per capita to launch a company, involving nine procedures (World Bank, 2017). None of these steps can be fully completed online, and the applicant must interact with seven agencies. In 2011, an Agency for Business Registration was set up to oversee company registration procedures and their enhancement. Business registration can be completed at one-stop-shops in each of Viet Nam’s 63 provinces. Outside Hanoi, these facilities are located within the local offices of the Ministry of Planning and Investment. Support with registration can be obtained from the country’s Business Registration Support Centres, and a guidebook is available online.

Procedures to file tax are relatively burdensome. To comply with regulations, a company must file 14 payments a year, taking 498 hours and amounting to 38.1% of total profits. The payment of VAT is particularly onerous, taking around 219 hours, or 44% of the total time required to file tax.

**E-governance facilities**

Platforms are available for online filing of tax and social security contributions, but not for pension contributions. More could be done to increase the security and usability of these platforms, for instance by creating a unique digital key and a legal framework to govern it. A draft law on electronic signature has been developed but it is not yet in place. This results in a rather fragmented system, with SMEs currently requested by one.
institution to supply information that is already available in the databases of another public institution due to a lack of integration between systems. The government does not currently conduct surveys to assess user satisfaction.

**Facilitating SME access to finance (Dimension 3)**

Viet Nam has a moderately developed financial sector according to global indicators. It is ranked 71st for financial market development by the World Economic Forum (WEF, 2017[18]) and 29th for ease of getting credit by the World Bank (World Bank, 2017[10]). The country scores well on indicators of venture capital availability and its legal rights index, but its score is significantly diminished by relatively weak banks, a casualty of rapid credit growth over the past ten years. The real estate sector and state-owned enterprises absorb a disproportionate amount of credit.18 Collateral requirements are high, averaging 216% of the value of the loan in some surveys (World Bank, 2015[19]), and this can be prohibitive for SMEs. Viet Nam has measures to address this constraint, but they do not work particularly well. Overall, the country has a high level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 123.8% of GDP in 2016 (World Bank, 2016[3]). Viet Nam’s Dimension 3 score of 3.81 reflects these findings.

**Legal, regulatory and institutional framework**

Viet Nam has moderate framework conditions for supplying finance. Facilities to assess and hedge against credit risk are available and functional. The country’s credit reporting system, the Credit information Centre (CIC) under the State Bank of Viet Nam, has been in place since the late 1990s. Initially it provided very little credit information for commercial banks, covering just 2.7% of the adult population by 2007. But significant progress has been made over the last ten years, with the CIC holding credit information on around 51% of the adult population in 2017. In 2013,19 the country adopted a dual credit reporting system, allowing private credit bureaus to operate in the country in order to increase the breadth and depth of credit information. Today these private credit bureaus cover around 19.7% of the adult population (World Bank, 2017[10]). Viet Nam’s credit reporting system now provides at least two years of both positive and negative21 data online, and the CIC is considering collecting data from other service providers, such as utility companies, again to increase the breadth and depth of information. Meanwhile, financial institutions can also use contracting elements such as securitisation to mitigate credit risk. The 2005 Civil Code22 expanded the range of assets that can be taken as security to include mortgages, pledges and security over future assets. In 2012, Viet Nam established a central online movable assets register to replace the old paper-based system; this allows third parties to perform registrations, amendments, cancellations and searches online. In 2014, the country reformed various enforcement procedures,23 for instance by making it easier for a secured party to receive payment directly from a third party (STR, 2018[20]).

Viet Nam currently has two stock exchanges, the Ho Chi Minh Stock Exchange (HOSE), formed in 2000, and the Hanoi Stock Exchange (HNX), formed in 2005. The market capitalisation of these two exchanges is relatively low compared to Viet Nam’s higher-income regional peers, at 24.9% of GDP in 2015, but it is impressive given the country’s income level (World Bank, 2015[21]). To increase transparency and foreign investment, these bourses are being merged in a process expected to be completed by the end of 2018. Such processes can increase the scale and solidity of listing facilities, allowing them more room to develop specialised SME platforms. Viet Nam does not currently have a specialised platform for SMEs, but the HNX does have a secondary market on which
some SMEs can list. This was established in 2009 and is called UPCoM. At the time of writing, UPCoM counted 710 listed companies with a total market capitalisation of USD 27.4 billion, making it more than double the size of HNX’s main board. The market enables enterprises of different sizes to access equity financing with no listing fees. Since 2017, HNX has begun to categorise UPCoM listed firms by size in order to improve monitoring and supervision of the market. Currently, 40 large, 291 medium and 379 small companies are listed. The HNX is looking to establish a platform for start-up firms, and this may accelerate after the merging of HNX and HOSE. There are currently no public programmes to support SME listing.

Sources of external finance for MSMEs

To stimulate bank lending to SMEs, the government mostly deploys credit lines and guarantees. The provision of credit lines for SME lending is governed by Article 6 of Circular No.35/2012/TT-BTC. Perhaps the most substantial credit line is the SME Development Fund. The fund was created in 2013 with an initial capital injection from the state budget of VND 2 trillion (around USD 100 million), and it received additional capital allocations over the first three years of its existence. It funds short- and medium-term loans to SMEs operating in the agriculture, forestry and fishery sectors; processing and manufacturing; and water supply, waste and wastewater management and treatment, under Article 5 of Circular No.13/2015/TT-BKHDT. Three Vietnamese banks have access to this fund: the Joint-Stock Commercial Bank for Investment and Development of Viet Nam (BIDV), the country’s the largest state-owned bank; the Joint-Stock Commercial Bank for Foreign Trade of Viet Nam (Vietcombank); and the Ho Chi Minh City Development Joint-Stock Commercial Bank (HDBank). To provide SMEs with an additional security, a network of credit guarantee funds (CGFs) has been in place since 2001. The funds are established and managed by the People’s Committees of centrally affiliated cities and provinces, and today number up to 27. Partially due to funding constraints, the CGFs do not work well, which reduces banks’ trust that the guarantee will be honoured. Under Decision 58/2013/QD-TTg, all CGFs are supposed to be established with at least VND 30 billion in charter capital, but since this is predominantly allocated from local government budgets few meet this requirement. In addition, guaranteed parties must still put up their own assets as collateral, which automatically prevents many SMEs from seeking guarantees. Only rudimentary monitoring and evaluation mechanisms are in place, and senior officials of provincial People’s Committees play a central supervisory and governance role, which may reduce their independence.

