

**MINISTRY OF PLANNING AND INVESTMENT  
AGENCY FOR SME DEVELOPMENT**

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**ANNUAL REPORT**  
**SMALL & MEDIUM ENTERPRISES IN VIETNAM**  
**2008**

Hanoi 2008

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## FOREWORD

Together with remarkable achievements in the process of renovation, small and medium - sized enterprises (SME) play a more and more crucial role in the socio-economic development of Vietnam. Having been fully aware of this, the Communist Party and Government of Vietnam have always considered the development of SMEs as one of the most important mandates.

According to regulations stipulated by Government Decree No. 90/2001/ND-CP dated November 23, 2001 on support for SME development, and Decree No. 61/2003/ND-CP dated June 6, 2003 on functions, tasks and organizational structure of the Ministry of Planning and Investment (MPI), MPI functions as the focal body in policies and issues relating to the development of SMEs throughout the country.

The production of a publication with the aim to publicize essential information about the SME sector such as: definition, characters, needs, economic perspective, support policies, future orientation etc. is a solution that contributes to the implementation of the above-mentioned regulations, and helps to raise public awareness on the importance of the SME sector, in order to boost socio-economic development in Vietnam.

The contents of this Report are based on recent legal normative documents regulating the SME sector. Statistical figures were obtained from General Statistics Office materials and periodical reports of 63 provinces' and cities' Departments of Planning and Investment (DPI). We hope that this annual report can provide policy makers, state management agencies, business associations and interested organizations with useful and necessary information on SMEs in Vietnam.

Taking this opportunity, we would like to convey our sincere thanks for the contribution and support made by units inside and outside MPI, relevant departments/agencies, and Asian Development Bank, as well as other organizations and individuals in the development of our first annual report on SMEs in Vietnam.

As this is the first time we have published this type of report, mistakes are unavoidable. Therefore, we cordially seek your understanding, and meanwhile welcome all comments and recommendations from readers. Please send your comments to the following address:

Agency for SME Development  
Ministry of Planning and Investment  
No. 2 Hoang Van Thu, Ha Noi, Viet Nam  
Tel: +84 80.43231; Fax: +84-4 3734.2189  
Email: [icd@business.gov.vn](mailto:icd@business.gov.vn)

*Ha Noi, August 2008*

**Võ Hồng Phúc**  
**Minister for Planning and Investment**

## **ABBREVIATIONS**

<b>ADB</b>	Asian Development Bank
<b>ASMED</b>	Agency for SME Development
<b>SME</b>	small and medium enterprises
<b>SOE</b>	state-owned enterprises
<b>BR</b>	business registration
<b>FIE</b>	foreign-invested enterprises
<b>EU</b>	European Union
<b>HTX</b>	co-operatives
<b>IFC</b>	International Finance Corporation
<b>IMF</b>	International Monetary Fund
<b>NGO</b>	non-governmental organizations
<b>ODA</b>	Official Development Assistance
<b>PCI</b>	Provincial Competitiveness Index
<b>LTD</b>	limited liability company
<b>UNDP</b>	United Nations Development Programme
<b>WB</b>	World Bank
<b>WTO</b>	World Trade Organization
<b>ADB</b>	Asian Development Bank

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## **1. INTRODUCTION:**

Small or medium sized enterprise (SME) development is a key component of Vietnam's approach to poverty alleviation, and fulfilling the country's Millennium Development Goals. International evidence shows that a large and healthy SME sector is a key characteristic of any successful economy.<sup>1</sup> As in many countries, the importance of the SME sector in Vietnam has received growing recognition from all corners of society. This section of the Report identifies the main factors behind the rise in the SME sector's status.

### ***1.1. An economic and corporate sector development perspective***

Vietnam is a developing country, undergoing economic transition from a formerly centrally planned economy to that of a market economy with socialist characteristics. This economic transition process has been underway for slightly more than two decades, and has comprised a number of facets, including a programme of business liberalization. What was once a corporate sector largely dominated by roughly 12,000 state-owned enterprises is now a much more diverse business community, comprising a spectrum of different legal entities. Today there are around 3,700 state-owned enterprises, as well as a growing community of more than 4,200 foreign-invested enterprises (FIE). In addition, there is a burgeoning, domestic, non-state enterprise community, comprising: i) cooperatives; ii) private companies; iii) private limited companies; iv) private joint stock companies.

Figures provided by the General Statistical Office show that over 131,300 formal enterprises were operating in Vietnam at the end of 2006. These enterprises: i) employed more than 6.7 million people; ii) had an aggregate turnover in excess of VND 2,750 trillion; iii) generated combined net profits of more than VND 168 trillion; and iv) contributed over VND 192 trillion to national budget revenues. They are also increasingly making their presence felt as international exporters, and an important source of foreign exchange earnings for Vietnam.

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<sup>1</sup> See 'SME, Growth and Poverty: Cross-Country Evidence' by Thorsten Beck, Asli Demirgüç-Kunt and Ross Levine, 2003.

**Table 1: Number of enterprises by legal form in the 2001 - 2006 period**

Number of enterprises, by legal form (at year end)						
	2001	2002	2003	2004	2005	2006
SOE	5,355	5,363	4,845	4,597	4,086	3,720
Non-state	44,314	55,237	64,526	84,003	105,167	123,392
FIE	2,011	2,308	2,641	3,156	3,697	4,220
Total	51,680	62,908	72,012	91,756	112,950	131,332
Percentage breakdown						
	2001	2002	2003	2004	2005	2006
SOE	10.4	8.5	6.7	5.0	3.6	2.8
Non-state	85.7	87.8	89.6	91.6	93.1	94.0
FIE	3.9	3.7	3.7	3.4	3.3	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

It is in this context, of rapid yet sustained economic growth and corporate sector development, that we should understand the rise of SME in Vietnam. Indeed, SME have arguably been operating at the very forefront of the economic development and business liberalization process in Vietnam since 2000, when the first Enterprise Law was enacted. Although there is an understandable tendency to think of SMEs as being predominantly local, privately-owned companies, it should be remembered that numerous SOEs and FIEs are also SMEs, as the table above clearly shows. As measured by employee numbers, 77% of all foreign-invested enterprises are SMEs, and 66% of all SOEs are also SMEs, according to the criteria used by the government's Decree 90/2001/ND-CP dated 23<sup>rd</sup> November 2001 on SME Development (hereafter referred to as Decree 90).

**Table 2: Number and percentage of enterprises by employee size and ownership in the 2001 – 2006 period**

Number of enterprises by employee size and ownership (at year end)						
	2001	2002	2003	2004	2005	2006
SOEs that are SMEs (<300 employees)	3,752	3,653	3,145	2,959	2,675	2,464
Non-state firms that are SMEs	43,664	54,400	63,523	82,840	103,792	121,875
FIEs that are SMEs	1,646	1,800	2,019	2,423	2,869	3,261
SOEs that are not SMEs	1,603	1,732	1,700	1,638	1,411	1,256
Non-state firms that are not SMEs	650	837	1,003	1,163	1,375	1,517
FIE that are not SMEs	365	508	622	733	828	959
Percentage breakdown (of all enterprises)						
	2001	2002	2003	2004	2005	2006
SOEs that are SMEs (<300 employees)	7.3	5.8	4.4	3.2	2.4	1.9
Non-state firms that are SMEs	84.5	86.5	88.2	90.3	91.9	92.8
FIEs that are SMEs	3.2	2.9	2.8	2.6	2.5	2.5
SOEs that are not SMEs	3.1	2.8	2.4	1.8	1.2	1.0
Non-state firms that are not SMEs	1.3	1.3	1.4	1.3	1.2	1.2
FIEs that are not SMEs	0.7	0.8	0.9	0.8	0.7	0.7

*Note:* Decree 90 defines an SME as an enterprise with 300 employees or less. The figures in this table, based on GSO data, depict SME as enterprises with up to 299 employees – a very minor difference.

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

As measured by capital resources, not only are 91% of domestic, non-state companies SMEs, but so too are 20% of SOEs and 30% of FIEs, according to the criteria used by Decree 90.



**Table 3 Number and percentage of enterprises by capital size and ownership in the 2001 – 2006 period**

Number of enterprises, by capital size and ownership (at year end)						
	2001	2002	2003	2004	2005	2006
SOEs that are SMEs (<VND10bn)	2,040	1,763	1,346	1,091	874	740
Non-state firms that are SMEs (<VND10bn)	41,967	51,770	59,888	77,374	96,177	112,321
FIEs that are SMEs (<VND10bn)	663	683	743	955	1,181	1,279
SOEs that are not SMEs (>VND10bn)	3,315	3,600	3,499	3,506	3,212	2,980
Non-state firms that are not SMEs (>VND10bn)	2,347	3,467	4,638	6,629	8,990	11,071
FIEs that are not SMEs (>VND10bn)	1,348	1,625	1,898	2,201	2,516	2,941
Percentage breakdown						
	2001	2002	2003	2004	2005	2006
SOEs that are SMEs (<VND10bn)	3.9	2.8	1.9	1.2	0.8	0.6
Non-state firms that are SMEs (<VND10bn)	81.2	82.3	83.2	84.3	85.2	85.5
FIEs that are SMEs (<VND10bn)	1.3	1.1	1.0	1.0	1.0	1.0
SOEs that are not SMEs (>VND10bn)	6.4	5.7	4.9	3.8	2.8	2.3
Non-state firms that are not SMEs (>VND10bn)	4.5	5.5	6.4	7.2	8.0	8.4
FIEs that are not SMEs (>VND10bn)	2.6	2.6	2.6	2.4	2.2	2.2

*Note:* Decree 90 defines an SME as an enterprise with 10 billion VND of registered capital or less. The figures in this table, based on GSO data, depict SME as enterprises with up to 10 billion VND of registered capital – a very minor difference.

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

The tables below provide some average indicators for Vietnamese enterprises, between 2001 and 2006. In terms of all enterprises, the average number of employees has actually declined over the six year period, from 76 to 55. This is probably due in large part to improvements in market entry procedures –

such as business registration formalities – which has resulted in an increase in start-up ventures. Nonetheless, the average legal capital size of companies has increased marginally, from VND 24 billion to VND 26 billion. Average net turnover, per employee, has risen quite considerably (around 70%), from VND 238 billion to VND 409 billion. With regard to profit performance ratios, these too have increased, relative to capital and turnover.

When we compare state-owned enterprises with non-state owned enterprises, we can see some differences in the average indicators. SOEs tend to be much larger employers, and have a larger average legal capital base, as one might expect. While the average net turnover per employee has risen 2.3 times for SOEs, the same figure is 1.6 times for non-state enterprises. This may reflect in part the equitization programme conducted between 2001 and 2006, resulting in a more robust SOE sector forming. In terms of profit performance averages, SOEs seem to be improving better than non-state enterprises. This may be a consequence of so many new enterprises joining the ranks of the non-state sector; these are likely to struggle to make profits – or even incur losses – in the early years of operations, and this is dragging down the average figures. In contrast, SOEs are typically not new business ventures, and have passed that challenging start-up phase.

**Table 4: Enterprise average indicators in the 2001-2006 period**

Some average indicators for Vietnamese enterprises (at year end)						
	2001	2002	2003	2004	2005	2006
Average number of employees	76	74	72	63	55	51
Average capital (VNDbn)	24	23	24	24	24	26
Average net turnover per employee (VNDm)	238	260	281	303	356	409
Profit on capital (%)	3.8	4.3	4.5	4.9	4.4	4.9
Profit on turnover (%)	5.0	5.1	5.4	6.0	5.2	6.1

Some average indicators for Vietnamese <b>SOEs</b> (at year end)						
	2001	2002	2003	2004	2005	2006
Average number of employees	395	421	467	490	499	513
Average capital (VNDbn)	153	167	210	265	354	475
Average net turnover per employee (VNDm)	228	275	300	323	421	525
Profit on capital (%)	2.5	2.9	2.8	3.2	3.2	3.5
Profit on turnover (%)	4.2	4.2	4.2	5.3	5.4	6.2

Some average indicators for Vietnamese <b>non-state enterprises</b> (at year end)						
	2001	2002	2003	2004	2005	2006
Average number of employees	30	31	32	29	28	27

Average capital (VNDbn)	4	4	5	6	7	8
Average net turnover per employee (VNDm)	206	214	237	260	289	339
Profit on capital (%)	2.3	2.3	2.1	1.6	1.5	2.0
Profit on turnover (%)	1.3	1.5	1.5	1.3	1.2	1.7

Some average indicators for Vietnamese **foreign-invested enterprises** (at year end)

	2001	2002	2003	2004	2005	2006
Average number of employees	243	299	326	331	330	343
Average capital (VNDbn)	133	134	140	142	143	155
Average net turnover per employee (VNDm)	368	327	341	365	411	420
Profit on capital (%)	8.7	10.0	11.6	13.0	11.3	13.2
Profit on turnover (%)	13.0	13.6	14.6	15.4	11.8	14.2

Some average indicators for Vietnamese **manufacturing enterprises** (at year end)

	2001	2002	2003	2004	2005	2006
Average number of employees	146	149	151	141	129	127
Average capital (VNDbn)	23	24	25	26	27	29
Average net turnover per employee (VNDm)	167	170	183	210	237	266
Profit on capital (%)	3.3	4.0	4.3	4.4	3.6	3.8
Profit on turnover (%)	3.0	3.8	3.9	3.9	3.2	3.2

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

Turning to foreign invested enterprises (FIE), they tend to be of a broadly similar scale to SOEs, in terms of average number of employees and legal capital, but they far exceed both SOEs and local non-state firms in terms of their profit performance. And their profit performance has been gradually improving in the period between 2001 and 2006.

In the context of transitional economies, it is sometimes tempting to think of SME development and SOE restructuring as two very different activities. But in many ways they are related procedures, as part of the transition process towards a more market oriented economy. First, of course, some SOEs are themselves SMEs, and they are often the ones identified for equitization. Secondly, many SMEs will depend on SOEs as their main customers or clients; the SOE sector provides an important market for SMEs. Thirdly, the owners and originators of many SMEs gained their business experience in SOEs, or other large corporations, before embarking on their own business venture. In these respects at least, SOEs and SMEs often interact quite closely, for mutual gain, and policy-makers need to be aware of this inter-relationship between SMEs and even large-scale SOEs. As Robert McIntyre has observed: "Despite the tendency to present SMEs as an alternative to

SOEs, little can be expected without the survival or development of a healthy large enterprise sector which SMEs can utilize as supplier, customer and provider of various social and technical externalities”.

SMEs also sometimes have a number of attractions for developing and transitional economies. The challenging issue of good corporate governance practices (i.e. making sure that the company is being run in the interests of all its shareholders) is less of a problem in most SMEs, as in most cases the owners and managers are the same, unlike in large, publicly listed companies, where they tend to be different. In the case of young SMEs, many were established after economic transition commenced, and so – unlike some SOEs – they do not have to ‘un-learn’ business practices of the command economy system. SMEs can often be more entrepreneurial and innovative than older and larger companies, and this dynamism also helps keep larger enterprises – including SOEs – focused on being competitive. This competitive environment is good news for customers, and the economy as a whole.

Finally, as the example of India shows, the importance of the service sector – where many SMEs operate – as a driver of economic growth should not be under-estimated. The current Indian growth model is different from the industrialization policy pursued by many East Asian countries in that it places more emphasis on local SMEs and private entrepreneurs (and relatively less emphasis on foreign direct investment and export-oriented industry), particularly in the services sector, serving both domestic and overseas customers.

### ***1.2. A legal and institutional perspective***

The rise of the SME sector in Vietnam would not have been possible without profound changes made in the legislative and regulatory environment that governs business activity in the country, as well as the institutions that administer and enforce those laws and regulations. An important milestone in the development of the SME sector was the introduction of the Enterprise Law, in January 2000, which did much to remove numerous barriers to formal market entry for many small businesses.