Viet Nam also provides SME financing through the Viet Nam Development Bank (VDB), a specialised state-owned bank established in 2006. The VDB is responsible for implementing the government’s investment and export credit policies, providing export finance and guaranteeing SME loans from commercial banks. The VDB is a legal entity with chartered capital of VND 15 trillion, and this is expected to increase to VND 30 trillion by 2020. In common with most public programmes and institutions established to increase access to financing, the Ministry of Finance is the main institution responsible for supervising the financial performance of the VDB.

A relatively deep microfinance network operates in Viet Nam. Between 1990 and 2004, around 57 NGOs and the country’s Women’s Union implemented microfinance schemes in more than 2 900 communes/wards (29%) and 36 provinces (57%) (VMWG, 2014[22]). In 2013, around 50 microfinance organisations were operating in the country, with a client base of around 10 million and an outstanding portfolio of USD 8.2 billion (VMWG, 2014[22]). Viet Nam has taken significant steps to enhance regulatory oversight
of the sector, such as the 2010 Law on Credit Institutions and a 2005 decree on the organisation and activities of microfinance institutions (MFIs). The decree (No. 28/2005/ND-CP) allowed MFIs to broaden the range of products they provide, and amendments in 2007 broadened the base from which MFIs could receive funds (by allowing them to accept both client deposits and funding from donors). However, regulatory gaps persist, and accurate data on the activities of many MFIs is missing.

A wide range of asset-based instruments is available, and the use of such instruments is rapidly increasing. The volume of factoring used in Viet Nam increased significantly in 2016 – at a rate of 96.4%, the strongest growth in Asia after Malaysia (FCI, 2017[23]). A total of four factoring companies were based in Viet Nam in 2016, and they generated a factoring volume of EUR 658 million (FCI, 2017[23]). Article 26 of Decree 39/2014/ND-CP on Leasing Companies was developed to govern leasing.

Equity instruments are increasingly being used in Viet Nam, and the country is beginning to leapfrog here. Ten PEVC deals were completed in Viet Nam in 2017 with a combined value of USD 0.4 billion (EY, 2018[24]). Deal activity is particularly strong in the consumer sector, with investor appetite buoyed by the country’s rapidly expanding middle class. A regulatory framework for venture capital is being developed under a draft circular. There are currently no public programmes to catalyse venture capital, but this type of investment is growing at a relatively fast pace.

Enhancing access to market and internationalisation (Dimension 4)

Through an outward-looking policy reform, Viet Nam has become increasingly integrated in global trade and is now one of Southeast Asia’s largest exporters. The country’s score of 4.15 for this dimension reflects its mid-stage level of policy development. The score acknowledges Viet Nam’s existing policies and initiatives to drive local SMEs to go global, while suggesting that there is room for improvement to support Vietnamese SMEs in scaling up their role in the country’s exports.

Export promotion

Viet Nam has recognised the importance of conducting export promotion strategies. The Viet Nam Trade Promotion Agency (VIETRADE), under the Ministry of Industry and Trade, defines the country’s export promotion efforts. It formulates policies and measures for business development and provides a wide spectrum of assistance. In promoting Vietnamese SMEs to go global, VIETRADE has received support from the Swiss Secretariat for Economic Affairs (SECO) since 2013 through a programme called “Decentralised Trade Support Services for Strengthening the International Competitiveness of Vietnamese Small and Medium-sized Enterprises”. This programme, with a SECO contribution of around USD 3.3 million, was implemented by VIETRADE via elected provincial organisations for promoting and supporting trade. Its aim is to upgrade the contribution of SMEs to exports in a sustainable manner in key priority export sectors at the regional and provincial levels. The programme also aimed to assist with the establishment of a National Export Council to improve monitoring standards and evaluate the implementation of national export strategies.

Nevertheless, a 2014 assessment delivered by SECO noted that Vietnamese SMEs were trailing despite the country’s rapid export growth (Anh, 2014[25]). The assessment was jointly conducted by Switzerland’s Federal Department of Economic Affairs and Viet Nam’s Trade Promotion Department. It found that limited understanding of foreign markets and international trade issues, along with limited market research and marketing skills, have impeded penetration of the international market by Viet Nam’s SMEs.
Nam was urged by SECO to create clear policies that support SMEs to play a larger role in the country’s exports. More recently, Prime Minister Nguyen Xuan Phuc noted that difficulties faced by SMEs in accessing credit information and market promotion are barriers to their development. He made the comment at the 45th meeting of the APEC Small and Medium Enterprises Working Group in Ho Chi Minh City, the Voice of Viet Nam reported on 17 September 2017. The new SME Law is expected to increase government support for promoting SME development and market expansion.

Integration into GVCs

Viet Nam has set up a regulatory framework to encourage the development of linkages between SMEs and foreign enterprises. This is part of the country’s initiatives to integrate local SMEs into global value chains (GVCs). The Prime Minister’s Decision No. 1556/QD-TTg mandated the government to assist SMEs engaged in ancillary industries to participate in the production networks of multinational companies (MNCs). Moreover, the Prime Minister’s Directive No. 32/2012/CT-TTg encourages the removal of barriers and an improvement in foreign investment policies, and calls for the development of a scheme prioritising the development of enterprises with high competitive advantages over the 2013-2020 period.

FDI has enjoyed preferential policies in Viet Nam. Many policy makers regard FDI as crucial for the country’s economic growth, and this is supported by the fact that FDI companies in Viet Nam account for around 65-67% of national export turnover (Viet Nam News, 2015[4]). The number of Vietnamese SMEs that participate in GVCs is unclear, but estimates suggest that links between small firms and MNCs or larger exporting firms remain weak. This may be due to limited management skills and technology adoption. Many small firms are involved in low value-added assembling activities, and therefore a key challenge for Viet Nam will be to provide support to SMEs to upgrade their production capabilities and product value in order to participate in higher value-added activities.