In particular, many of the operational licenses that various ‘line ministries’ and other State agencies previously issued were withdrawn. This made it markedly easier for new enterprises to be formally established, and hence many of today’s SMEs can be considered the ‘children’ of the first Enterprise Law. In late 2006, a revised Enterprise Law was approved by the National Assembly, and became active in January 2007. This new iteration of the Enterprise Law builds on the success of the first version, and strengthens it in a number of regards. Crucially, it paves the way for all enterprises – both SME and non-SME, foreign- and locally-owned, state owned or non-state owned – to operate on a level playing field.

In the seven years since the Enterprise Law was enacted, the legal and regulatory environment for business has improved, step by step, and the business climate of today is much more conducive to SMEs (and other enterprises) than it was even a decade ago. But this is not only the product of new laws and regulations being issued; it is also the product of changes made at the institutional level. For the laws and regulations to be administered correctly, and enforced more consistently, various agencies – at both the national and local level – have also had to undergo positive change.

With specific regard to SMEs, in early 2002 the Ministry of Planning and Investment (MPI) established the Agency for SME Development (ASMED) to manage and coordinate government activities relating to SME development and promotion. The key legal document guiding pro-SME activities in Vietnam is Decree 90/2001/ND-CP, issued by the Prime Minister, on 23<sup>rd</sup> November 2001. The decree spans 20 articles and four chapters, spanning: i) general provisions; ii) support policies; iii) SME development promotion organizations; and iv) implementation provisions. Looking ahead, the Ministry of Planning & Investment plans to issue a revised SME decree, probably in late 2008.

In 2003, the SME Development Council was established, by Prime Minister's Decision 12, to provide advice to the Prime Minister on mechanisms and policies to encourage SME development in Vietnam. The Council is comprised of deputy ministers from eleven ministries, plus representatives from four major cities, and representatives from some of the larger business associations.

Beyond Decree 90, another key document is the 2006-2010 SME Development Plan, which serves as a concrete term of reference and action plan for all activities – conducted by the government and development partners – designed to assist in the creation of a more robust SME sector in Vietnam. The Plan was approved by the SME Development Council in late 2005, and approved by the Prime Minister in October 2006. The Plan identifies the key objectives and direction of SME development activities, and creates a structure through which all actions can be coordinated for optimal effect. The SME Development Plan is congruent with Vietnam's 2001-2010 Socio-Economic Development Strategy (SEDS), and also serves as a partial basis for the harmonization of donor support for private sector development, in conformity with the 2005 Paris Declaration and Hanoi Core Statement on aid effectiveness.

The SME Development Plan states that the principal objectives of SME development between 2006 and 2010 is: “To push forward the growth rate of SME sector, to create an effectively competitive environment, to improve national competitiveness, the SME sector play an increasing vital role in the

whole economic development”. In terms of more specific objectives, the Plan envisages:

- The number of newly established SME will be 320,000 in 2006-2010 (increase by 22% annually)
- The number of newly established SME in the poorest provinces will have increased by 15% by 2010.
- About 59,500 hectares land will have been developed for industrial and commercial purposes in 5 years from 2006 to 2010.
- Lending to SME will account for 40 -50% of the total loans from the financial institutions by 2010.
- SME that will be direct exporters will account for 3-6% of all enterprises.
- There will be an additional 165,000 technical workers in SME.

### ***1.3. A social and labour perspective***

Beyond their specific role in the economy, SMEs also now play an increasingly important role in Vietnamese society, and are an important source of employment for the 1.5 million or more young people that join the labour force each and every year. With the state enterprise sector undergoing a gradual process of transition and commercialization, it cannot also be expected to provide a substantial pool of new jobs each year. Indeed, for those state-owned enterprises that are ‘right sizing’, there is the possibility of labour force contraction, not expansion. And while the growing community of foreign-invested projects account for a relatively substantial proportion of total industrial output and exports, they also have limitations in terms of job creation. It is in this context that domestic, non-state companies have an important role to play, including most SME.

**Table 5: Number of enterprises, by employee size, in the 2001 – 2006 period**

Number of enterprises, by employee size (at year end)

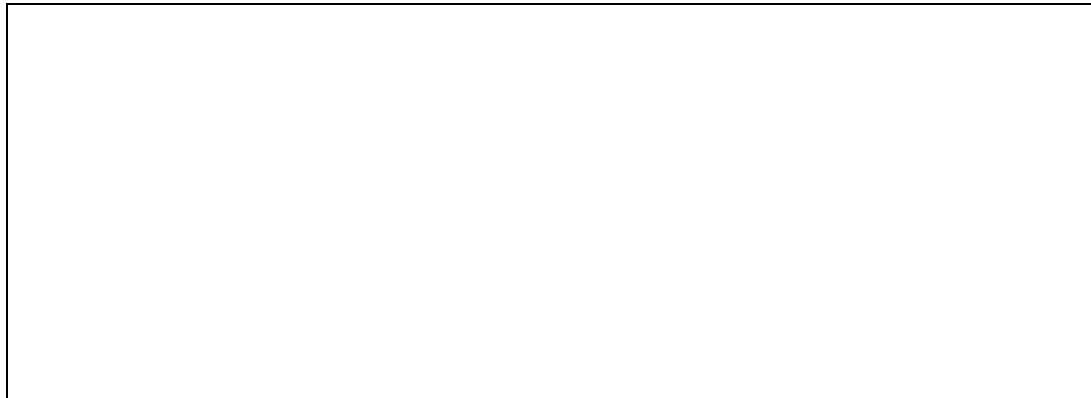
	2001	2002	2003	2004	2005	2006
Less than 5 employees	11,932	12,079	13,091	17,977	23,188	16,834
5-9 employees	13,896	18,139	20,438	26,459	34,632	57,980
10-49 employees	15,737	20,718	25,220	32,443	38,957	39,366
50-199 employees	6,304	7,541	8,531	9,808	10,933	11,683
200-299 employees	1,193	1,354	1,407	1,535	1,626	1,737

Total SME	49,062	59,831	68,687	88,222	109,336	127,600
300-499 employees	1,156	1,354	1,403	1,511	1,555	1,528
500-999 employees	883	1,043	1,181	1,203	1,188	1,259
1,000-4,999 employees	539	638	684	764	801	864
5,000 and above employees	40	42	57	56	70	81
Total not SME	2,618	3,077	3,325	3,534	3,614	3,732

*Note:* Decree 90 defines an SME as an enterprise with 300 employees or less. The figures in this table, based on GSO data, depict SMEs as enterprises with up to 299 employees – a very minor difference.

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

### **Chart 1: Numbers of SMEs and non-SMEs, by employee size, in the 2001-2006 period**



Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

### **Table 6: Percentages of enterprises, by employee size, in the 2001-2006 period**

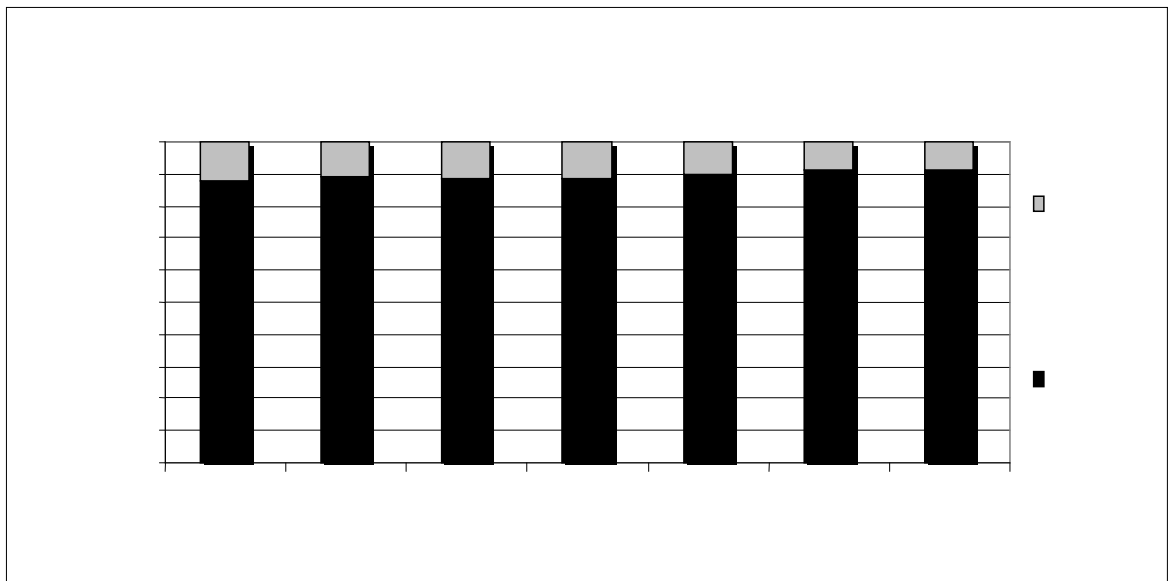
Percentage breakdown	2001	2002	2003	2004	2005	2006
Less than 5 employees	23.1	19.2	18.2	19.6	20.5	12.8
5-9 employees	26.9	28.8	28.4	28.8	30.7	44.1
10-49 employees	30.5	32.9	35.0	35.4	34.5	30.0
50-199 employees	12.2	12.0	11.8	10.7	9.7	8.9
200-299 employees	2.3	2.2	2.0	1.7	1.4	1.3
Total SME	94.9	95.1	95.4	96.1	96.8	97.2
300-499 employees	2.2	2.2	1.9	1.6	1.4	1.2
500-999 employees	1.7	1.7	1.6	1.3	1.1	1.0
1,000-4,999 employees	1.0	1.0	0.9	0.8	0.7	0.7
5,000 and above employees	0.1	0.1	0.1	0.1	0.1	0.1

Total not SME	5.1	4.9	4.6	3.9	3.2	2.8
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Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

As the table above shows, almost 87% of all enterprises in Vietnam have 49 or less employees, and 57% have less than ten employees. This compares with less than 3% of enterprises with over 300 permanent employees.

**Chart 2: Percentage of SMEs, by employee criterion, in the 2000-2006 period**



Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

**Table 7: Number of enterprises, by capital size, in the 2000 – 2006 period**

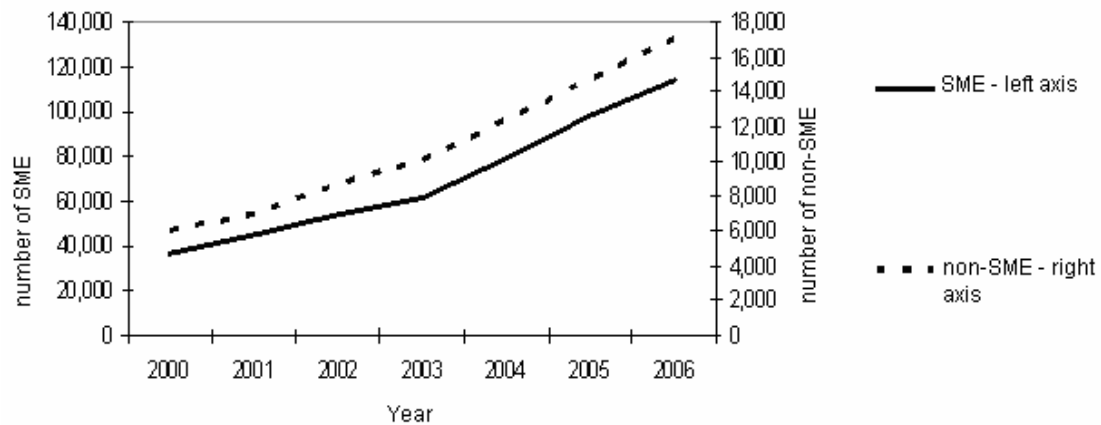
<i>Number of enterprises by capital size (by year end)</i>							
	2000	2001	2002	2003	2004	2005	2006
Less than VND 0.5 billion	16.267	18.326	18.591	18.790	23.187	26.687	15.908
Between VND 0.5 and 1 billion	6.534	8.403	10.994	12.954	16.191	20.434	21.808
Between VND 1 and 5 billion	10.759	14.556	20.141	24.737	32.739	41.856	63.954
Between VND 5 and 10 billion	2.745	3.385	4.490	5.496	7.303	9.255	12.670
<b>Total SME</b>	<b>36.305</b>	<b>44.670</b>	<b>54.216</b>	<b>61.977</b>	<b>79.420</b>	<b>98.232</b>	<b>114.340</b>



Between VND 10 and 50 billion	3.957	4.623	5.771	6.648	8.269	10.017	11.502
Between VND 50 and 200 billion	1.515	1.781	2.160	2.491	2.904	3.302	3.837
Between VND 200 and 500 billion	312	383	501	586	760	895	1.013
Over VND 500 billion	199	223	260	310	403	504	640
<b>Total non-SME</b>	<b>5.983</b>	<b>7.010</b>	<b>8.692</b>	<b>10.035</b>	<b>12.336</b>	<b>14.718</b>	<b>16.992</b>

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

**Chart 3: Number of SMEs and non-SMEs, by capital criterion, in the 2000-2006 period**



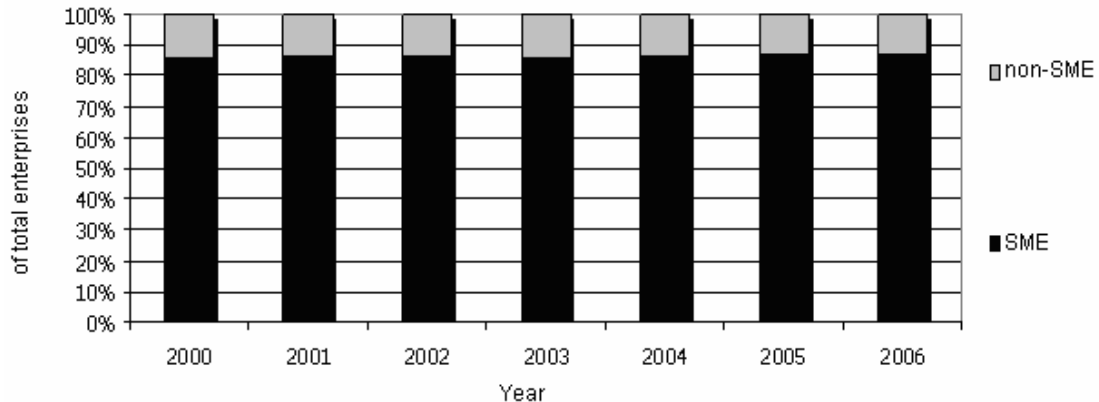
Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

**Table 8: Percentage of enterprises, by capital resource size, in the 2000 – 2006 period**

Percentage breakdown							
	2000	2001	2002	2003	2004	2005	2006
Less than VND 0.5 b	38,5	35,5	29,6	26,1	25,3	23,6	12,1
Between VND 0.5 - 1 b	15,5	16,3	17,5	18,0	17,6	18,1	16,6
Between VND 1 - 5 b	25,4	28,2	32,0	34,4	35,7	37,1	48,7
Between VND 5 - 10 b	6,5	6,5	7,1	7,6	8,0	8,2	9,6
<b>Total SME</b>	<b>85,9</b>	<b>86,4</b>	<b>86,2</b>	<b>86,1</b>	<b>86,6</b>	<b>87,0</b>	<b>87,1</b>
Between VND 10 - 50 b	9,4	8,9	9,2	9,2	9,0	8,9	8,8
Between VND 50 - 200 b	3,6	3,4	3,4	3,5	3,2	2,9	2,9
Between VND 200 - 500 b	0,7	0,7	0,8	0,8	0,8	0,8	0,8
Over VND 500 b	0,5	0,4	0,4	0,4	0,4	0,4	0,5
<b>Total not SME</b>	<b>14,1</b>	<b>13,6</b>	<b>13,8</b>	<b>13,9</b>	<b>13,4</b>	<b>13,0</b>	<b>12,9</b>

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

**Chart 4: Percentage of SME, by capital criterion, in the 2000-2006 period**



Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

There was a time in the past when the pursuit of business was not regarded particularly highly in Vietnam's wider society. While conducting private business has been completely legal and legitimate for some time, it was not always looked upon as a good career choice. But that historic perception has changed with the times, in tandem with a growing appreciation of the important role that SMEs play in the economic development of the country.

Today, successful entrepreneurs are recognized far more for their contributions to the national economy. This stems in part from a growing recognition of how even some of the world's largest companies started as micro-enterprises not so long ago, particularly in high-growth sectors, like software and ICT. A good example of the 'garage-to-great' phenomenon is that of Apple Computers, which today has a market value of roughly US\$164 billion. For society to recognize the efforts made by enterprise owners and business investors is an important part of the economic transition process, and bodes well for the future of the corporate community in Vietnam.

## **2. A BRIEF DESCRIPTION OF THE VIETNAMESE SME SECTOR: the present picture**

### ***2.1. SME definition***

The Government's Decree No. 90/2001/ND-CP on support for development of SME defines an SME as any independent production or business establishment that has either registered capital not exceeding VND 10 billion (about US \$600,000) or an annual average number of permanent employees not exceeding 300. The SME criteria in Vietnam (labor and registered capital) does not include a lower limit, and therefore the Vietnamese SME definition also includes micro enterprises, as defined separately by many other countries. This SME definition is broadly similar to the European Union's definition, which classifies an SME as an enterprise with less than 250 employees, and can be of any legal type or ownership structure.<sup>2</sup>

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<sup>2</sup> EU defines an enterprise with: 1-9 employees as a small enterprise, 10-49 employees as a medium enterprise, and 50-249 employees as a large enterprise.

### **SOME LIMITATIONS OF THE SME DEFINITION**

In comparison with SME definitions of other countries in the region, as well as in the world, the SME definition used in Vietnam is a generalized one that does not differentiate legal forms and business sectors, and fails to reflect the diversity of enterprise sizes in different fields and sectors.

According to current regulations, the enterprise's founder makes a self-declaration on the enterprise's registration capital, and takes responsibility over this declaration. This regulation is not applied to enterprises that operate in fields where the requirement on minimum legal capital is needed, such as gold trading, tourism, insurance, and real estate. This registered capital only reflects the level of legal responsibilities of an enterprise and its members towards debts and benefits arising from its operations. In fact, there is quite a big difference between the registered and operational capital of an enterprise.

The number of an enterprise's annual average employees is just an approximation, and enterprises are not required by law to declare this number. It is therefore difficult to classify enterprises after registration. Moreover, enterprises operating in different business sectors employ quite different numbers of employees.

The use of either criteria (registered capital or average employees) makes defining an enterprise as an SME or not sometimes quite difficult. Supporting programs could have missed some eligible SMEs in some cases and received some ineligible SMEs in other cases. Moreover, the average annual employee is quite a 'dynamic' criterion due to the popular trend of seasonal work in Vietnam, where people can change their job frequently, further exacerbating the challenge of determining if an enterprise is an SME or not.

Of the 131,332 operational enterprises in Vietnam at end-2006, roughly 97% had 300 employees or less, and 87.1% had capital of less than VND 10 billion, and therefore could be defined – on both measures – as an SME. Put simply, SMEs – of whatever ownership form – dominate the corporate landscape of Vietnam.

As many companies, including SMEs, have a tendency to pursue diverse business activities, and will typically provide a long list of potential activities on their business registration form, it is quite difficult to provide a meaningful

and accurate breakdown of SMEs by business sector in Vietnam. However, it appears that around: 40% of companies are principally focused on trading, 21% are in manufacturing, and 14% principally work in construction (see the table below). Official figures would suggest that, at end-2006, the average company in Vietnam was indeed an SME, employing 14 permanent staff, with legal capital of VND 7 billion (USD 424,000).

**Table 9: Number of enterprises by industry in the 2000 – 2006 period**

<i>Number of enterprises by industry (at the end of the year)</i>							
	2000	2001	2002	2003	2004	2005	2006
Agriculture and forestry	925	875	972	939	1.015	1.071	1.092
Aquaculture	2,453	2,563	2,407	1,468	1,354	1,358	1,307
Mining	427	634	879	1.029	1.193	1.277	1.369
Processing	10,399	12,353	14,794	16,916	20,531	24,017	26,863
Construction	3,999	5,693	7,845	9,717	12,315	15,252	17,783
Trade	17,547	20,722	24,794	28,369	36,090	44,656	52,505
Hotel and restaurant	1,919	2,405	2,843	3,287	3,957	4,730	5,116
Transportation	1,796	2,545	3,242	3,976	5,351	6,754	7,695
Other	2,823	3,890	5,132	6,311	9,950	13,835	17,602
<i>Percentage</i>							
	2000	2001	2002	2003	2004	2005	2006
Agriculture and forestry	2,2	1,7	1,5	1,3	1,1	0,9	0,8
Aquaculture	5,8	5,0	3,8	2,0	1,5	1,2	1,0
Mining	1,0	1,2	1,4	1,4	1,3	1,1	1,0
Processing	24,6	23,9	23,5	23,5	22,4	21,3	20,5
Construction	9,5	11,0	12,5	13,5	13,4	13,5	13,5
Trade	41,5	40,1	39,4	39,4	39,3	39,5	40,0
Hotel and restaurant	4,5	4,7	4,5	4,6	4,3	4,2	3,9
Transportation	4,2	4,9	5,2	5,5	5,8	6,0	5,9
Other	6,7	7,5	8,2	8,8	10,8	12,2	13,4

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

## ***2.2. Statistical data on Vietnamese SMEs by location and other criteria***

In this section, we provide some statistics that profile the SME sector in Vietnam. The data comes from the Business Information Center, Agency for SME Development (ASMED), and is valid up to end-2007. This data differs somewhat from the GSO statistics on enterprises; a differentiation that we discuss in section 2.4 of this report.

The table below shows the number of registered enterprises in 64 provinces and cities<sup>3</sup>. Enterprises are classified according to their legal type, such as: private enterprise, limited liability company, and joint stock company. As shown in the table, there is great difference in the numbers and densities of registered enterprises among Vietnamese provinces and cities. For example, Ho Chi Minh City has the largest number, with more than 17,000 registered businesses, which contrasts markedly with that of 71 firms in Bac Kan province.

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<sup>3</sup> Data was collected before the merger of Ha Tay, Hoa Binh and Vinh Phuc into Hanoi.

**Table 10: Number of registered enterprises, by legal form, in 2007**

*Unit: VND million*

Province	Private enterprise		LLC		Joint stock company		Partnership		1 member LLC		SOE		Total	
	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital
Ha Noi	136	74,348	3,364	5,530,659	5,777	101,313,313			1,636	13,583,504			10,913	120,501,824
Hai Phong	63	68,400	1,588	2,996,291	856	6,705,311			494	14,252,686			3,001	24,022,688
Ha Tay	93	90,506	455	786,738	362	4,659,804			119	209,825			1029	5,746,873
Hai Duong	143	235,293	100	235,619	220	1,958,611			144	368,077			607	2,797,600
Hung Yen	105	102,260	110	437,282	84	1,256,914			120	283,446			419	2,079,902
Ha Nam	12	16,110	121	756,499	44	791,741							177	1,564,350
Nam Dinh	77	69,750	257	576,500	183	1,835,000			35	80,000			552	2,561,250
Thai Binh	90	40,240	210	684,705	146	1,110,103			18	177,112			464	2,012,160
Ninh Binh	158	220,478	82	214,500	40	1,076,150			39	433,946			319	1,945,074
Ha Giang	8	8,915	61	209,387	32	1,392,160			1	20,000			102	1,630,462
Cao Bang	27	51,770	37	410,840	19	716,929			20	136,047			103	1,315,586
Lao Cai	19	14,754	46	66,449	39	541,104			60	122,264			164	744,571
Bac Kan	25	38,920	23	276,750	23	210,800							71	526,470
Lang Son	32	22,570	55	59,880	52	194,120			28	100,889	2	12,286	169	389,745
Tuyen Quang	34	15,070	40	52,450	18	465,000			25	38,117			117	570,637
Yen Bai	41	34,164	36	100,696	41	1,262,774			32	28,421			150	1,426,055
Thai Nguyen	127	121,202	58	171,596	69	1,460,882			56	102,840			310	1,856,520
Phu Tho	36	42,109	142	203,976	119	1,771,753			33	37,926			330	2,055,764
Vinh Phuc	77	81,185	270	672,577	132	3,592,050			53	226,250			532	4,572,062
Bac Giang	13	8,100	165	228,600	60	300,200							238	536,900
Bac Ninh	72	155,707	337	1,573,422	103	572,432			60	192,790			572	2,494,351
Quang Ninh	80	73,366	272	457,340	388	11,004,418			82	2,255,099	6	16,350	828	13,806,573
Lai Chau	26	43,926	24	53,636	23	1,106,328			12	35,590			85	1,239,480
Son La	56	78,700	40	80,309	40	1,227,469							136	1,386,478
Hoa Binh	24	19,140	71	148,798	91	832,849			55	214,969			241	1,215,756
Thanh Hoa	150	147,464	426	1,406,417	205	3,544,837							781	5,098,718

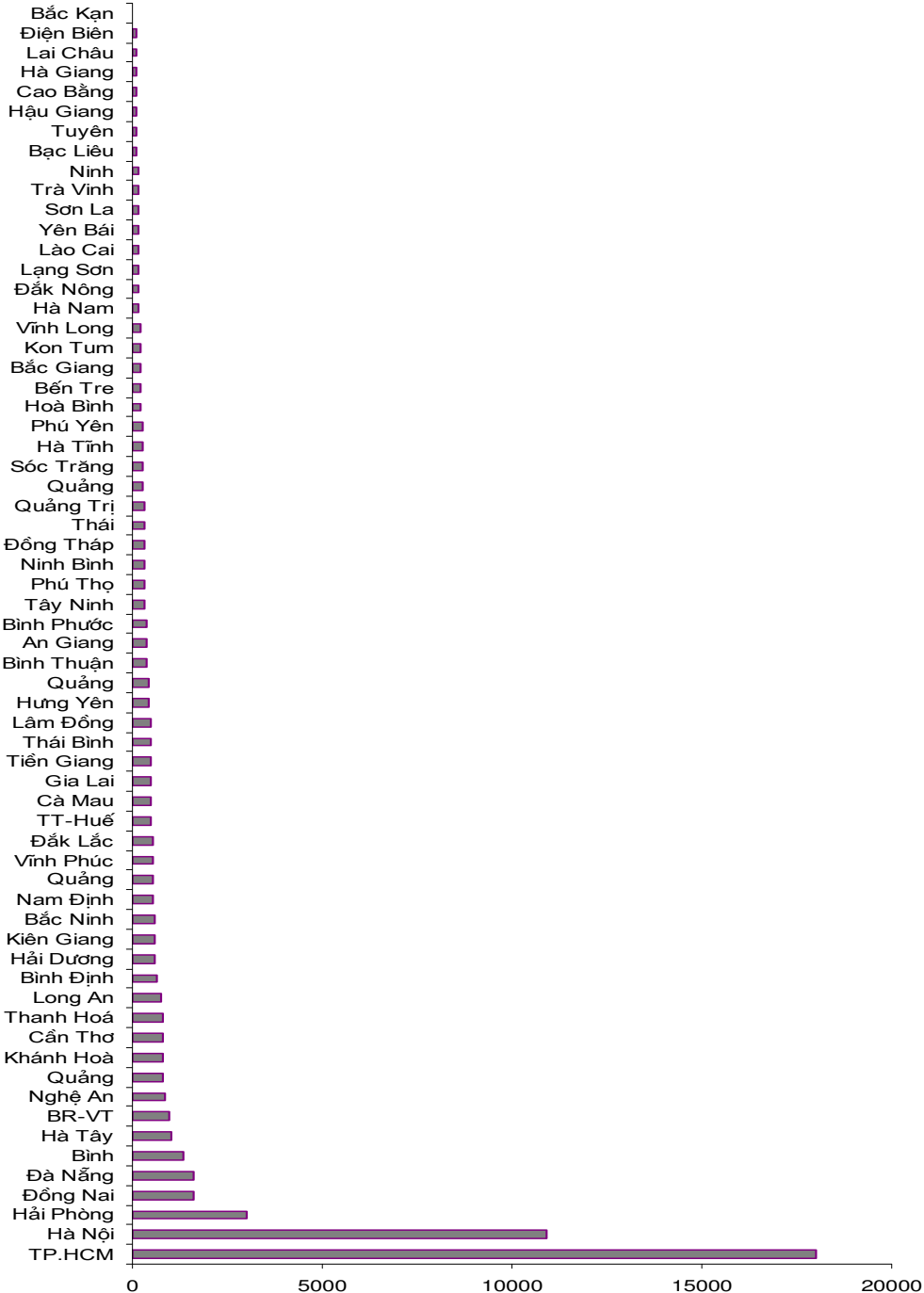
Province	Private enterprise		LLC		Joint stock company		Partnership		1-member LLC		SOE		Total	
	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital
Nghe An	239	183,947	299	1,130,562	329	3,226,186							867	4,540,695
Ha Tinh	69	68,750	76	151,790	113	3,062,670							258	3,283,210
Quang Binh	68	57,715	151	443,431	31	207,392	1	500	31	430,460			282	1,139,498
Quang Tri	64	59,167	33	63,900	71	960,630			140	908,060			308	1,991,757
TT-Hue	256	167,064	150	316,515	55	1,763,150							461	2,246,729
Da Nang	299	135,323	749	1,086,599	306	5,418,336			242	460,679			1,596	7,100,937
Quang Nam	81	37,921	212	430,150	92	3,123,673			163	513,347			548	4,105,091
Quang Ngai	129	104,037	146	1,238,966	49	2,949,771			80	184,499			404	4,477,273
Binh Dinh	228	163,483	223	348,697	56	2,575,360			115	417,403			622	3,504,943
Phu Yen	102	57,960	68	186,770	28	1,522,536			48	253,562			246	2,020,828
Khanh Hoa	266	237,625	261	1,520,067	89	2,089,543			201	1,226,780			817	5,074,015
Kon Tum	82	81,544	72	194,169	38	1,528,294			43	152,500			235	1,956,507
Gia Lai	179	224,797	80	147,550	71	3,348,253			140	297,798			470	4,018,398
Dăk Lac	166	134,992	226	512,270	58	986,683			76	166,562			526	1,800,507
TP.HCM	1,791	1,102,000	10,640	27,708,000	3,011	119,778,000			2,567	14,165,000			17,313	139,596,858
Lam Dong	155	134,485	244	902,222	63	2,203,923					1	9,381	463	3,250,011
Ninh Thuan	56	29,215	51	343,590	7	149,987			21	157,200			159	852,906
Binh														
Phuoc	146	169,950	136	422,580	29	1,463,000			43	125,870			354	2,181,400
Tay Ninh	168	142,556	128	315,943	25	1,052,464			23	226,750			344	1,737,713
Binh Duong	315	279,028	696	1,716,464	157	3,646,503			200	1,076,213			1,368	6,718,208
Dong Nai	510	582,776	754	2,127,883	123	7,388,964			218	3,597,430			1,605	13,697,053
Binh Thuan	129	130,814	154	505,338	39	1,108,738			74	143,242			396	1,888,132
BR-VT	284	255,006	342	1,250,687	167	7,070,310			194	4,703,527			987	13,279,530
Long An	226	186,200	255	1,082,005	134	11,863,682			128	713,026			743	13,844,913
Dong Thap	150	122,693	107	507,960	34	1,348,060			25	29,560			316	2,008,273
An Giang	131	128,437	170	736,458	31	1,411,906			36	85,220			368	2,362,021
Tien Giang	290	224,000	113	273,000	28	1,266,000			39	31,700			470	1,794,700
Vinh Long	121	145,064	49	210,804	23	836,200			33	292,990			226	1,485,058
Ben Tre	146	111,692	63	132,988	11	463,750			21	26,108			241	734,538
Kien Giang	338	230,289	193	1,131,124	44	1,024,700			17	143,393			592	2,529,506



Province	Private enterprise		LLC		Joint stock company		Partnership		1-member LLC		SOE		Total	
	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital	Number	Capital
Can Tho	288	180,221	272	811,934	130	2,175,566			117	230,511			807	3,398,232
Tra Vinh Soc	49	42,958	38	91,140	11	84,776			38	112,400			136	331,274
Trang	167	149,386	42	313,481	20	1,038,700			36	92,196			265	1,593,763
Bac Lieu	80	67,201	25	107,598	11	82,400			17	97,890			133	355,089
Ca Mau	353	196,950	124	4,232,665	22	710,758							499	5,140,373
Dien Bien	37	53,171	13	15,700	29	565,414			6	7,935			85	642,220
Dăk Nong	63	39,852	52	123,175	24	1,226,500			32	54,807			171	1,444,334
Hau Giang	62	67,680	24	356,270	8	576,900			11	586,300			105	1,587,150
<b>Total</b>	<b>10,019</b>	<b>8,421,096</b>	<b>25,470</b>	<b>68,636,058</b>	<b>14,544</b>	<b>338,109,504</b>	<b>1</b>	<b>500</b>	<b>8,153</b>	<b>58,606,317</b>	<b>9</b>	<b>38,017</b>	<b>58,196</b>	<b>473,811,492</b>
<i>Same period 2006</i>	<b>10,246</b>	<b>7,553,510</b>	<b>25,777</b>	<b>44,607,168</b>	<b>9,964</b>	<b>78,437,854</b>	<b>4</b>	<b>2,150</b>	<b>906</b>	<b>14,313,677</b>	<b>9</b>	<b>1,519,565</b>	<b>46,606</b>	<b>146,433,924</b>
<i>Ratio</i>	<b>97,8</b>	<b>111,5</b>	<b>98,8</b>	<b>153,9</b>	<b>150,5</b>	<b>431,1</b>	<b>25</b>	<b>23,3</b>	<b>899,9</b>	<b>409,4</b>	<b>100</b>	<b>2,5</b>	<b>124,9</b>	<b>323,6</b>

Source: Business Information Center – Agency for SME Development (ASMED).