Government initiatives to enhance SME integration into GVCs have been supplemented by development assistance projects. One notable initiative is a Japanese-funded project “Enhancing the Competitiveness of SMEs in the Southern Economic Corridor of the ASEAN Mekong Subregion”, which is being implemented by the Mekong Institute over the period 2016-2018. This project conducted a product value chain-mapping exercise in four provinces, after which it developed SME clusters in each of these provinces and provided capacity-building activities for participant SMEs. In addition, the World Bank and the Ministry of Industry and Trade published two reports in 2017 that contained recommendations for enhancing SME participation in GVCs (World Bank, 2017[26]; Hollweg, Smith and Taglioni, 2017[27]).

The private sector is also providing support for SME integration into GVCs. Viet Nam Supply Chain, a member of the Australian Chamber of Commerce in Viet Nam, has a programme in place that helps Vietnamese SMEs to evaluate their supply-chain presence and link up with industry professionals, and this service is provided free-of-charge. In 2017, the US-ASEAN Business Council, the VCCI and Coca-Cola Viet Nam held a symposium in Ho Chi Minh City that focused on increasing the supply-chain integration of SMEs through mentoring and training, with a particular focus on improving their competitiveness in the digital age.
Use of e-commerce

E-commerce accounts for around 2.8% of total retail sales and consumption services revenue in Viet Nam, and its use is rising quickly. In 2015, the use of e-commerce increased by 37% over the previous year, according to a report by the Viet Nam E-commerce and Information Technology Agency (VECITA) under the Ministry of Industry and Trade. Viet Nam has set up a regulatory framework to govern electronic transactions. The government issued Decree 101/2012/ND-CP on online payments in 2012 and Decree 52/2013/ND-CP on e-commerce in 2013. A 2011 law broadened the legal framework for consumer protection and set out additional responsibilities and obligations of traders and other third parties with respect to their consumers.

Viet Nam has recently conducted reforms to promote cashless transactions. Despite rapid development of the country’s e-commerce market, cash payments are still estimated to make up around 65% of total sales (SBV, 2016[28]). In January 2017, the country announced a plan to reduce cash transactions to less than 10% of total market transactions and to improve electronic payment methods by 2020. On 30 December 2016, a scheme was approved that aims to promote and facilitate the use of non-cash payments from 2016 to 2020. The scheme aims to enhance the country’s infrastructure for electronic transactions, including the creation of an automatic payment centre by the State Bank of Viet Nam to connect consumers and businesses with commercial banks.

While the regulatory framework for e-payments is still being developed, Viet Nam has established a formal framework for e-commerce in general. Following the establishment of VECITA in 2013, the government set out an e-commerce development plan for the country for the period 2014 to 2020. Nevertheless, specific support for the use of e-commerce by SMEs has not been clearly defined. At a workshop on digital technology for SMEs, held in Hanoi on 2 June 2016, Google Viet Nam noted that only 20% of Vietnamese SMEs were using websites to promote their products and services, while about 70% of the websites were poorly built and hard to access using smartphones (Nhung, 2017[29]). Initiatives to increase SME capabilities in utilising e-commerce have been fragmented. In March 2017, a workshop titled New Trends in Online Business was organised by the Viet Nam E-Commerce Association, in collaboration with the Industry and Trade Department of Dong Nai Province, to train SMEs on promoting their products using e-commerce platforms. A new e-commerce platform to help SMEs in Viet Nam and neighbouring countries in the lower Mekong region was launched in February 2017 with support from the Asian Development Bank. Called the Kiu platform, it has an e-marketplace, a management tool for local SMEs and a shipping service that helps buyers arrange international shipping from the Mekong region.

Quality standards

Viet Nam’s Law on Standards and Technical Regulations was adopted by the National Assembly in June 2006 and took effect in January 2007. It simplified standards and technical regulations into three levels: national and organisation standards, national technical regulations, and local technical regulations. The Directorate for Standards, Metrology and Quality (STAMEQ), under the Ministry of Science and Technology (MOST), advises the government and MOST on state management in the areas of its purview. STAMEQ represents Viet Nam in 14 international and regional organisations, including the International Organization for Standardization (ISO) and the World Trade Organization on Technical Barriers to Trade. The Standards and Quality Institute, a subsidiary of STAMEQ, is responsible for organising national technical committee
activities through which national standards are developed with the involvement of the concerned parties. A Bureau of Accreditations was established under STAMEQ in 1995. Certification of service quality is provided by private certification bodies. Nevertheless, the government has made efforts to strengthen standardisation for the service sector. One such initiative includes Quality Standards for the Hospital Management of Acute Strokes, which was launched by the Ministry of Health as part of its efforts to increase access to high-quality hospital care in Viet Nam (IDSI, 2014[30]).

Clear support to help SMEs meet international quality standards is less apparent. A national programme[3] to improve the productivity and product quality of Vietnamese enterprises up to 2020 has been approved by the prime minister, but it appears to lack specific support measures for SMEs. Initiatives that could improve SME capacity to conform to quality standards have been blended with broader SME development programmes, such as training and assistance programmes provided by VIETRADE.

**Trade facilitation**

Viet Nam has made significant efforts to establish basic necessary infrastructure for facilitating seamless trade across borders. In the OECD Trade Facilitation Indicators used in this 2018 ASPI, Viet Nam scored moderately high in terms of information availability and fees and charges. The country’s customs service has developed its website to serve as a central point for basic cross-border trading information on matters such as tariffs and exchange rates. The new Viet Nam Trade Information Portal was launched in 2017 with support from the World Bank Group under its Country Partnership Framework. The portal is a web-based database system that provides all traders with easy access to Viet Nam’s regulatory requirements for importing and exporting. The portal also provides an enquiry point for non-tariff measures and other matters related to trade.

Viet Nam has also recently established a National Single Window (NSW). In September 2015, it became the fifth ASEAN Member State to join the ASEAN Single Window, following Singapore, Indonesia, Malaysia and Thailand. Viet Nam’s NSW is still in a developing phase, with several ministries not yet integrated into the system due to limited technical capacities, and programmes to support SMEs in using this facility have not yet been defined. Viet Nam also has an Authorised Economic Operator (AEO) programme in place, but this does not currently provide any specific incentives or allowances to promote SME participation. It imposes a minimum export turnover value threshold for enterprises to qualify as an AEO, and this, alongside other criteria, may discriminate against SMEs. Government initiatives in this area have been supplemented by development assistance projects, such as the EU-funded Sustainable Freight Transport and Logistics in the Mekong Region project for SMEs.

**Boosting productivity, innovation and adoption of new technologies (Dimension 1 and 2)**

Viet Nam has made impressive progress over the last decade in developing and implementing policies that promote productivity and innovation, and these initiatives cover large segments of the SME population. The country’s score of 3.48 for Dimension 1 places it at a mid-stage of policy development, while its score of 3.63 for Dimension 2 on SME greening places it at an early stage of policy development.
Productivity measures

The Viet Nam National Productivity Institute and the Directorate for Standards, Metrology and Quality are the main agencies responsible for developing policies for productivity enhancement in Viet Nam, including SME productivity. A steering committee for the implementation of productivity programmes is also in place, with MOST as a standing member. Consultations with the private sector and research centres on the development of productivity enhancement programmes take place on an ad hoc basis.

In 2011, Viet Nam launched the National Technology Innovation Programme, which will run until 2020 and provides support to enterprises, including SMEs, to upgrade their productivity and product quality. The 2017 SME Law also includes a component on SME productivity, with a particular focus on technology adoption, the acquisition of production facilities and good accounting practices. The government’s objectives for 2010-2015 included raising total factor productivity by 30% and formulating 4 000 new national standards. At the same time it aimed to provide guidance on technological innovation to 40 000 businesses, for instance on the use of applied management systems, models and tools. Over the 2011-2013 period, this programme was financed with VND 134 billion from the central government’s budget and VND 60 billion from the local private sector. Since no concrete key performance indicators (KPIs) were developed for the programme, it is not clear whether these objectives were achieved. No clear objectives have been set for the post-2015 programme, and no recent programme assessments have been conducted. However, the National Productivity Institute issues a yearly report, which includes data on labour productivity and total factor productivity in Viet Nam.

Business development services

The National Five-Year SME Development Plan (2011-2016) covered the development of business development services (BDS), including training, legal services and support with intellectual property (IP) registration. It contained action plans but no measurable targets, timeframe or expected impact. A new SME development plan is currently being drafted and is expected to include a component on the development of BDS. The Ministry of Planning and Investment (MPI) is the main body responsible for BDS policy development in Viet Nam, and it has a dedicated Business Development Department. The Agency for Enterprise Development is the main body responsible for SME development and BDS implementation. Currently there is no single online portal that provides all relevant information on BDS, but there is a plan to develop an SME-based enterprise portal in the near future.

Viet Nam has no one-stop shop for BDS at the national level, but BDS support is provided at the provincial and regional levels. Each of the country’s 63 provinces has a specialised centre that implements government support programmes for local enterprises, including SMEs. These centres are managed by a provincial office of the Department of Planning and Investment or by the provincial People’s Committee. They provide information, training and consultancy, business counselling and start-up support. They receive their budget from the MPI and most of their staff are paid by the government. The centres can deliver consultancy and/or training services themselves or contract this out to consultants or third-party service providers. Training programmes already implemented include “training and capacity building for SMEs” and “legal support to business.” Some 12 000 SMEs received support over the 2012-14 period under the country’s “support to market expansion for business and SMEs” programme.
In addition to these centres, the Agency for Enterprise Development has established three SME Technical Assistance Centres in the north, centre and south of Viet Nam. These centres provide information, training programmes, consultancy services and other BDS to Vietnamese enterprises.

Development partners are also supporting both public and private providers of BDS. The International Labour Organization (ILO), via its Sustaining Competitive and Responsible Enterprises Programme (SCORE), provides advice on the extension of business development services that could enable SMEs to upgrade their productivity and working conditions. It has also worked with key partners such as the VCCI, industry associations and Ho Chi Minh City’s Department of Industry and Trade to assist more than 180 SMEs in upgrading their management and working condition practices.

**Productive agglomerations and clusters enhancement**

A decree enacted in 2008 and revised in 2013 encourages the construction of industrial clusters and industrial parks for enterprises, including local SMEs. The decree sets out conditions for establishing and expanding industrial clusters, including export processing zones, industrial zones and economic zones. The 2017 SME Law also emphasises cluster development and includes measures to reduce rental prices for SMEs operating in industrial parks (excluding foreign-invested and state-owned SMEs). However, policies to promote linkages between different enterprises operating within such clusters remain limited.

Viet Nam scored 77% in the 2014 ERIA Foreign Investment Liberalisation index – the region’s lowest score. It also has the lowest liberalisation rate in manufacturing, and it has one of the largest number of industries, compared to other AMS, that do not fall within the 70% threshold for the manufacturing industry (Intal Jr., 2015). Viet Nam’s science and technology parks are mainly located in Ho Chi Minh City and concentrated in the software industry, although their geographic range has expanded since 2014 to include coastal economic zones. As of September 2016, there were 325 industrial zones nationwide (220 of them operational) and 16 economic zones. The government planned to open three SEZs in 2017, located in key economic areas in the north, centre and south of Viet Nam, but the law that would permit the creation of this zones has been delayed, and it is therefore unclear when these zones may be created. To promote domestic and foreign investment, the government provides incentives, including exemptions from or reductions of corporate income tax, VAT and import tariffs, and these are granted on a sectoral or location basis and are sometimes time-bound. Incentives used in the past have included a 50% income tax reduction for foreign and local employees working in economic zones, and a tax exemption for expenses incurred in the development of social infrastructure for economic or industrial zones.

Government measures to promote productive agglomeration and cluster enhancement have been supplemented by development assistance projects, such as an Italian-funded technical assistance project implemented by the MPI and the United Nations Industrial Development Organization (UNIDO). This project, known as SME Cluster Development, had a budget of EUR 3 million and aimed to promote partnerships between Vietnamese SMEs and Italian industry associations in three pilot industrial sectors.

The performance of Viet Nam’s industrial and economic zones remains hindered by a lack of cohesion among enterprises, especially in the manufacturing and processing industries. Production clusters remain relatively small in size, and close linkages between
firms are limited. In addition, few mechanisms are in place for robust monitoring of the performance of industrial cluster programmes and policies.