**Chart 5: Numbers of enterprises, by location, in 2007**



Source: Business Information Center, ASMED.

Ho Chi Minh City alone accounts for more than 30% of all registered firms, and almost 55% of all firms are located in just Ho Chi Minh City, Ha Noi and Hai Phong collectively. The table below profiles nine locations having more than 3,000 registered enterprises in the 2000 – 2007 period.

**Table 11: Locations with more than 3,000 registered enterprises in the 2000 - 2007 period**

No	Province	Number of enterprise (enterprise)	Capital (VND million)
1	Ho Chi Minh City	82,591	267,033,251
2	Ha Noi	53,339	222,068,899
3	Hai Phong	9,852	47,392,428
4	Da Nang	6,625	16,015,373
5	Binh Duong	5,564	21,756,697
6	Dong Nai	5,290	25,002,736
7	Khanh Hoa	3,962	11,010,388
8	Can Tho	3,720	8.905.958
9	Quang Ninh	3,708	25,152,616

Source: Business Information Center, ASMED

The table below shows the number of registered enterprises, their total registered capital, and average registered capital, also broken down by location. Again, we can see a diversity of capital averages, which may reflect in part the main kinds of business activity conducted in different locations.

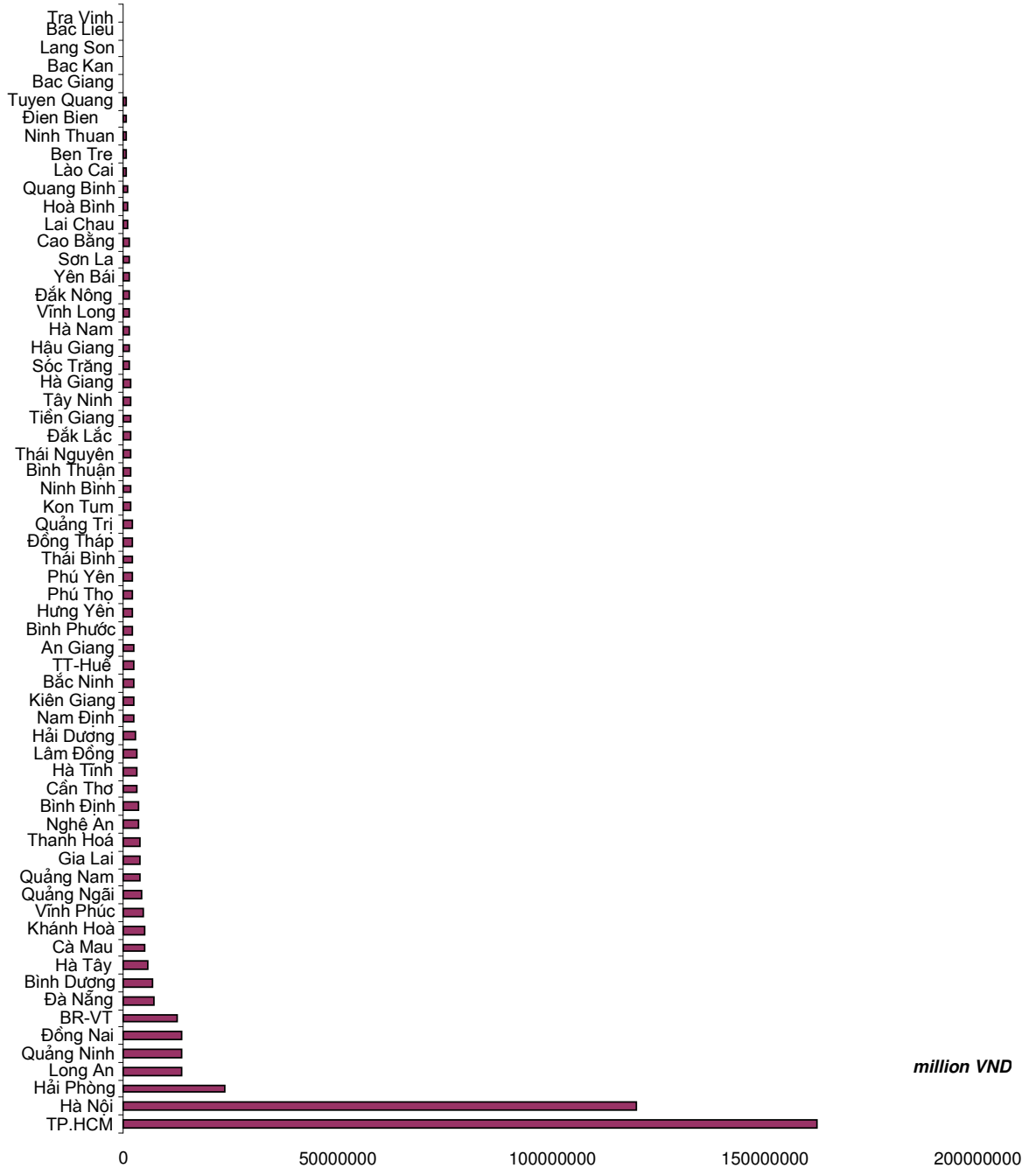
**Table 12: Number of registered enterprises, by location and registered capital, in 2007**

	<b>Province</b>	<i>Number of registered enterprises</i>	<i>Total of registered capital (VND million)</i>	<i>Average registration capital (VND million)</i>
1	Ha Noi	10,913	120,501,824	11,042.04
2	Hai Phong	3,001	24,022,688	8,004.89
3	Ha Tay	1,029	5,746,873	5,584.91
4	Hai Duong	607	2,797,600	4,608.90
5	Hung Yen	419	2,079,902	4,963.97
6	Ha Nam	177	1,564,350	8,838.14
7	Nam Dinh	552	2,561,250	4,639.95
8	Thai Binh	464	2,012,160	4,336.55
9	Ninh Binh	319	1,945,074	6,097.41
10	Ha Giang	102	1,630,462	15,984.92
11	Cao Bang	103	1,315,586	12,772.68
12	Lao Cai	164	744,571	4,540.07
13	Bac Kan	71	526,470	7,415.07
14	Lang Son	169	389,745	2,306.18
15	Tuyen Quang	117	570,637	4,877.24
16	Yen Bai	150	1,426,055	9,507.03
17	Thai Nguyen	310	1,856,520	5,988.77
18	Phu Tho	330	2,055,764	6,229.59
19	Vinh Phuc	532	4,572,062	8,594.10
20	Bac Giang	238	536,900	2,255.88
21	Bac Ninh	572	2,494,351	4,360.75
22	Quang Ninh	828	13,806,573	16,674.61
23	Lai Chau	85	1,239,480	14,582.12
24	Son La	136	1,386,478	10,194.69
25	Hoa Binh	241	1,215,756	5,044.63
26	Thanh Hoa	781	5,098,718	6,528.45
27	Nghe An	867	4,540,695	5,237.25
28	Ha Tinh	258	3,283,210	12,725.62
29	Quang Binh	282	1,139,498	4,040.77
30	Quang Tri	308	1,991,757	6,466.74
31	TT-Hue	461	2,246,729	4,873.60
32	Da Nang	1596	7,100,937	4,449.21
33	Quang Nam	548	4,105,091	7,491.04
34	Quang Ngai	404	4,477,273	11,082.36
35	Binh Dinh	622	3,504,943	5,634.96
36	Phu Yen	246	2,020,828	8,214.75
37	Khanh Hoa	817	5,074,015	6,210.54
38	Kon Tum	235	1,956,507	8,325.56

	<b>Province</b>	<i>Number of registered enterprises</i>	<i>Total of registered capital (VND million)</i>	<i>Average registration capital (VND million)</i>
39	Gia Lai	470	4,018,398	8,549.78
40	Dak Lac	526	1,800,507	3,423.02
41	TP.HCM	17,313	139,596,858	8,063.12
42	Lam Dong	463	3,250,011	7,019.46
43	Ninh Thuan	159	852,906	5,364.19
44	Binh Phuoc	354	2,181,400	6,162.15
45	Tay Ninh	344	1,737,713	5,051.49
46	Binh Duong	1,368	6,718,208	4,910.97
47	Dong Nai	1,605	13,697,053	8,533.99
48	Binh Thuan	396	1,888,132	4,768.01
49	BR-VT	987	13,279,530	13,454.44
50	Long An	743	13,844,913	18,633.80
51	Dong Thap	316	2,008,273	6,355.29
52	An Giang	368	2,362,021	6,418.54
53	Tien Giang	470	1,794,700	3,818.51
54	Vinh Long	226	1,485,058	6,571.05
55	Ben Tre	241	734,538	3,047.88
56	Kien Giang	592	2,529,506	4,272.81
57	Can Tho	807	3,398,232	4,210.94
58	Tra Vinh	136	331,274	2,435.84
59	Soc Trang	265	1,593,763	6,014.20
60	Bac Lieu	133	355,089	2,669.84
61	Ca Mau	499	5,140,373	10,301.35
62	Dien Bien	85	642,220	7,555.53
63	Dak Nong	171	1,444,334	8,446.40
64	Hau Giang	105	1,587,150	15,115.71
<b>Total</b>		<b>58,196</b>	<b>473,811,492</b>	<b>8,141.65</b>
<b>Same period of 2006</b>		<b>46,606</b>	<b>146,433,924</b>	<b>3,141.95</b>
<b>Ratio</b>		<b>124,9</b>	<b>323,6</b>	<b>259,13</b>

Source: Business Information Center, ASMED.

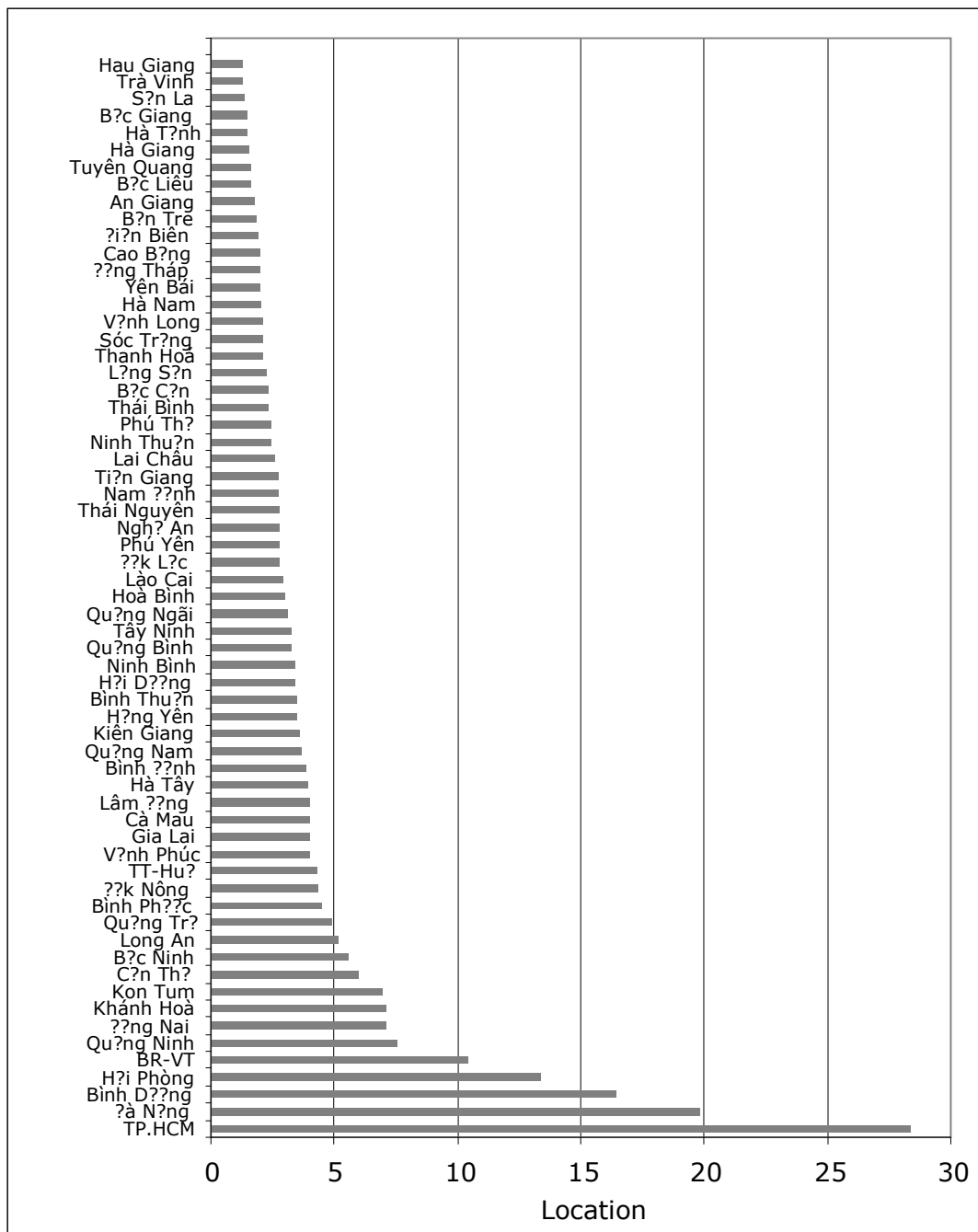
**Chart 6: Total registered capital, by location, in 2007**



Source: Business Information Center, ASMED; Statistics Yearbook 2007.

The chart below clearly indicates the relative densities of registered enterprises, by location, in 2007. There is a big difference in the density of registered enterprises in different locations throughout the country. The average density of the whole country is approximately 6.92 enterprises per 10,000 people. The provinces of Kon Tum, Khanh Hoa and Dong Nai have enterprise densities that are most similar to the whole nation average.

**Chart 7: The density of registered enterprises in 2007 (per 10,000 populations)**



Source: Business Information Center, ASMED.

### ***2.3. SME sector mutations since 2000***

The biggest change in the SME sector since 2000 has been the substantial and sustained increase in the number of formally registered SMEs in Vietnam. In addition, the broad profile of the SME sector is gradually mutating, as it steadily matures.