Technological innovation

Viet Nam’s gross domestic expenditure on R&D (GERD) was about 0.4% of GDP in 2013. This is higher than most of its peers in the region, although still relatively low compared to the OECD average. The country has relatively recently advanced the legal basis for science, technology and innovation and established several new institutions engaged in steering and funding R&D. The National Technology Innovation Programme has a particular focus on SMEs. MOST is the leading agency in policy development related to innovation promotion. Various MOST agencies deal with innovation implementation, such as the State Agency for Technology Innovation (SATI) and the Viet Nam National Productivity Institute. The National Foundation for Science and Technology Development (NAFOSTED) offers financing and capital loans for scientific and technological projects proposed by organisations or individuals. Although these agencies are the core, each ministry and institution can also develop its own plan of action to promote innovation, a situation that could result in an approach that is not co-ordinated. The country does not have an intergovernmental body or committee for innovation policy co-ordination.

Viet Nam’s IP legislation is relatively comprehensive. It covers most aspects of IP protection in line with international standards under TRIPS (the agreement on Trade-Related Aspects of Intellectual Property Rights) and its relevant implementing regulations. The Vietnamese authorities are working towards improving training for court officials, judges, customs authorities and other IP enforcement agencies. Patent applications are filed at the National Office of Intellectual Property. A 2011-2105 IP development programme focused on dedicated IP support for businesses and SMEs. MOST’s National Product Development Programme is the major initiative promoting technological innovation. It aims to use high-potential advanced technology to develop Viet Nam’s commercial products. Its current focus is on expanding the quality of products to meet international standards in order to promote exports. Finland, Belgium and other countries have provided donor support. The Viet Nam-Finland Innovation Partnership Programme (IPP) supports sustainable economic growth in Viet Nam through increased production and export of innovative products and services. IPP provides both financial and soft support through training, workshops and hands-on coaching as well as access to networks of experts and investors. It has supported several dozen Vietnamese companies. NAFOSTED, established in 2013, promotes commercialisation of innovative ideas and new products. It has supported dozens of researchers and SMEs with a programme for implementing scientific research and technological innovation, including guarantees for bank loans. In 2017, SATI, MOST and the Technology Agency of the Czech Republic called for proposals, including from SMEs, for joint R&D projects.

Viet Nam has developed infrastructure to support SME innovation. The National Technology Innovation Programme has provided support to high-tech enterprises in specific industries, as well as for the construction and development of nurseries for about 40 high-tech business incubators and manufacturing facilities. As with BDS, support is also provided at the provincial level. Enterprises and SMEs in the provinces are supported by MOST’s centres for technology application and innovation via innovation grants financed by the government or co-funded with the private sector.
Environmental policies targeting SMEs

Viet Nam does not have a specific policy that targets the greening of SMEs. However, SMEs are mentioned in the National Green Growth Strategy, and a number of policy tools support SME greening. No government agency works exclusively with SMEs on greening, but the Viet Nam Environment Administration (VEA), under the Ministry of Natural Resources and Environment, includes enterprises in its list of partners.

The National Green Growth Strategy has supported eco-labelling across a variety of products and has developed a process for certifying products that is free of charge. Through the Law on Environmental Protection (2014), the government has begun to promote green public procurement. Such policies create a market incentive for SMEs to adopt greener practices and achieve green certification, and may also increase the willingness of banks to provide them with credit. However, the sustainable procurement process in Viet Nam has illuminated the co-ordination challenges involved in introducing legislation that supports green SMEs. While the Law on Environmental Protection states that government agencies should prefer eco-friendly products and services that have been recognised with eco-labels, it does not set hard targets for the percentage of procurement that must be certified as green. At the same time, the Law on Procurement does not lay out environmental requirements as criteria for considering tenders (Huyen, 2016).

Incentives and instruments for green SMEs

Viet Nam currently lacks regulatory incentives to support SME greening, but SMEs can tap into a number of financial programmes that support the adoption of green practices and technology. These include the Finance for Green Growth Fund, the National Technology Fund, the National Technology Innovation Programme and the SME Development Fund. The government has been using eco-taxes to support implementation of the green growth action plan. However, only the SME Development Fund is actually aimed at SMEs, and it does not have a particular focus on greening. The government reports that the other funds have had limited uptake from SMEs, potentially because the funds are relatively new and SMEs are not aware of their existence. Viet Nam also supports enterprises in achieving ISO 14001 certification, but the cost and complexity of this environmental management system make certification challenging for SMEs.

Stimulating entrepreneurship and human capital development (Dimensions 7 and 8)

Viet Nam is still at an early stage of developing a policy framework for the promotion of entrepreneurial skills and education, as well as for inclusive and social SMEs. Entrepreneurial learning has been introduced only for secondary students, via fragmented donor-funded initiatives, and entrepreneurship elements are not yet assimilated into national curricula. The country has only recently launched a national programme to promote entrepreneurial skills among local start-ups. In the area of social enterprises and inclusive SMEs, Viet Nam is beginning to implement a number of initiatives, but they are at an early stage and lack sufficient resources. The country’s scores of 2.87 for Dimension 7 and 2.43 for Dimension 8 reflect these findings.

Entrepreneurial education

Entrepreneurial learning (EL) is not yet an integrated part of Viet Nam’s national education system. The country has not developed a national standard curriculum on entrepreneurship subjects, and EL elements are hard to discern at the primary education
Nevertheless, a few initiatives have emerged at higher levels of education. An example is the Young Entrepreneurs Adventure (YEA) camp, co-organised by Viet Nam Youth Entrepreneurs (an NGO) and Babson University of the United States. The YEA camp is a five-day mentoring session for high school students to nurture entrepreneurial mindsets and connect them with peers who share their interest in entrepreneurship, with an eye to their future and their service to the community.

Entrepreneurship elements are more clearly defined at the university level. Recognising the importance to embed EL in the national education system, the Ministry of Education and Training recently introduced a plan called “Supporting Student Entrepreneurship 2017-2020 with a Vision Towards 2025”. The plan intends to equip university students with basic knowledge and skills on entrepreneurship, Viet Nam News reported on 10 April 2017. The aim is to make EL compulsory for every university student, regardless of major, since the government considers that entrepreneurship could thrive in all sectors.