Let us first look at the 2000-2006 data provided by the General Statistical Office, in its publication, “The situation of enterprises through the results of the 2001 – 2007 survey”. Based on capital criterion, the proportion of small enterprises with capital less than VND 1 billion (around US\$ 60,000) has declined from 54% in 2000 to 29% in 2006, suggesting that larger SMEs are taking shape. Based on the size-of-labour criterion, a similar picture on SMEs is apparent. The proportion of SMEs employing less than 5 employees has declined (from 24% to 12.8% in the 2000 – 2006 period), while the proportion of SMEs employing between five and nine employees has burgeoned (from 26% to 44%). That would suggest that some of the smallest SMEs are starting to scale up their activities.

However, the proportion of SMEs in the larger sub-groups for employee numbers declined: those with between 10 and 49 employees has stayed flat; the group with employees between 50 and 299 employees has dropped from 16% to 10%. This suggests that while Vietnam has been successful in increasing the number of SMEs, there may be some factors that are cumulatively serving to constrain: i) the development of larger SME; and ii) the graduation of larger SMEs up to large company status. If we look at SMEs in terms of capital size, we see a broadly similar picture. The proportion of firms with between VND 1 billion and VND 5 billion has burgeoned, from 28% to almost 49%, between 2001 and 2006. But there has been virtually no change in the proportion of companies with a capital resource in excess of VND 10 billion.

It is also useful to focus on the manufacturing sector, as arguably one of the most important fields of business for Vietnamese enterprises. As the tables below show, more than 90% of all manufacturing companies are SMEs, when measured by number of employees; and two-thirds have only between 5 and 50 permanent employees. Here again, we are not seeing any striking increase in the proportion of larger manufacturing companies, as their aggregate numbers increase roughly at the same pace as new and smaller manufacturing SMEs.



**Table 13: Number and percentages of manufacturing enterprises in the 2000 – 2006 period**

<b>The number of manufacturing enterprises, by size of employees (at the year end)</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Less than 5 employees	626	1,156	870	982	1,306	1,772	990
5-9 employees	2,077	2,183	2,872	3,118	3,850	4,820	7,690
10-49 employees	3,743	4,558	5,659	6,739	8,411	9,811	9,945
50-199 employees	2,198	2,537	3,106	3,483	4,071	4,570	4,980
200-299 employees	506	548	636	681	796	867	948
<b>Total of SME</b>	<b>9,150</b>	<b>10,982</b>	<b>13,143</b>	<b>15,003</b>	<b>18,434</b>	<b>21,840</b>	<b>24,553</b>
300-499 employees	525	554	682	744	839	878	881
500-999 employees	431	464	559	703	737	753	811
1,000-4,999 employees	278	334	389	437	491	508	571
From 5,000 employees and above	15	19	21	29	30	38	47
<b>Total of not SME</b>	<b>1,249</b>	<b>1,371</b>	<b>1,651</b>	<b>1,913</b>	<b>2,097</b>	<b>2,177</b>	<b>2,310</b>

<b>Percentage</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Less than 5 employees	6,0	9,4	5,9	5,8	6,4	7,4	3,7
5-9 employees	20,0	17,7	19,4	18,4	18,8	20,1	28,6
10-49 employees	36,0	36,9	38,3	39,8	41,0	40,9	37,0
50-199 employees	21,1	20,5	21,0	20,6	19,8	19,0	18,5
200-299 employees	4,9	4,4	4,3	4,0	3,9	3,6	3,5
<b>Total of SME</b>	<b>88,0</b>	<b>88,9</b>	<b>88,8</b>	<b>88,7</b>	<b>89,8</b>	<b>90,9</b>	<b>91,4</b>
300-499 employees	5,0	4,5	4,6	4,4	4,1	3,7	3,3
500-999 employees	4,1	3,8	3,8	4,2	3,6	3,1	3,0
1,000-4,999 employees	2,7	2,7	2,6	2,6	2,4	2,1	2,1
From 5,000 employees and above	0,1	0,2	0,1	0,2	0,1	0,2	0,2
<b>Total of not SME</b>	<b>12,0</b>	<b>11,1</b>	<b>11,2</b>	<b>11,3</b>	<b>10,2</b>	<b>9,1</b>	<b>8,6</b>

*Note:* The Decree 90 defined SME as an enterprise that has no more than 300 employees. The data provided on the above table was based on database of General Statistic Office that described SME as an enterprise with no more than 299 employees – the different was very small though.

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

The same picture is shown when looking at manufacturing enterprises in aspect of capital resource size (see table below).

**Table 14: Number and percentage of manufacturing enterprises, by capital resource size, in the 2000 – 2006 period**

<b>The number of manufacturing enterprises, by size of capital (at the end of the year)</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Less than VND 0,5 billion	3,133	3,425	3,281	3,395	3,758	4,083	2,890
VND 0.5 – 1 billion	1,552	1,828	2,347	2,646	3,174	3,774	4,383
VND 1 – 5 billion	2,525	3,276	4,342	5,222	6,797	8,189	10,491
VND 5 – 10 billion	826	984	1,316	1,505	1,886	2,259	2,434
Total of SME	8,036	9,513	11,286	12,768	15,615	18,305	20,198
VND 10 – 50 billion	1,505	1,804	2,238	2,603	3,059	3,599	4,153
VND 50 – 200 billion	660	801	954	1,167	1,356	1,535	1,788
VND 200 – 500 billion	119	149	213	260	350	391	496
More than VND 500 billion	79	86	103	118	151	187	228
Total of not SME	2,363	2,840	3,508	4,148	4,916	5,712	6,665

<b>Percentage</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Less than VND 0,5 billion	30,1	27,7	22,2	20,1	18,3	17,0	10,8
VND 0.5 – 1 billion	14,9	14,8	15,9	15,6	15,5	15,7	16,3
VND 1 – 5 billion	24,3	26,5	29,3	30,9	33,1	34,1	39,1
VND 5 – 10 billion	7,9	8,0	8,9	8,9	9,2	9,4	9,1
Total of SME	77,3	77,0	76,3	75,5	76,1	76,2	75,2
VND 10 – 50 billion	14,5	14,6	15,1	15,4	14,9	15,0	15,5
VND 50 – 200 billion	6,3	6,5	6,4	6,9	6,6	6,4	6,7
VND 200 – 500 billion	1,1	1,2	1,4	1,5	1,7	1,6	1,8
More than VND 500 billion	0,8	0,7	0,7	0,7	0,7	0,8	0,8
Total of not SME	22,7	23,0	23,7	24,5	23,9	23,8	24,8

*Note:* Decree 90 defined ME as an enterprise that has no more than 300 employees. The data provided on the above table was based on database of General Statistic Office that described SME as an enterprise with no more than 299 employees – the different was very small though.

Source: General Statistical Office, 'The Real Situation of Enterprises'. Hanoi: 2004, 2005, 2008.

Table 9, showing a breakdown of SMEs, according to business activity between 2001 and 2006, seems to suggest that there have not been many changes in the business profile of the SME sector, over time. The proportion of SMEs involved in agriculture, forestry and fishing has declined a little, as has those involved in hospitality activities. The only marked change in the proportions is for the 'others' category, which has risen from 7.5% to 13.4% between 2001 and 2006, which suggests that SMEs are moving into more

diverse areas of business over time, including some high growth sectors, such as financial services, software, and some other business support services.

The next table shows data provided by the Business Information Center, Agency for Small and Medium Enterprise Development (ASMED). And although the data comes from a different source, they broadly indicate the same picture on the SME sector in Vietnam.

**Table 15: The number and registered capital of enterprises, by legal form, in the 2001 – 2006 period**

*Unit: VND million*

		2001			2002		2003		2004		2005		2006	
		<i>Indicator</i>	<i>Indicator</i>	<i>% of 2001</i>	<i>Indicator</i>	<i>% of 2002</i>	<i>Indicator</i>	<i>% of 2003</i>	<i>Indicator</i>	<i>% of 2004</i>	<i>Indicator</i>	<i>% of 2005</i>	<i>Indicator</i>	<i>% of 2006</i>
<b>Private enterprise</b>	<i>Number</i>	7,100	6,532	92.00	7,813	119,61	10,405	133,18	9,295	89.33	10,246	110.23		
	<i>Registered capital</i>	3,877,186	4,112,303	106.06	5,293,802	128.73	6,937,719	131.05	6,557,117	94.51	7,553,510	115.20		
<b>Limited liability company</b>	<i>Number</i>	11,121	12,627	113.54	15,781	124.98	20,190	127.94	22,341	110.65	25,777	115.38		
	<i>Registered capital</i>	14,167,823	19,111,351	134.89	25,025,188	130.42	31,624,754	126.37	40,365,686	127.64	44,607,168	110.51		
<b>Joint stock company</b>	<i>Number</i>	1,550	2,305	148.71	4,058	176.05	6,497	160.10	8,010	123.29	9,664	120.65		
	<i>Registered capital</i>	7,565,213	14,921,482	197.24	26,941,754	180.56	36,245,391	134.53	53,524,021	147.67	78,437,854	146.55		
<b>Partnership</b>	<i>Number</i>	2	0	0,00	1		7	700.00	13	185.71	4	30.77		
	<i>Registered capital</i>	210	0	0,00	300		9,450	3,150.00	11,250	119.05	2,150	19.11		
<b>One member limited liability company</b>	<i>Number</i>	0	59		98	166.10	125	127.55	292	233.60	906	310.27		
	<i>Registered capital</i>	0	276,557		703,805	254.49	1,780,709	253.01	6,814,369	382.68	14,313,677	210.05		
<b>State owned enterprise</b>	<i>Number</i>	27	12	44.44	20	166.67	6	30.00	8	133.33	9	112.50		
	<i>Registered capital</i>	159,619	108,251	67.81	234,144	216.30	38,239	16.33	765,344	2,001.47	1,519,65	198.55		
<b>Total</b>	<i>Number</i>	19,800	21,535	108.76	27,771	128.96	37,230	134.06	39,959	107.33	46,606	116.63		
	<i>Registered capital</i>	25,770,051	38,529,944	149.51	58,198,993	151.05	76,636,262	131.67	108,037,787	140.97	146,433,924	135.54		

Source: Business Information Center, ASMED.

## **THE SME DEVELOPMENT TENDENCY**

From 2000 to 2007, the number and capital of registered enterprises have gradually increased annually.

The proportions of different types of enterprises have changed, too. Private enterprises have been less preferred by investors compared to limited liability companies and joint stock companies. In the year 2000, private enterprises accounted for 36%, limited liability companies for 56.5%, and joint stock companies for 8% of total registered enterprises; they were meanwhile 22%, 55.3%, 20.7% in 2006; and 17.2%, 43.8% and 25% in 2007 respectively.

The average registered capital per enterprise has also increased, from VND 962 million/enterprise (in 2000) to VND 3.14 billion/enterprise (in 2006) and VND 8.14 billion (in 2007). This average amount of registered capital has gradually approached the limit of VND 10 billion, as per the SME definition in Decree No. 90/2001/ND-CP on support for SME development.

Ha Noi and Ho Chi Minh City have always been the leading two locations, with the largest number of established and registered enterprises. The runners-up are Hai Phong, Da Nang, Binh Duong, Dong Nai, Khanh Hoa, Can Tho and Quang Ninh provinces, which had more than 3,000 established and registered enterprises during the period from 2000 to the end of 2007 (see Table 11).

#### ***2.4. The unknowns about Vietnam's SME sector***

Based on various statistical sources, the previous sections of this Report provided a basic profile of the SME sector, using the data available. However, it is worth taking some time to identify some of the less clear elements of Vietnam's growing SME community.

As noted earlier, one area in which we have relatively little accurate information is the major industries of SMEs. The lack of this information is principally because, upon initially registering a new enterprise, the owners typically provide a long list of business activities that the enterprise might (and even might not) pursue in the future, mostly to avoid a supplement register later on. Therefore, information on the initial registration document is usually neglected when classifying an enterprise's business activities. However, it prevents business registration offices from being able to obtain the accurate types of businesses in which most enterprises are principally engaged in. Hence, for policy makers, it is very difficult to provide useful support measures to SMEs when they do not have a very clear sense of what exactly the SMEs are trying to do, in terms of actual business activities.

Another area where we do not have good visibility is the proportion of closed SMEs, for whatever reason. The business registration process provides a very accurate record of the "birth" of SMEs, but the collection of data on SME "deaths" is very limited indeed. This is a common issue in many developing countries, because the process of closing an enterprise down is often not so simple, and therefore it is more difficult for the relevant government agencies to collect accurate information. Similarly, it is hard to differentiate whether an enterprise is merely sleeping, is hibernating, or has permanently expired.

International experience shows that the failure rate of newly established enterprises can be quite high, for a whole range of inevitable reasons. In a study conducted by the Mekong Private Sector Development Facility in 2005, it found that within a random sample of 300 enterprises established between 2000 and 2002 in Hanoi: 74% were definitely or probably operational; 14% were definitely or probably closed or non-operational; 16% were of unclear status; and 6% had officially closed down. And yet, just 1% of the total sample had completed the formal enterprise cessation procedures.

It is important to recognize that closing an enterprise is an integral and unavoidable part of the dynamic business process for all enterprises, including SMEs. Some enterprises cease operation because they are acquired by another enterprise, or because two enterprises merge together for mutual benefit. In this case, the closure of an enterprise is not an unfortunate event, but rather it is a positive outcome.

One reason for this situation is a shortage of post-registration regulations. In addition, because of many different reasons (in terms of human resource, IT application, etc.), statistics on business registration at the local level has not been properly implemented. This consequently leads to poor performance of legal regulations for reporting on SMEs. The proportion of SMEs in total registered enterprises is often calculated based on the results of occasional research surveys, instead of from data directly provided by local Departments of Planning and Investment.

A third area where we do not currently have good visibility on SMEs relates to the data itself. This annual report relies on two differing sources of data: i) enterprise statistics collected and disseminated by the General Statistic Office; and ii) business registration data collected by the Agency for Small and Medium Enterprise Development (ASMED). As the tables in this report show, although the data on SMEs come from two different sources, it paints a broadly similar picture of the SME sector in Vietnam. But some differences in the data are apparent. Why is that?

The data collected by ASMED stems from the business registration procedures that newly established enterprises undertake at the local level of Department of Planning and Investment. These are then collated at the national level by ASMED in Hanoi. This will include new business ventures that may not actually commence operational activities, for whatever reason, or only survive for a brief period. In contrast, the General Statistic Office's data on enterprises – including SMEs and non-SMEs – only includes truly operational businesses, and screens out most companies that exist in name, or on paper only. This explains why the GSO aggregate figures for enterprises tend to be lower than those collected by ASMED at the point of initial registration.

### **3. DOMESTIC SME POLICY TRENDS AND INITIATIVES**

#### ***3.1. ASMED, MPI and other government initiatives***

In recent years, significant achievements have been made by the Vietnam Government to improve the legal and regulatory system, in order to create a conducive business environment for SMEs. To promote SME development, Decree 90/2001/ND-CP on support for SME development was issued by the Government. The Decree established the first legal framework for encouraging the development of SMEs in Vietnam.

Since then, policies on SME development have been implemented and have contributed to development of this sector. More specifically:

##### *(i) Facilitating SMEs' access to finance*

At present, mechanisms and policies on credit for the economy (including credit for SMEs) have been issued by the State Bank of Vietnam. Recent regulations have: removed administrative interventions in lending activities of credit institutions; credit institutions have their own right to consider, to make decision and to take responsibility for providing credit to SMEs, in compliance with current regulations. Together with traditional types of commercial bank lending, policies on new forms of credit provision -- such as guarantees, discount, rediscount, factoring etc. -- were also issued by the State Bank of Vietnam, so as to create a legal framework for credit institutions to lend to SMEs in compliance with international best practices and Vietnamese regulations. Many banks, such as Agribank, Industrial and Commercial Bank (Vietinbank), and the Vietnam Bank for Social Policy, have implemented more proper credit support programmes for SMEs, and established specialized divisions to undertake this task.