Other university-level EL initiatives have received support from foreign donors. A Centre for Social Innovation and Entrepreneurship (CSIE) was established at the National Economics University in February 2017 in collaboration with British Council Viet Nam. CSIE serves as a research and incubating centre to support Viet Nam’s entrepreneurship ecosystem from within an educational institution. Another EL initiative, Maker Innovation Space, was established at the University of Da Nang in 2017 through an ongoing partnership between Arizona State University and the United States Agency for International Development (USAID). The space provides discussion fora and incubation on entrepreneurship to help students forge creative ideas on doing business and developing innovative products. The Viet Nam-Finland IPP, mentioned above, held a training-of-trainers programme on entrepreneurship and innovation for 23 lecturers and staffers from 12 Vietnamese universities to promote the development of EL in universities (IPP Viet Nam, 2018[7]). IPP, jointly financed by the governments of Viet Nam and Finland, is in its second and final phase (2014-2018), with a budget of EUR 11 million to promote the development of entrepreneurship and a start-up ecosystem in Viet Nam (Rowan, 2016[33]).

**Entrepreneurial skills**

Viet Nam has started to take a more strategic approach to support for entrepreneurial skills. The government’s efforts are administered by the National Agency for Technology Entrepreneurship and Commercialisation Development (NATEC) under MOST. A MOST project, called the National Programme to Support an Innovative Start-up Ecosystem in Viet Nam by the year 2025, was approved by the deputy prime minister with support from IPP on 18 May 2016. The project has set progressive and ambitious goal for 2020, including the completion of a main legal framework for a start-up ecosystem, implementation of an online portal for the National Innovative Start-up Ecosystem and support for about 800 start-ups. By 2025, the project is expected to have supported 2 000 start-up projects and 600 start-up enterprises.

Other initiatives to promote entrepreneurial skills have taken place in collaboration with foreign partners. Singapore and Viet Nam have promoted exchanges of knowledge and support for start-up development in both countries through a memorandum of understanding signed in November 2016 between Singapore’s Action Community of Entrepreneurship (ACE) and Viet Nam’s NATEC (FS, 2016[34]). The project provides workshops, networking events and support clinics, as well as venture capital for start-up development. In 2013, MOST collaborated with large private companies such as
Microsoft and Lotte to establish a Viet Nam Silicon Valley (VSV) for start-ups. The project runs an intensive four-month programme called the VSV Accelerator Bootcamp that offers tailor-made mentorship and extensive business networking for small businesses in Viet Nam to improve their entrepreneurial skills.

Social entrepreneurship

Although the term social entrepreneurship was formalised only in 2015, social ventures were present in Viet Nam before then. Prior to 2010, most non-public social ventures depended on international development aid, but many have since evolved into more market-driven business entities. A number of Vietnamese NGOs have launched business activities to sustain their social missions, becoming a social-enterprise model in the country. In a study undertaken in 2011 there were estimated to be around 167 organisations that could be identified as social enterprises and another 2 000 that were deemed to have the potential to evolve into social enterprises (Pham, Nguyen and Nguyen, 2016[35]). Co-operatives are considered an early model of social enterprises in Viet Nam. The co-operatives law defines them as collective economic entities that are jointly owned and democratically controlled by at least seven volunteering members, and that co-operate in production, business, and job creation to meet the common needs of their members. The country counted 18 244 co-operatives in 2010, according to the Economic Committee of National Assembly and the United Nations Development Programme (Pham, Nguyen and Nguyen, 2016[35]).

A decree issued in 2015 (No. 96/2015/ND-CP) sets out policies to develop social enterprises. It calls on the state “to encourage and create conditions for organisations and individuals to establish social enterprises for the purpose of solving social and environmental issues in the interests of the community.” A definition of a social enterprise exists that complies with conventional definitions, with a special clause for profit re-investment. Social enterprises are entitled to preferential conditions and assistance regarding business licenses and certificates. But while the country has a registry to track enterprises, it is not kept up to date (the latest information is from 2012). In addition, it is not clear which agency is mandated to co-ordinate activities related to social enterprises. Finally, although social enterprises are provided for under the law, they are missing from national strategies.

In terms of implementation, Viet Nam has no government-led awareness raising activities or allocated budget to promote and support of social enterprises. However, there are donor and private-led activities conducted by the British Council, the SPARK Centre for Social Entrepreneurship Development and Kiva, a microfunding organisation. On the local front, the Centre for Social Initiatives Promotion, a Vietnamese non-governmental, non-profit organisation, plays a leading role in supporting the emerging social entrepreneurship sector; the Central Institute for Economic Management leads research initiatives in the area of social entrepreneurship; and Thai Nguyen University created a Social Enterprise Education Project (2012-2014), in collaboration with Manchester Metropolitan University, to integrate social entrepreneurship into its curricula.

Inclusive entrepreneurship

Inclusive entrepreneurship, much like social entrepreneurship, is at an early stage of development from an overall perspective in Viet Nam. Initiatives to support the inclusion of women, youth and persons with disabilities (PWD) in the workforce have long existed in the country and there are number of policies in place, but implementation activities are
very small in scale. Efforts to advance youth entrepreneurship stand out in both policy and implementation compared to efforts aimed at women and PWDs.

Nonetheless, women represent an important segment for the government, given that women-owned SMEs have made significant contributions to job creation, and efforts are being made towards gender equality. Viet Nam, one of two countries in ASEAN to include women entrepreneurship in its MSME Development Plan, has developed strategies with clear objectives for women’s entrepreneurship. The National Strategy on Gender Equality 2011-2020 has a target of raising the share of women-owned SMEs to 35% or higher by 2020. While participation is already considerable, as women reportedly own up to a quarter of SMEs, a key challenge will be to address the entrepreneurial quality gap in terms of performance. This will involve addressing barriers faced by women such as a lack of business skills, limited access to resources and markets, and network building. As interventions on women are mostly at the planning and design level, strategies can be moved forward via support activities carried out with the help of donors, associations and the private sector.

The stronger focus on youth in policy and implementation may be partly accounted for by demographic factors. Young people aged 15-24 comprise one-quarter of the population, presenting Viet Nam with unique socio-economic development opportunities as well as the labour-market challenge of creating enough jobs for youth and equipping them with the skills needed to contribute to growing economic sectors (OECD, 2017[36]). In recent years there has been a growing focus on building a start-up ecosystem and promoting youth entrepreneurship. A major development was the creation of the Youth Start-Up Programme 2016-2021, which mobilised VND 350 billion to develop start-up spirit and mobilise finance, personnel and infrastructure resources. The programme was entrusted to the Viet Nam Youth League as the lead implementer in co-ordination with other actors. This is a good practice example of youth empowerment and stakeholder involvement. Other initiatives include a television programme called “Start-Up Nation”, produced in collaboration with the Ho Chi Minh Communist Youth Union to promote youth entrepreneurship, and start-up funds initiated by the private sector.

While not much is being done for PWD entrepreneurs, they do have access to below-market interest rates on loans and are guaranteed access to BDS (under Article 33 of the country’s Law on Persons with Disabilities). The Ministry of Labour, Invalids and Social Affairs and the National Co-ordination Committee on Disabilities are the main policy-making bodies in this area. While enterprises owned by PWD are entitled to support for general businesses and SMEs, there are no dedicated strategies or specific plans for supporting this PWD entrepreneurship. In a noteworthy private initiative, the YUP! School of Entrepreneurs provides free start-up training courses for PWD.

The way forward

**Strengthening the institutional, regulatory and operational environment**

The enactment of the new SME Law signals a strong government commitment to promoting private-sector development. Going forward, the government could consider the following steps:

**Institutional framework for SME policy**

- **Further involve the private sector in the SME policy-making process.** The governing board of the EDA is exclusively comprised of public-sector
representatives, and there is little private-sector involvement in the review of programme implementation. Viet Nam could consider selecting representatives of the private sector who are connected to key industries for the country to sit on the EDA governing board. Another option could be to create a working group to review SME policy and programmes and propose new initiatives or adjustments. This working group could be comprised of private-sector representatives of key industries, as well as representatives of the main public-sector stakeholders.

Legislation, regulation and tax

- **Consider measures to reduce the VAT burden on MSMEs.** The standard time required to file VAT in Viet Nam is particularly long, which may be especially onerous for MSMEs. The government could explore ways to streamline this process for MSMEs, for instance via VAT exemptions or specialised assistance programmes.

Facilitating SME access to finance

Viet Nam has a relatively broad range of policies and programmes in place to promote SME access to finance, and the country has a high level of financial intermediation. However, some gaps remain in the regulatory framework for the provision of finance, and monitoring and evaluation mechanisms for some schemes are limited. As a result, schemes may operate sub-optimally and access to finance can still be an issue. Moving forward, the country could:

- **Develop performance review for credit guarantee funds.** Viet Nam has developed a network of CGFs, but they are undercapitalised and do not perform very well. A review could be conducted on a fund-by-fund basis, starting with those that place the highest claim on public money. The review could assess the performance of these funds and propose reforms if adjustment is possible, or disbandment if it is not.

Enhancing access to market and internationalisation

Despite reforms undertaken to promote export growth, Viet Nam has not clearly emphasised its support for local SMEs in many areas of business internationalisation. It could consider the following actions to strengthen its promotion of SMEs in this area:

- **Increase capacity-building initiatives to boost trade facilitation.** While Viet Nam has built basic infrastructure to facilitate cross-border trading, several facilities (e.g. NSW) have not been fully developed due to a lack of technical capacities. Improving the technical capacities of government agencies will foster development of trade facilitation infrastructure. Capacity-building initiatives should also be provided to Vietnamese traders, especially SMEs, in order to optimise the use of trade facilities.

- **Introduce SME-specific support in trade facilitation.** Such support has not been available. Despite improvements in the availability of information, SMEs may be unable to access and use the information if they have limited capabilities in related areas, such as internet literacy and foreign-market orientation. Concrete measures to address the capacity issue would help SMEs to make better use of the country’s trade facilitation infrastructure. Introducing specific assistance or a
special mechanism for SMEs to qualify as an AEO would help them enjoy the benefits of Viet Nam’s trade facilitation development.

- **Develop SME-specific programmes on e-commerce and quality standards.** Measures to promote the adoption of e-commerce and quality standards in Viet Nam currently target all firms alike, and do not consider SME-specific constraints. SMEs make up the vast majority of enterprises in Viet Nam, but they may face prohibitive resource and knowledge constraints that hinder them from utilising e-commerce platforms or adopting quality standards. Targeted measures to increase their capacity here may have an important impact on the overall adoption of e-commerce and competitiveness of Vietnamese products.

- **Develop a strategic national programme for integrating SMEs into GVCs.** This would complement SME-GVC linkage programmes backed by donor support. Viet Nam could also develop a national-scale programme to assimilate local SMEs into GVCs to help them move up in the production network. Donor programmes could be used as a benchmark for designing the national initiative.

**Boosting productivity, innovation and adoption of new technologies**

Viet Nam is rapidly advancing a comprehensive framework for policies and programmes that promote productivity, innovation and technological adoption, and this includes those that target SMEs. To build on this impressive performance, it could:

**Productivity, technology and innovation**

- **Develop a co-ordination mechanism for innovation policy and implementation.** Viet Nam does not have a clear co-ordination mechanism, like an Innovation Council, or a clear mandate for one of its agencies to co-ordinate innovation policy. Establishing an intergovernmental body with arbitrage facility, or enhancing MOST’s co-ordinating role at the strategic level, could contribute to better co-ordination of policies and ensure that SMEs benefit from the range of available instruments.

- **Develop customised mechanisms to support implementation.** While most current support mechanisms can benefit the majority of SMEs, they may fail to address the specific needs of developing companies. Developing flexible instruments such as BDS or innovation vouchers could allow SMEs to access a wider range of services.

- **Strengthen the information base.** Data are currently scarce, out of date or not internationally comparable. Improving the availability of data, especially R&D statistics and other relevant information, would make it easier for policy makers to analyse the situation and take decisions based on comparisons with other countries or regions.

- **Improve monitoring by setting clear targets and KPIs.** Evaluation needs to be pragmatic, timely, transparent and actionable. Targets and KPIs will help to identify the uptake and impact of measures and will improve implementation mechanisms in the long run.
Environmental policies and SMEs

- **Develop a co-ordinating mechanism on SME greening.** Action around the greening of SMEs is conducted by different public bodies and needs to be co-ordinated. If one law requires sustainability to be a factor in procurement, the legislation governing procurement needs be consistent with this. The VEA could act as a co-ordinating body to ensure that different government plans work together.

- **Develop closer links with the private sector.** Closer links with industry could be developed via industry associations that represent SMEs. This would help to ensure that SMEs are aware of the schemes and financial incentives that support greening, and would generate input to ensure that the programmes are accessible to SMEs.