As for Credit Guarantee Funds (CGFs) for SMEs: Until now, nine CGFs have been established at the local level: Hanoi, Ho Chi Minh city, Yen Bai, Tra Vinh, Dong Thap, Vinh Phuc, Binh Thuan, Bac Ninh and Ha Giang, three of which are officially operating. However, the operation of these CGFs are weak in terms of both quality and quantity. At present, the Ministry of Finance is evaluating the establishment of CGFs, so as to submit concrete solutions to the Prime Minister in order to enhance the establishment of CGFs for SMEs at the provincial level.

##### *(ii) SME accounting regime*

The accounting regime for SMEs was issued to support their access to finance, and minimize the cost for credit institutions. The first accounting regime for SMEs was issued by Decision 1177TC/QD/CDKT, on December



23<sup>rd</sup> 1996. This document was later revised and supplemented by Decision 144/2001/QD-BTC on December 21<sup>st</sup> 2001. The Ministry of Finance issued a new accounting system for SMEs by Decision 48/2006/QD-BTC dated September 14<sup>th</sup>, 2006, replacing the old system stipulated by Decision 1177 and Decision 144.

With an aim to further enhance and develop the accounting system, the Ministry of Finance issued Vietnamese Accounting Standards (VAS). Since 2001, 26 VASs have been promulgated by the ministry. These VASs also apply to SMEs when there is no separate VAS for SMEs.

In addition, the Ministry of Finance has also issued 33 Vietnamese auditing standards which serve as guidelines for auditing firms to audit SMEs' financial statements. This contributes to make SMEs' financial statements more transparent.

*(iii) Human resource training support for SMEs*

Training support for SMEs to enhance the quality of human resources has received much attention by the Vietnam Government, as well as other organizations. The program on human resource training support for SMEs in the 2004-2008 period, in accordance with Prime Ministerial Decision 143/2004/QD-TTg dated August 10, 2004, has been actively implemented in provinces and business associations. By the end of 2007, the total expense to implement the program was VND 51 billion, of which: VND 24.5 billion are came from the central state budget, and VND 26.5 billion emanated from local budgets. The program has organized more than 2,500 training courses with more than 90,000 participants (36 trainees per course on average). Through this program, the awareness of local authorities on developing human resources for SMEs has been improved, and many provinces spent their budget in providing favourable conditions for SMEs to take part in programs on human resource training support in the locality.

*(iv) Technical and technological assistance*

On November 20, 2007, the twelfth National Assembly approved the Law on Goods and Products Quality, replacing the 1999 Ordinance on Goods Quality, and aimed at providing a comprehensive legal framework for the management of goods and products quality, contributing to mitigate risks and losses for enterprises and users. In addition, the Ministry of Science and Technology is creating the "Support Program on Improving Productivity and Quality for SMEs". Many other activities are also being implemented, such as: promoting the establishment of a technology market, supporting SMEs to access to new technology, doing research on policies to develop scientific

and technological enterprises, and setting up institutional regulations on the operation of a National Science and Technology Development Fund.

On April 4<sup>th</sup>, 2005, the Prime Minister issued Decision No. 68/2005/QD-TTg on approval of the support program on Enterprises' Intellectual Property Development. The program's objectives are to increase Vietnamese enterprises' awareness of intellectual property protection, so that enterprises can actively design, exploit, protect and develop their intellectual property. Also, to improve enterprises' competitiveness through supporting the establishment, exploitation, protection and development of intellectual property, in which enterprises with strategic products and export potential will be given preference. The program is being implemented during the 2005-2010 period.

*(v) Promoting market expansion*

The Ministry of Trade (now the Ministry of Industry and Trade) was assigned by the Prime Minister to implement some important programs on trade promotion, including:

*National Key Trade Promotion Program:* this program was ratified by the Prime Minister, according to the proposal of the Ministry of Industry and Trade, with an aim to develop exports and enhance the competitiveness of Vietnamese goods, focusing on key goods and markets. On November 3, 2005, regulations on elaboration and implementation of the 2006-2010 national trade promotion was promulgated by the Prime Minister, according to Decision 279/2005/QD-TTg. Enterprises of all business sectors are given an opportunity to participate in this program.

*National Trademarks Development Program:* this program was approved by Prime Ministerial Decision 253/2003/QD-TTg of November 25, 2003. The Program's objectives are to build enterprises' capabilities in trademark establishment, and to popularize Vietnamese enterprises' trademarks (goods and services) through the national trademark: 'Vietnam Value Inside'. Enterprises of all business sectors have a right to take part in this program, and they are granted the right to use 'Vietnam Value Inside' if they meet the criteria defined by the Program.

*Program on setting up infrastructure of trade promotion in domestic and foreign markets:* The Government approved some programs on the establishment of Vietnamese product introduction centers in the United States, the UAE, and have in principle approved the Project on a Trade Fair Center and National Conference in Hanoi. These centers will lay down the

foundation for an infrastructure system for trade and investment promotion, introducing and marketing products from -- and the image of -- Vietnam.

*(vi) Supporting local industry development.*

Many provinces have implemented activities to encourage organizations and individuals to take part in the development of rural industry (industry encouragement) since the mid-1990s. By 2004, industry encouragement had achieved significant progress through the implementation of Prime Ministerial Decree No. 134/2004/ND-CP, dated July 9, 2004 on stimulating rural industry from the central to local level. This activity created a strong driving force in stimulating provinces, organizations and individuals to invest in rural industry development and to organize industrial encouragement activities.

In three years (2005-2007), the total expenditure allocated for stimulating industry reached 1,002.54 billion VND. Activities which have been implemented include: supporting business owners to design investment projects to develop rural industry; providing capacity building for rural business owners; organizing training and creating jobs for rural labourers; support in terms of information supply, experience exchanges, domestic and international study tours; and assistance to develop technical demonstration models for new products and technologies.

Industry encouraging activities, according to Decree 134/2004/ND-CP, have achieved socio-economic effectiveness and made a remarkable contribution to rural industry development. Many traditional business lines and trade villages have recovered and developed, rural industry enterprises were established, and a lot of resources from political-social organizations have been mobilized.

On August 8, 2007, Prime Ministerial Decision 136/2007/QD-TTg, on Approving the National Program of Stimulating Industry to 2012 was issued. The Decision defines clearly the objectives, activities and tasks of industry, encouraging activities over the country until 2012.

*(vi) Supporting SMEs' access to information*

The Business Portal website <http://www.business.gov.vn/> was launched in February 2007 by the Agency for SME development (ASMED) of the Ministry of Planning and Investment, in order to supply information on: SME support organizations and policies, legal regulations and practical advices for SME' business-production activities, and for individuals who want to establish an enterprise.

The website <http://www.sme.tcvn.gov.vn/> of Directorate for Standards and Quality (STAMEQ) under the Ministry of Science and Technology supplies the Vietnamese SME community with general information on: some key markets in America, Asia and Africa; legal information related to intellectual property rights and technology transfer; data on technologies and equipments in production, business development services in domestic and overseas.

The portal for rural businesses at the website <http://www.agro.gov.vn/> supplies information on the prices of the main agricultural products in both the domestic market and international markets.

*(vii) Building up SME promotion institutional infrastructure*

SME promotion institutional infrastructure is being strongly implemented, from the central to the local level, in line with Prime Minister's Directive 40/2005/CT-TTg dated on December 16, 2005, on strengthening support to SME development.

Recently, a First Stop Shop (FSS) was established in some provinces, with the coordination between ASMED (MPI) and Department of Planning and Investment (DPI). FSS's objectives are to provide business owners with knowledge on business start-ups and management, and to supply legal documents related to enterprises and information on support programs of the Government, provinces and donors.

*(viii) Implementation of the SME Development Plan 2006-2010*

With a view to enhancing policy on SME development, congruent with the orientation of the five-year socio-economic development Plan for 2006-2010, the SME development Plan 2006-2010 was developed based on the direct contributions from ministries, sectors, provinces and business associations. On October 23, 2006 the Prime Minister signed Decision 236/2006/QD-TTg approving the Five-year SME development Plan for 2006-2010. This is the first SME Development Plan in Vietnam, which defines significant orientations and a concrete implementing roadmap to ensure that its objectives will be carried out, and thereby bring about: a conducive business environment; and improve SMEs' competitiveness, based on the unified and mobilized resources of the State, society, enterprise community and international donors.

By now, activities for 12 out of the 15 measures have been implemented. At the central level, Ministries are carrying out some tasks and measures defined in Decision 236/2006/QD-TTg. In particular, the Ministry of Planning and Investment is implementing the project on facilitating business registration; and the Government has approved the project submitted by the State Bank of

Vietnam for some credit solutions in economically difficult regions. The Government has issued Decree No.104/2007/NĐ-CP dated 14 June 2007 on business conditions for debt recovery service, and the Ministry of Finance has promulgated implementing Circular No. 110/2007/TT-BTC dated September 12, 2007. On May 28, 2008, Decree 66/2008/ND-CP of the Government on legal support for enterprises was issued. The Ministry of Justice is currently drafting a Law on Secured Transactions to submit to the National Assembly for approval. The Ministry of Natural Resources and Environment (MONRE) has established on a pilot basis 3 Land Title Offices (LTOs) at the provincial level. The Ministry of Finance is preparing to submit measures to push forward the establishment of Credit Guarantee Funds for SMEs, also at the provincial level.

At the local level, SME Development Plans have been issued by nine provinces, namely: Lao Cai, An Giang, Binh Thuan, Dong Thap, Tra Vinh, Vinh Long, DakLak, Ha Noi and Ho Chi Minh City. Local coordinating Boards have been set up at Lao Cai, Ha Tinh and Ho Chi Minh City.

### ***3.2. Donor initiatives***

Over the past 15 years, bilateral and multilateral donors have been active in Vietnam, with significant contributions made to the socio-economic development of the country. As a result, Vietnam has become one of the world's largest ODA receivers, with an average annual commitment of around 2.8 billion USD during the 1993 – 2007 period, including both loans and grants. Among the most active donors are large multilateral partners such as WB, IMF, ADB, IFC, UNDP, and EU; plus bilateral donors, for example, Australia (AusAid), Canada (CIDA), Denmark (DANIDA), France (AFD), Finland, Germany (GTZ, KfW), Italy, Japan (JICA, JBIC), Netherlands (SNV), Norway (NORAD), Sweden (SIDA), Switzerland (SDC, SECO), United Kingdom (DfID) and the United States (USAID); multi-trust funds such as MPDF; and International Non-Governmental Organizations (INGOs) such as Oxfam (Quebec/UK/Hong Kong, Belgium).

In recent years, Vietnam's development partners have introduced useful concepts and lessons of experience in SME support, since the issue has attracted much attention from both developing and developed economies over recent decades. Given the different characteristics of the SME sector in different economies, the targeted supports have varied by technical approaches, locations, counterparts, beneficiaries and/or sectors. Nonetheless, most donors' initiatives can be categorized under "Business Enabling Environment", "Access to Business Development Services", or "Access to Finance", and the like.

By locations or levels of intervention, it was quite popular in the 1990s for donors to focus at the central level, and therefore most of the activities were done in the capital city of Hanoi. Since 2000, however, a considerable number of donors have initiated interventions at the local/provincial level, which is in line with Government's priorities. As a result, bilateral donors and an increasing number of trade-driven projects have concentrated on localities with a high proportion of enterprises which help boost bilateral trade, investment cooperation and supporting economic development at neighboring areas. Other donors, including NGOs, meanwhile focused on rural areas with a large number of beneficiaries and contributed to hunger eradication and poverty alleviation in some of the more economically challenged areas.

In terms of counterpart agencies, the selection of national partners in implementing donor-funded interventions have been varied. In many years, Vietnam Chamber of Commerce and Industry (VCCI) and the Central Institute of Economic Management (CIEM) had widely been chosen for their professional as well as coordinating capabilities. After its establishment, the Agency for SME Development (ASMED) has become the executing agency in some donors' programs and projects specializing in SMEs. Other projects identified some specific sectors, business associations, or large organizations as their national counterparts and/or implementing agencies. Since most of donors' project have been involved in capacity building, many spent their budgets entirely or partially on capacity building for SME support systems, including governmental organizations at all levels. Professional bodies, commercial banks and universities/research institutes have also received technical assistance through specific components of some integrated programs.

In most cases, the direct beneficiaries are SMEs or the private sector. Many projects' titles use general terms, such as "private sector" or "SME", while some others preferred targeting less-generalized, pre-determined recipients, such as women entrepreneurs, small exporters, pottery producers or pro-poor growth, etc. In line with government's priorities in policy implementation at local level, donors have started to aim at specific issues, such as clusters, sub-contracting, local economic development, and value chain development.

A framework for most efficient donor coordination has been set up, which includes Decree No 131/2006/NĐ-CP on ODA management, Decree No 90/2001/NĐ-CP on supporting and developing SME, the Paris Declaration on Aid Effectiveness and its localized version, the Hanoi Core Statement.

The 2006-2010 SME Development Plan has further strengthened available efforts to create a unified national strategy on all SME-related issues. The

Plan, which plays a backbone role in SME development, like that of the Comprehensive Poverty Reduction and Growth Strategy in Vietnam's socio-economic development, is expected to create an overall framework for donors.

In every meeting with the participation of donors' representatives or consultants, ASMED has always welcomed donors' initiatives, and at the same time emphasized the strong need of aid coordination, with special regard to location factors. The latest priorities in Government policies relating to SME development have always been reflected in the orientation of projects' inception phase. In major donor events, such as the regular meetings of the Partnership Group for SME Promotion and Private Sector Development, ASMED has conveyed messages intended to further enhance the coordination of donors and practitioners.

### ***3.3. Business associations and SME-driven initiatives***

In addition to the support initiatives of the government and development partners, Vietnamese SMEs have also been pro-active in seeking to help themselves. This includes the establishment of numerous Business Associations, intended to assist members in overcoming a range of challenges, such as: gaining access to information on overseas markets, organizing training, collaborative marketing, and so on. Most Business Associations are structured around a specific business activity, such as seafood, footwear, garments or plastics, but there are also some location-specific business associations, such as the Young Business Association of Hanoi, and a similar entity in Ho Chi Minh City too. But the concept of business associations is still relatively new in Vietnam, and so, like many SME themselves, they are having to learn how best to develop, and many business associations are yet to become robust and sustainable entities.

Business associations are actively implementing support activities for member enterprises. Business associations' activities are more and more plentiful towards sharing experiences and knowledge in using modern management tools, such as organizing conferences, training, consulting, promoting trade, disseminating informative newsletters, and so on. Associations' activities also help foster confidence in SMEs, and make an important contribution to SME development. Some business associations have branches in multiple provinces (e.g. Vietnam SME Association, Vietnam Association of Rural Industrial SME (VARISME), Vietnam Association of Craft Village, Young Entrepreneur Association (YEA) etc.).

The Vietnam Chamber of Commerce & Industry (VCCI) has also been active in supporting local SMEs, through a wide range of activities and collaborative projects. Of VCCI's roughly 5,500 members, around a third are believed to be SMEs of one kind or another.

## **4. EXTERNAL SME POLICY TRENDS, COMMITMENTS AND FORCES**

### ***4.1. Commitments under WTO***

The World Trade Organization (WTO), with 150 country members, accounts for 90% of total trade and service value, and 86% of total trade and goods globally.

By joining WTO, the Vietnamese economy has a deeper integration into the globalization process. This process helps Vietnam to harness its competitive advantages, and thereby achieve stable and sustainable growth for the economy. The competitiveness of goods, services and the welfare of the whole society will be strengthened thanks to improved allocation of economic and business resources. This process also provides a good opportunity for Vietnam to push forward with its industrialization, and better take part in the international allocation of labor. The exporting capability of certain goods (e.g. garment and textiles, agricultural commodities of various kinds, seafood, and high value added goods) is being improved as tariff and non-tariff barriers are loosened or removed.

The indirect impact of WTO accession on Vietnam's export capacity is even greater, through strengthened competitiveness in FDI attraction and market development, and by implementing a more open market and investment policy. The recent increase in the inflow of foreign direct investment to Vietnam has contributed to new production capability and export markets for goods and services emanating from Vietnam.

It is clearly seen that commitments under WTO can bring some positive impacts for SMEs, in the following ways:

*Firstly*, to gain entry into WTO, Vietnam has to adjust and improve its legal framework, in accordance with integration commitments and standards of market economy. WTO accession also requires greater professionalism, transparency and capability of state bodies, together with efforts on public administration reform, state owned enterprises reform, transparency of all relevant trade policy, completion of production factor markets (e.g. financial market, land market, and labor market etc.), and so on. These requirements have helped promote internal reform of the economy, aiming at an



investment and business enabling environment that is in conformity with international best practices, and a stable social and political environment. These are the key factors in the sustainable development of all enterprises, and particularly for SMEs that remain weak in various aspects.

*Secondly*, having entered WTO, Vietnamese SMEs now have a chance to access global markets on an equal competition basis, free from tariff and non-tariff barriers. For example, in the garment and textile sector, where SMEs have obtained full Most Favored Nation (MFN) treatment for the EU and US markets. The growth rate of the garment sector was 28% in the first 9 months of 2007; higher than every year since 2003, when the US applied export quota treatment for Vietnam. Total export turnover to the US market also reached spectacular achievements after US - Vietnam Bilateral Trade Agreement (BTA) was implemented, in which US-imposed tax rates on Vietnamese imports were cut down from an average of 40% to 4%. As a result, the US jumped to become Vietnam's single biggest export market.

*Thirdly*, WTO is the trade forum where all members have rights to protect themselves in case of dispute. Relevant documents have been applied in the trade world, where relatively weak countries had no power to defend themselves against the superpowers. Enjoying WTO membership, Vietnamese SMEs have gained in trade disputes, thanks to the equal and effective dispute settlement system within WTO, and less exposure to pressure created by powerful countries in international trade quarrels. Joining WTO also allowed Vietnamese enterprises to avoid being treated as firms located in a 'non-market economy' in some trade dispute cases, as had been the case before.

*Fourthly*, WTO's key goal focuses on improving the living standards of people in member countries, emphasizing the promotion of economic growth and international trade, as well as most effective use of international labor. Joining WTO, therefore, brings about a driving force for member countries to promote their economies to grow fast and effectively. Joining WTO also helps to pave the way for capital flows to come to Vietnam. Science, technology and human resources all have chance to interact in the global allocation of labor.

*Finally*, the implementation of WTO commitments in opening the service market contributes to foreign investment flows Vietnam's services sector, which then brings about indirect benefits for the whole economy and enterprises themselves, such as: creating momentum for industrial production growth, having substantial impact on the export turnover, capacity building for dynamic and innovative human resources, promoting technology transfer, investment in research and development. In 2007, the first year after joining

WTO, there was a sharp increase in FDI inflows to Vietnam, rising to US\$21.3 billion. And the FDI inflow figure for 2008 will be even higher.

The above notwithstanding, the implementation of commitments under WTO also makes Vietnam's economy and SMEs face some new challenges. In particular:

WTO provides a level playing field for the global market, where Vietnamese enterprises are required to follow the rules, and the winning positions usually belong to better and more effective enterprises. Since Vietnam joined WTO, some sectors, products and enterprises have faced fierce competitive pressure. The competition is not only in foreign markets, but also in the domestic market, when trade barriers are reduced and removed. SMEs characterized by weak competitiveness are in danger of bankruptcy or losses. Vietnamese SME will likely face international trade disputes, and usually be in a weaker position.

Realizing WTO commitments means that the State has to abolish all subsidies and support that is not in line with WTO regulations. SMEs with limited knowledge of the foreign market will meet difficulties when other member countries apply protection measures, such as technical barriers, anti dumping, subsidy, safeguard and environmental standards. The most visible impact could be observed in sectors such as agriculture, industrial products, financial services, banking, insurance etc.

In the agricultural sector, according to WTO commitments, Vietnam has to remove export and domestic production subsidies right after accession. Access to foreign market requires SMEs in the agricultural sector to meet strict regulations on food safety and hygiene. They must also meet expectations on consistency, as well as requirements on quantity, time delivery, production and field re-arrangement toward specialization, offer competitive prices, and so on. These rules obviously pose challenges for SMEs in the agricultural sector, particularly given that much of the Vietnamese agricultural sector remains small scale, and quite scattered, with relatively poor quality and productivity.

In the industrial sector, according to WTO commitments made, Vietnam has to cut down 9,400 tax lines. Vietnam also has to remove and reduce many forms of subsidies for enterprises, albeit with some exceptions (R&D and environment protection subsidy...), as well as remove export subsidies and import substitutes. If the Doha Development Round is approved, Vietnamese industrial SMEs will confront fierce difficulties because of competition pressure of imported goods. In particular, the competitiveness of certain goods, such as home appliances, which are enjoying the protection policy of

a 30-50% tax rate, will be affected. In addition, garments, textiles and footwear, processed agricultural and fishery products will also meet difficulties of competition when other countries continue to require Vietnam to open up the market through the Doha Development Round.

In addition, Vietnam has to open the service sector to greater penetration by foreign enterprises. Most of financing services are required to open widely in a maximum of 5 years' time for foreign enterprises to set up 100% foreign invested companies. (The accounting and auditing sectors have already been fully open.) Insurance enterprises are also substantially impacted by WTO commitments. Right after Vietnam became a member of WTO, foreign insurance enterprises were allowed to supply insurance services such as: international transport insurance, re-insurance and insurance brokerage, risk rating service, dispute settlement and insurance consulting, and in particular they are able to provide insurance service for FDI projects and companies in Vietnam, but do not necessarily have to set up legal entities in Vietnam. SMEs with poor capability will be in danger of being overwhelmed by foreign companies with powerful finance and modern management skills.

In the capital market, foreign companies are allowed to set up representative offices and joint ventures where foreign investors can possess up to 49% equity of the company at the time of accession. Five years after WTO accession, they are allowed to set up 100% foreign invested stock companies, branches of foreign companies, supplying services on property management, trust fund management, security deposit, clearing payment, provide and transfer financial information, stock related consulting and brokering services. With the increasing number of foreign companies operating in the capital and financial market, there is less chance for SMEs to effectively compete in this market.

SMEs also tend to encounter difficulties in making use of technology transfer from foreign firms in FDI projects. According to regulations on TRIMS and TRIPS agreements, FDI companies are not legally obliged to transfer technology to the Vietnamese counterpart, and the Vietnamese firm has to pay intellectual property rights fees. This also causes difficulties for SMEs to transfer original and advanced technology attached to FDI projects into their own property.

#### ***4.2. Developments in international business***

Perhaps the recent history of business has focused most on the development of large companies, enjoying both the economies and synergies that come

from being large scale. Rapid industrialization in many countries, as well as technological innovation, has supported the development of large companies. Globalization too has had an impact, as companies have stretched their operations across national borders, becoming transnational corporations. The largest transnational companies can have revenues that are greater than the GDPs of some smaller countries. All this seems a world away from the typical SME in Vietnam.

But, as the examples of Germany and Japan – two major economies – show, the SME sector also plays an important role in support of ‘big business’. In Japan, for example, the large ‘keiretsu’ companies tend to have – and greatly depend on – close relationships with numerous small sub-contractors. (This is even apparent in Vietnam, when a large investment project by a major Japanese company is sometimes followed by a handful of smaller projects by smaller Japanese companies, which come to help provide inputs.) Indeed, increasing market segmentation has supported the continued importance of SMEs. As Robert McIntyre has noted, SMEs can have a “... competitive advantage based on flexibility and speed of adaptation ...”, particularly in fields of business where economies of scale are less critical.

The development of SMEs in Vietnam does not occur solely within the context of domestic economic transition and growth; it also occurs within the context of changes in the international business environment. Having become a member of the World Trade Organization (WTO), Vietnam’s business community is becoming more and more integrated into the international business community – a process that started roughly two decades ago. While it is true that most SMEs entirely operate within the domestic market, there are a growing number that also interact with overseas customers and/or suppliers.

In addition, there is a growing number of local SMEs that have foreign-invested enterprises (FIEs) resident in Vietnam as their clients. Some SMEs are providing parts or support services to FIEs that are exporting manufactured or assembled items, thereby making the local SMEs indirect exporters, through what are sometimes called ‘backward linkages’. As the FIE community in Vietnam expands and becomes more developed, their appetite to source more of their inputs from local suppliers will also increase. (This appetite has grown further with the rising cost of oil and transportation, and bottlenecks at some ports.)

This provides a good opportunity for local SMEs to develop their businesses, by supplying FIEs operating in Vietnam, for a number of reasons. FIEs are typically reliable customers, but they are often also willing to share their expertise and technology with local suppliers, in order to ensure that they

receive high quality and consistent inputs. They can also be a reliable customer, even when most domestic customers reduce their orders or activities, due to a slowdown of some kind. Some empirical studies conducted in Korea, Malaysia and Thailand, during 1998-1999, showed that SMEs linked to FIEs survived the Asian financial crisis far better than those SMEs without such FIE linkages.<sup>4</sup>

Issues of quality and consistency are often a challenge for SMEs that are exporting directly, as well as meeting the size of orders that some – particularly American – overseas buyers expect. Making the transition from the domestic to the international market can be a big leap for many SMEs, as it requires a much more demanding and diverse set of skills and attributes; everything from economies of bigger scale, and managing foreign exchange risk, through to understanding foreign design tastes.

Despite the above, the general trend in international business is broadly positive for SMEs in Vietnam. International business is becoming an increasingly complex activity that spans country borders much more easily. This is seen in the pattern of trade flows, where a large proportion of goods being shipped around the globe are not finished items, but components being transported for final assembly. Some of these components come from subsidiaries of transnational companies, while others come from independent suppliers, including specialized SMEs. From cars to computers – and even aeroplanes – we are seeing ‘big name’ companies increasingly out-source smaller and smaller elements of their supply chain to independent (i.e. not subsidiaries) suppliers.

That provides a good opportunity for SMEs in Vietnam, if they can become part of these supply chains. A good place to start is in establishing linkages with FIEs already present in Vietnam, and using that relationship to learn and grow. It might not even be a key input that the SME is initially providing – such as packaging, or some kind of ancillary service – but it provides a point of entry, which then can be developed over time into something much bigger and better.

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<sup>4</sup> See P. Régnier, *Small and Medium Enterprises in Distress*. UK: Gower, 2000.

## **5. OVERCOMING LEGAL AND REGULATORY CONSTRAINTS**

As Vietnam's SMEs mature, grow and develop, their needs are also evolving. For example, as constraints relating to business start-up have gradually diminished, SMEs' needs are gradually shifting to other constraints relating to their long-term sustainability, international competitiveness, technological expertise, and capacity expansion. To be genuinely sustainable, manufacturing SMEs in particular need to scale up their operations, so as to be internationally competitive, which in turn requires adequate access to finance and land, among other essential inputs. This section of the report attempts to provide a brief overview of the key needs of Vietnam's SME sector today, and what constraints still need to be addressed.

### ***5.1. Market entry***

In order to continue simplifying and make transparent the regulations on business conditions and market entry, the Ministry of Planning and Investment, Ministry of Finance, and Ministry of Public Security collaborated to issue joint Ministerial Circular No. 02/2007/TTLT/BKH-BTC-BCA, dated February 27, 2007, which provides guidance on co-ordination among agencies in implementing business registration, tax registration and seal engraving permits for firms established under the Enterprise Law.

On November 30, 2007, the Government promulgated Resolution No. 59/2007/NQ-CP on measures to solve some obstacles in construction and investment activities, as well as administrative procedures reform. According to the Resolution, the Government instructed the Ministry of Public Security to provide guidance on seal engraving procedures for enterprises without a seal. The Ministry of Planning and Investment was assigned to coordinate with other related ministries and agencies in providing guidance on business registration, in which the maximum time for fulfilling business and tax registration is 5 working days. The contents of the business and tax code registration are integrated into one unified application form, to be submitted by new companies at the relevant Department of Planning and Investment office. Further, the tax code will also be used as the business registration code for newly-established enterprises, commencing from April 1, 2008.

In order to implement Resolution No. 59/2007/NQ-CP of the Government, the Ministry of Planning and Investment (MPI), Ministry of Finance, and the Ministry of Public Security drafted the new Inter-Ministerial Circular to replace Inter-Ministerial Circular No. 02/2007/TTLT/BKH-BTC-BCA, collected comments from relevant agencies and issued Inter-Ministerial

Circular No. 05/2008/TTLT/BKH-BTC-BCA, dated July 29, 2008. With promulgation of this Inter-Ministerial Circular, the Government has taken a further step in public administration reform and improvement of the business environment in Vietnam.

### **5.2. Support for SME development**

Although Government Decree No. 90/2001/ND-CP, dated November 23, 2001, has set up an important legal foundation and orientation, SME development support is still relatively new in Vietnam. While resources are limited, the legal system has been improved to aid SME development. But the Decree also shows some shortcomings, including the following:

*Definition of an SME:* the definition of an SME is too generic, and the criteria stated in the definition do not reflect divergences in enterprise size in different industries and fields.

*Support policies:* The Decree provides a series of promotion policies, ranging from support on investment, production premises, market entry support, export promotion, and establishment of a credit guarantee fund, to support on information, consultation, sub-contracts, and SME incubators. However, the Decree failed to define the implementation mechanism, orientation, target and main contents of these promotion policies.

*State management function:* The Decree refers to the state management function on SME promotion, but does not provide detailed regulations on SME promotion. This then makes it difficult to define specific tasks in SME promotion by different ministries and agencies, the co-ordination mechanism between ministries and local authorities, as well as between state authorities and business associations.

*Support modality:* The Decree does not provide clear SME support modalities to meet the demand of the market economy in cases where support resources are allocated by the State budget.

### **5.3. Access to land**

While some state-owned enterprises have not properly used assigned land, SMEs (mostly private enterprises) face difficulties in finding production premises at inexpensive rates. Even when enterprises already have production premises, it can them a lot of time and effort to complete all the procedures to get certificate of land use rights (CLR), which can then be used as mortgage collateral. According to a survey conducted the by Central Institution of Economic Management (CIEM) and GTZ, a typical Vietnamese enterprise has to spend 230 days and complete 7 procedures, on

average, to be granted a CLR. Consequently, many enterprises use land without CLR for their production activities. In addition, land planning is not transparent, which can adversely impact the stability of production activities. The facts show that land procedures are still complicated and opaque, with different regulations applied in different provinces, causing difficulties for enterprises in renting land for business production activities.

More than 53% of enterprises in Vietnam operate in the trading and service sectors. Most of them have to use their houses or rent small and scattered areas for business activities. The same situation can occur with manufacturing businesses. Many SMEs have to sign land lease contract with SOEs at a high price, but they cannot invest long-term due to the lack of a legal guarantee.

Recently, provinces have built many industrial parks, as well as small and medium industrial clusters, for enterprises to use. Some provinces -- like Hanoi, Bac Ninh, Vinh Phuc, Hung Yen, Hai Duong, Nam Dinh, Thai Binh, Da Nang, Quang Nam, Quang Ngai, Binh Duong, Dong Nai, and Ho Chi Minh City -- have developed industrial zones and clusters to create production premises for SMEs and attract foreign investment. Thus, especially since the Land Law of 2003 came into effect, with the promulgation of new policies and mechanisms, more favourable conditions have been created to facilitate SMEs' to access to land.

A joint survey conducted by CIEM and DANIDA in 2007, on SMEs (including business households and co-operatives) in 10 provinces and cities (Hanoi, Phu Tho, Ha Tay, Hai Phong, Nghe An, Quang Nam, Khanh Hoa, Lam Dong, Ho Chi Minh City), showed that only 10% of SMEs surveyed were having difficulties in accessing land for production premises. This suggests that the land policies of these provinces have been considerably improved. At the time of writing, the Ministry of Natural Resources and the Environment (MONRE) is collecting comments on a draft revised Land Law. It is expected that with these necessary changes, access to land for SMEs will be improved still further.