**Stimulating entrepreneurship and human capital development**

Viet Nam is beginning to develop policies and programmes to promote entrepreneurial skills as well as inclusive and social enterprises, yet a more structured approach could increasingly be adopted. Going forward, Viet Nam could:

**Entrepreneurial education**

- **Develop a national curriculum on entrepreneurship in primary education.** EL has not yet been integrated into the education system for primary students, yet nurturing entrepreneurial mindsets is not a short-term endeavour. It is important for Viet Nam to introduce elements of EL for primary students in order to benefit from increasing numbers of quality young entrepreneurs in the future.

- **Make entrepreneurship programmes for SMEs more systematic.** Viet Nam could adopt a more systematic approach to realising its targets for scaling up local start-ups. Under the National Innovative Start-up Ecosystem programme, the country aims to support a large number of start-up enterprises in the coming years. In order to meet its objectives, Viet Nam should rely on strategic actions for SMEs rather than fragmented workshops and training sessions. A national-scale entrepreneurship programme would help Viet Nam to deliver entrepreneurship education and assistance for SMEs across the country. A sound and transparent monitoring and evaluation mechanism is also needed to ensure that the programmes are moving in the right direction for realising national milestones in start-up development.

**Social and inclusive entrepreneurship**

- **Strengthen support for social enterprises and the target groups.** The law makes clear the government’s recognition of the social enterprise concept, as well as the entrepreneurship support to which women, youth and persons with disabilities are entitled. But policies to support the sector’s development remain very modest. For example, social enterprises are allowed to mobilise and receive grants and donations, but they do not benefit from preferential treatment such as tax exemptions for their business activities. Moreover, the mechanism for social enterprises to receive government subsidies or preferential public contracts is not clear. To address these issues, the government could further develop
implementation mechanisms supporting social enterprises and entrepreneurship promotion activities for the target groups.

- **Clarify the mandate for implementing social entrepreneurship support.** The government appears to lack clarity on which institution is mandated to follow up on policy development and policy implementation in the area of social entrepreneurship. Clearly defining the mandate could help develop a strategy that responds to the fact that social enterprises are provided for under the law.

- **Explore possible collaboration with the private sector.** By developing the right set of incentives (not limited to tax exemption), the government could promote the development of models for inclusive businesses and responsible business conduct. This would not only benefit social and inclusive enterprises, but could also boost implementation activities driven by private actions in collaboration with the government, helping inclusive entrepreneurs to access new markets and GVCs.

**Notes**

1. It has the third largest population after Indonesia and Philippines, and the fifth largest territory after Indonesia, Myanmar, Thailand and Malaysia.

2. Viet Nam holds the world’s third largest bauxite ore reserves, predominantly in its central highlands. Bauxite is an important ingredient in the production of aluminium.

3. With 65.4% of the population living in rural areas and agriculture accounting for around 25.5% of value added (World Bank, 2016[3]).

4. This category accounted for around 41% of the country’s merchandise exports in 2016 (MIT, 2016[2]).

5. Which amounts to around USD 1.37 trillion.

6. Which may benefit some firms while penalising others (particularly new entrants).

7. This data is from 2015, and therefore uses Viet Nam’s former classification of firm size.

8. Known as **kinh tế thương định hướng xã hội nghĩa** in Vietnamese.

9. With the biggest drop in 1998, when net FDI inflows (BoP, current USD) dropped by 24.7% (World Bank, 2016).

10. This was reinforced by the Communist Party’s Standing Committee Resolution No.14-NQ/TW of 2002, stipulating that “the private sector is a part of the economy”.

11. Decree No. 56/2009/ND-CP, which replaced Decree No. 90/2001/ND-CP.

12. Under this law, Decree No. 39/2018/ND-CP was recently issued. It provides a new SME definition for Viet Nam, as well as further details on the implementation of the SME Law.

13. Under Article 35 of the Law, an MSME is defined as an enterprise “whose average number of employees contributing to social insurance does not exceed 200 per year and that either have a total investment capital that is not more than VND 100 billion (about USD 4.4 million) or a previous year’s total revenue of not more than VND 300 billion.” Any micro or small enterprise that has been newly-identified as an enterprise and is engaged in agricultural, forestry, fishery, industry, construction, trade or service activities would also be defined as an MSME under the new law.
Decree No. 39/2018/ND-CP.

Only those contributing social insurance.

No. 80/2015/QH13.

The company type used in this study (World Bank, 2017[10]) is the LLC, but required procedures are the same as for other types of company, but with different registration forms.

SOEs absorbed 13.3% of credit to the economy in 2016 (IMF, 2017b[5]).

When the country’s first credit bureau, the PCB, got its license.

Private credit bureaus work alongside the registry, building on its data to provide credit scoring services.

And not more than ten years in the case of negative data.

And specifically Decree No. 163/2006/ND-CP and Decree No. 11/2012/ND-CP.

Under Joint Circular 16/2014/TTLT-BTP-BTNMT.

This circular (dated 2015) was issued by MPI and stipulates priority activities for the receipt of credit from the Development Fund for small and medium-sized enterprises.

The project is funded through the Japan ASEAN Integration Fund.

Namely Ca Mau, Can Tho, Kien Giang and Tay Ninh.

These capacity-building activities included support with product development and marketing.

Under Decision No. 2545/QD-TTg.

Under Decision No. 712/QD-TTg.

Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: i) Information availability; ii) Fees and charges; iii) Formalities-documents; and iv) Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Vietnam scored 1.6 for information availability, 1.7 for fees and charges, 1.1 for formalities-documents, and 1.4 for formalities-procedures.

Such as the stipulation that qualifying enterprises must possess a relatively sophisticated internal management system.

Specifically, this programme was implemented in collaboration with the Centre for Supporting Industries (CSID) under the HCMC Department of Industry and Trade, and was targeted at SMEs operating in the furniture and supportive industries. It aims to anticipate the fact that social compliance standards are increasingly becoming an export requirement for SMEs.

In June 2018, the National Assembly of Viet Nam announced that it would not proceed with a vote on the draft Law on Special Administrative and Economic Zones. Instead the law was to be subject to further review and revision, and would be presented at the National Assembly’s next meeting (the 6th session of the 14th NA). This is due to the perceived strategic importance of the law, and concerns over the impact that it would have on the country’s sovereignty and security (Saigon Times, 2018[37]).

For more information about the VSV program, please visit http://www.siliconvalley.com.vn/.
References