#### **5.4. Access to finance**

The challenge of accessing capital for manufacturing expansion is a rather common complaint of SMEs. Besides self-generated capital, enterprises tend to borrow money from families, friends, customers or commercial banks. Although recently commercial banks have made greater efforts in lending to SMEs, the funding constraint issue is still considered to be one of the most vexing problems facing SMEs. According to a survey conducted by CIEM and DANIDA in 2007, across 10 provinces and cities, about 32% of SMEs



surveyed said that they encountered difficulties in accessing finance and credit resources.

At the end of 2007, a joint survey conducted by ASMED and UNIDO on 200 SMEs located in Hanoi, Lao Cai and Thai Nguyen provinces identified some reasons why SMEs are not able to obtain loans from commercial banks. Among the factors were a shortage of collateral to pledge as loan security, and high interest rates even for short term loans. Feasible business plans and demonstration of property rights required by commercial banks are also reasons that prevent SMEs from accessing greater financial resources. Almost all the 200 enterprises surveyed believed that it would be easier to access to loans if they had good relations with commercial banks. This fact shows the non-transparency in the lending procedures and credit decision-making of many commercial banks. This state of affairs must be improved to facilitate SMEs in accessing financial resources.

Also according to the same survey, SMEs' awareness and understanding of external finance resources seems quite limited. Almost all enterprises immediately think of bank loans when they need more capital for business expansion, even though there are many other forms of funding available, such as financial leasing, factoring and venture capital funds. However, up to 45% of enterprises surveyed said that they knew nothing about leasing, 63% did not know about factoring, and 62% were not informed on venture capital. This knowledge constraint needs to be overcome because, in addition to bank loans, other financial resources can also serve as effective capital mobilization channels.

### ***5.5. Access to human resources***

According to the Doing Business Report 2007, Vietnam is one of eight countries that have enacted labour policy reform, thereby creating favourable conditions for enterprises to access human resources and operate reasonable labour policies.

While labour policies have been improved by the government, enterprises are coping with difficulties relating to workers' skills. Every year, tens of thousands of newly established enterprises and ten thousands of on-going enterprises expand their businesses, and more than 1.6 million jobs are created. However, the increasingly demand of enterprises for improved workers' skill has not been met, and many enterprises have to spend more money on training unskilled labour before they can commence work.

Although, the Government has paid more attention to human resource training programs for SMEs, the qualifications of many workers still reveal

numerous short-comings. This is due to: limited funding of implementing programs; poor training qualification and content; and low awareness and interest of SME on the importance of business administration improvement. Therefore, enterprises need to overcome constraints relating to workers' skills, as this is one of the key factors determining whether investors will continue to do business in Vietnam in the future.

### **5.6. Infrastructure**

Physical infrastructure and utilities in Vietnam -- and especially transportation infrastructure (i.e. railways, roads, bridges and ports) -- is in quite poor condition. The development of transportation infrastructure in Vietnam has yet to catch up with the development of the economy and foreign investment flows. Many big projects are delayed due to various causes, among them transportation problems and incomprehensive development of local infrastructure. Such problems make doing business harder and more expensive, and result in the lower competitiveness of Vietnamese enterprises.

Thus, infrastructure should be rapidly upgraded, especially sea-ports and power plants. Policies to encourage the private sector to take part in the development of infrastructure and public services need to be developed. At the same time, more efforts are required to accelerate the development of land infrastructure, including roads, bridges and sewage systems.

### **5.7. Other constraints**

*Technological information, selection and application.*

Lacking information is considered one of the biggest constraints preventing SMEs from development and improved competitiveness. Thus, it is vital to concentrate resources to set up a collecting and processing information system, for enterprises in general and SMEs in particular. In addition, technology cooperation and sharing among enterprises of different sizes should be encouraged, so as to promote linkages between research institutions, universities, technical schools and enterprises. Commercially-oriented research programs should be effectively encouraged.

Most Vietnamese enterprises are using backward technology compared to the average level of the world, from 3 to 4 generations. Many SMEs are still using old equipment that has been disposed by SOEs. In the face of fierce competition, SMEs find this constraint extremely difficult to overcome. Indeed, in addition to measures to support SMEs to invest in modern technologies, another challenge is how to choose and apply affordable and manageable technologies.

### *Expanding the domestic and export market*

The domestic market, with increasing demand from more than 86 million people, has been providing more business opportunities for SMEs. However, the market share of SME's products is being adversely impacted by imported products, and especially Chinese products. Although the quality of products and services supplied by SMEs have improved, they have only partially satisfied customers' demands. This issue is a challenge to SMEs in the context of international integration.

The capability of SMEs to access foreign markets is still limited, typically because products made by SMEs are often small in quantity and poor in quality, and thus are far from meeting export standards. SMEs' products are mainly sold in the domestic market, and even in narrow provincial areas. Although the export market has been expanding, many contracts are short-term in duration or seasonal, unstable ones. Therefore, it is necessary to have policies to support SMEs to develop their export markets, providing quality market information that meets market demand.

### *Social attitude factors*

Social psychology and attitudes -- including the Government's and people's perceptions towards SMEs -- can have an impact on enterprises' growth. In recent years, significant progress has been made in changing the attitudes of society (e.g. through PR programs, the mass media, enterprise honoring day, etc.), as well as government agencies and civil servants, towards the role of private enterprises (e.g. through improved public-private dialogue and accelerating SME development).

According to a recent UNDP-CIEM study, up to 65% of surveyed enterprises said that the government's behavior, especially the behavior of tax and customs officers, still causes much difficulty for private firms. Thus, the improvement of social attitudes towards SMEs is very necessary, in order to help SMEs overcome all constraints, and enjoy a benign enabling environment for further development.

### ***5.8. Overcoming capability constraints within the SME sector itself***

The Government's policies and support programmes contribute to the driving forces for SMEs to grow and develop. However, in order to ensure the effectiveness of support programs, SMEs are also required to self-improve, to overcome capacity weaknesses and enhance their competitiveness.

The competitiveness of an enterprise is decided by its financial and technological capabilities, human powers, as well as the enterprise's sound and flexible decisions. SMEs are often considered to have poor management skills, unskilled human resources, and lack of knowledge and information of marketing and market. SMEs normally cannot afford to hire qualified experts to undertake important tasks.

Therefore, it is SME managers and owners who must take equal responsibility in identifying the key factors determining their success. SMEs need to give up an attitude of simply waiting for support from the Government and various development partners. The managers of SMEs need to be aware of, and take responsibility to learn and apply, the appropriate management tools. Whether enterprises can take advantage of market opportunities or not depends on their awareness, qualifications, and the efforts of enterprise's managers and owners. This means that every enterprise must fully understand itself and be self-confident in making decisions, so as to make use of new business opportunities.

## **6. PROGRESS MADE IN SME DEVELOPMENT**

This final section of the report attempts to identify where there has been relatively strong progress in SME development, and where there has been comparatively less progress. It also seeks to conclude by providing some policy implications arising from this analysis. Any attempt at identifying the strongest and weakest areas of progress in SME development will contain an element of subjectivity, and so views will tend to vary, depending on the person. Nonetheless, it is possible to make some broad comments that, we believe, can be agreed upon by most stakeholders

Using the SME Development Plan 2006-2010 as a point of reference, part III of the plan identified seven measures for achieving Vietnam's SME development targets and objectives. They comprise:

- i) simplifying regulations to facilitate business establishment and operation of enterprises
- ii) creating access to land and production premises for SME
- iii) creating access to finance for SME
- iv) support programmes for increasing capacity and improving the competitiveness of SME
- v) developing a skilled labour force
- vi) creating a culture of entrepreneurship
- vii) and management of the implementation of the SME development plan itself.

The SME Development Plan 2006-2010 also includes an action plan, under which the seven measures were divided into numerous specific 'actions'. And for each individual 'action' there was an indicator of success and a completion date set. It is not the intention of this annual report to assess which of these 'actions' have been completed successfully thus far (i.e. two years into the five year plan), but the seven measures do provide a useful basis by which to review progress on SME development in Vietnam.

### ***6.1. Where we have seen relatively strong progress***

Overall, the strongest progress has probably been in improving the regulatory framework surrounding initial business registration and market entry for SMEs (i.e. measure 1 of the SME development plan). It is much easier for new SMEs to commence operations than it was some years ago. The number

of procedures, days and costs of incorporating a new business have been reduced. And the impact can be seen in the significant increase in the number of registered SMEs. According to the data provided by GSO, and using the employee number criteria, the number of operational SMEs in Vietnam has grown from 39,897 in 2000 to 127,600 in 2006 – more than a three-fold increase in just seven years.

Evidence shows that there is an inverse correlation between the number of SMEs in a country (per 1,000 inhabitants) and the time needed to start a business. If the time it takes to formally register a business is reduced, then a country will see the number of SMEs increase. And a vibrant SME sector is a prerequisite of a healthy economy. But beyond the numbers, easier business registration is also important in ensuring that SMEs do not become (or stay) informal, hidden away from necessary laws and regulations that govern safe business practices, and that they contribute revenues to the State budget.

SMEs are also finding it easier to access finance (i.e. measure 3 of the SME development plan), relative to the past. Banks are now more willing to lend to SMEs, and bank loan growth has increased considerably. The range of financial products and services for SMEs is also growing, including financial leasing and the commencement of some factoring activity. Access to finance is an important input for most companies, including SMEs, and is often essential if they are to develop into more robust and sustainable enterprises. This is not to suggest that access to finance is now plentiful for SMEs, as this is rarely the case in any country. But there have been some considerable improvements. Looking ahead, SMEs are likely to need greater access to more long-term financing vehicles – such as private equity investment, and more long-term tenor loans – to help them fund investments in new technology, so that they can move further up the value chain.

Vietnam SMEs' capability and competitiveness are still weak, especially when compared to foreign invested enterprises. However, this situation has been gradually improved by the Government's programs on enhancing SMEs' capability and competitiveness (i.e. measure 3 of the SME development plan). The program on human resource training support for small and medium-sized enterprises in 2004-2008, according to Decision 143/2004/QD-TTg of the Prime Minister, is one of programs that bring positive effects for the SME sector. More than 119 billion VND from central budget has been spent for this program on start-ups, enterprise administration and other training. In recent years, the central budget has focused on 20 mountainous and highland provinces that face particularly challenging economic conditions, to increase the scale and quality of the SME sector in these remote and ethnically diverse areas. As a result of greater public

awareness on SMEs' role in the economy, most provincial authorities have spent some of their budget on human resource training support for SMEs in their respective localities. Some international organizations, domestic and international projects have also spent part of their funds on training activities designed to improve SMEs' competitiveness.

Creating a culture of entrepreneurship (i.e. measure 6 of the SME development plan) has also seen some strong progress, even though it is quite difficult to change cultural and social perceptions in the short-term. Entrepreneurs are now more highly regarded in Vietnamese society, and the subject of entrepreneurship is being introduced into relevant academic curricula. Private sector competitions, like the 'Thach Thuc \$20 Trieu' campaign<sup>5</sup>, are also raising the profile – and attraction – of entrepreneurial endeavour.

There has also been some commendable progress in reducing the burden of inspections on SME. The costs of regulatory compliance can be quite heavy for SMEs, if managers must allocate a substantial proportion of their time to ensuring that they pass various inspections, particularly if those inspections are not kept within an acceptable level of frequency, or they are not really necessary.

## ***6.2. Where we have seen relatively less progress***

One area where there has arguably been less progress is on the issue of company closure and bankruptcy, despite the passing of a Bankruptcy Law in 2004. It is widely recognized that a substantial proportion of start-up companies will ultimately prove unviable, and close down, for a wide range of reasons. This is part of the natural 'life cycle' of business, and new companies in particular tend to have a high failure rate. When companies do formally close down, it is important that their assets are recycled efficiently, so that other firms may usefully harness them.

In Vietnam, however, company closures are relatively rare, in the formal sense. Instead, numerous unviable SME go into 'suspended animation' or hibernation, rather than going through the regulatory procedures of formal closure. As we have seen, one implication of this relates to the SME and business registration statistics, as the DPI offices tend only to gather data on the 'births' of new companies, but not the 'deaths' of existing firms.

Another area where there has been relatively less progress is taxation for companies, including SMEs. The time required to comply with tax laws and

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<sup>5</sup> See: <http://20trieu.com>.

regulations remains high by regional standards, and for SMEs in particular this can be a major distraction for the owners and/or managers.

SMEs also still face considerable challenges when it comes to land access; a scarce resource in populous Vietnam, and identified as measure 2 in the SME development plan. For manufacturing SMEs in particular, having insufficient access to land can be a major constraint, if it prevents them from scaling up their activities, in a bid to become more competitive. Land ownership – and evidence of such ownership, through land use rights certificates – is also often critical when trying to access finance. In the case of loans, banks in Vietnam will typically ask for collateral, and their preferred form of collateral is land use rights certificates. Nonetheless, we have seen some progress in the provision of more production premises for SMEs, including the two business incubators recently established in Hanoi and Ho Chi Minh City.

Developing a skilled labour force (i.e. measure 5 in the SME development plan) for the SME sector to harness is a long-term goal, and will take time to achieve on a significant scale. Nonetheless, we are seeing some progress in the scale and quality of vocational training being provided in Vietnam.

### ***6.3. Economic perspectives and policy implications***

SME development in Vietnam is, as in virtually all countries, a work in progress. As we have seen, there has been relatively strong progress in some areas, and relatively less progress in some other areas. But we can be quietly confident that the enabling environment for SMEs in Vietnam has improved in recent years, and will continue to improve in the years to come.

As noted above, the number of SMEs operating in Vietnam has grown considerably since 2000, as the statistics in this annual report clearly show. That is largely a reflection of the improvements in business start-up procedures. So, we can say with confidence that the quantity of SMEs has improved. But has the quality of SMEs improved to the same extent?

Looking ahead, the next chapter in the SME development story for Vietnam will probably need to shift its primary focus away from the initial market entry process – where considerable good work has been achieved – and more towards supporting SME to develop into more robust, sustainable and competitive enterprises. In other words, working on the quality of SMEs, as businesses.

Having become a member of WTO, Vietnam's enterprises are presented with an opportunity to gain improved access to overseas markets. But they must also contend with a more open domestic market, with greater penetration by



foreign companies. To be competitive in this new, post-WTO environment will require SMEs to become more efficient companies, and in most cases require them to become larger in scale and more proficient in the use of technology. This then presents a new set of challenges for the Vietnam government, in providing the kind of support that can usefully help SMEs to graduate to a higher level of ability and activity.

With that in mind, ASMED is currently preparing a new Decree 90, to help guide SME development work in this next phase. And it is expected that this new decree will be submitted to the government in the fourth quarter of 2008. Work on revising the decree will focus on four main areas: i) the definition used for SME in Vietnam; ii) the methods used by the government to support SME development; iii) ways to improve the capabilities of various SME support services; and iv) necessary revisions to the kinds of key inputs that the SME sector requires, such as finance and technology.

The SME Development Plan provides a useful framework to coordinate and integrate these activities to optimal affect, and to avoid any duplication (or contradiction) of efforts. However, issues such as vocational training, access to land, taxation, and developing a more entrepreneurial culture all require a multi-dimensional approach, spanning multiple government agencies and other stakeholders. In this respect, ASMED and MPI can only hope to play a coordinating and catalytical role for the SME Development Council, Government agencies and other stakeholders.

ASMED and MPI alone cannot fulfill all the objectives of the SME Development Plan; we need the strong support and contributions of all stakeholders. Hence, ASMED and MPI is grateful for the support and inputs received thus far, which have helped to create a more pro-SME environment in recent years. Further, ASMED and MPI looks forward to working with all stakeholders in the future, to create an increasingly robust and dynamic SME sector in Vietnam.